

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 20-F

(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, 2019  
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)

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(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	Trading Symbols(s)	Name of each exchange on which registered
(1) Common stock without par value (the "Shares")	IX	New York Stock Exchange*
(2) American depository shares (the "ADSs"), each of which represents five shares	IX	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, 2019, 1,324,629,128 Shares were outstanding, including Shares that were represented by 4,284,255 ADSs.

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

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  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.

Yes  No

Indicate by check mark whether the Registrant submitted electronically every Interactive Data File required to be submitted 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 such files).

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  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.

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  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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## **CERTAIN DEFINED TERMS, CONVENTIONS AND PRESENTATION OF FINANCIAL INFORMATION**

As used in this annual report, unless the context otherwise requires, the “Company” and “ORIX” refer to ORIX Corporation, and “ORIX Group,” “Group,” “we,” “us,” “our” and similar terms refer to ORIX Corporation and its subsidiaries.

In this annual report, “subsidiary” and “subsidiaries” refer to consolidated subsidiaries of ORIX, generally companies in which ORIX owns more than 50% of the outstanding voting stock and exercises effective control over the companies’ operations; and “affiliate” and “affiliates” refer to all of our affiliates accounted for by the equity method, generally companies in which ORIX has the ability to exercise significant influence over their operations by way of 20-50% ownership of the outstanding voting stock or other means.

The consolidated financial statements of ORIX have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). For certain entities where we hold majority voting interests but noncontrolling shareholders have substantive participating rights to decisions that occur as part of the ordinary course of the business, the equity method is applied. In addition, the consolidated financial statements also include variable interest entities (“VIEs”) of which the Company and its subsidiaries are primary beneficiaries. Unless otherwise stated or the context otherwise requires, all amounts in such financial statements are expressed in Japanese yen.

References in this annual report to “¥” or “yen” are to Japanese yen and references to “US\$,” “\$” or “dollars” are to United States dollars.

Certain monetary amounts and percentage data included in this annual report have been subject to rounding adjustments for the convenience of the reader. Accordingly, figures shown as totals in tables may not be equal to the arithmetic sums of the figures that precede them.

The Company’s fiscal year ends on March 31. The fiscal year ended March 31, 2019 is referred to throughout this annual report as “fiscal 2019,” and other fiscal years are referred to in a corresponding manner. References to years not specified as being fiscal years are to calendar years.

### **FORWARD-LOOKING STATEMENTS**

This annual report contains statements that constitute “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. When included in this annual report, the words “will,” “should,” “expects,” “intends,” “anticipates,” “estimates” and similar expressions, among others, identify forward looking statements. Such statements, which include, but are not limited to, statements contained in “Item 3. Key Information—Risk Factors,” “Item 5. Operating and Financial Review and Prospects” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk,” inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those set forth in such statements. These forward-looking statements are made only as of the filing date of this annual report. The Company expressly disclaims any obligation or undertaking to release any update or revision to any forward-looking statement contained herein to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

## PART I

### Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

### Item 2. Offer Statistics and Expected Timetable

Not applicable.

### Item 3. Key Information

#### SELECTED FINANCIAL DATA

The following selected consolidated financial information has been derived from our consolidated financial statements as of each of the dates and for each of the periods indicated below except for “Number of employees.” This information should be read in conjunction with and is qualified in its entirety by reference to our consolidated financial statements, including the notes thereto, included in this annual report in Item 18, which have been audited by KPMG AZSA LLC.

	Year ended March 31,				
	2015	2016	2017	2018	2019
	(Millions of yen)				
<b>Income statement data*1:</b>					
Total revenues*2	¥2,174,283	¥2,369,202	¥2,678,659	¥2,862,771	¥2,434,864
Total expenses	1,917,454	2,081,461	2,349,435	2,526,576	2,105,426
Operating income	256,829	287,741	329,224	336,195	329,438
Equity in net income of affiliates	30,531	45,694	26,520	50,103	32,978
Gains on sales of subsidiaries and affiliates and liquidation losses, net	20,575	57,867	63,419	49,203	33,314
Bargain purchase gain	36,082	0	5,802	0	0
Income before income taxes and discontinued operations	344,017	391,302	424,965	435,501	395,730
Income from continuing operations	254,960	270,990	280,926	321,589	327,039
Net income attributable to the noncontrolling interests	15,339	10,002	7,255	8,002	2,890
Net income attributable to the redeemable noncontrolling interests	4,970	819	432	452	404
Net income attributable to ORIX Corporation shareholders	234,948	260,169	273,239	313,135	323,745

	As of March 31,				
	2015	2016	2017	2018	2019
	(Millions of yen, except number of shares)				
<b>Balance sheet data*1:</b>					
Investment in Direct Financing					
Leases*3	¥ 1,216,454	¥ 1,190,136	¥ 1,204,024	¥ 1,194,888	¥ 1,155,632
Installment Loans*3	2,478,054	2,592,233	2,815,706	2,823,769	3,277,670
Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses					
	(72,326)	(60,071)	(59,227)	(54,672)	(58,011)
Investment in Operating Leases	1,296,220	1,349,199	1,313,164	1,344,926	1,335,959
Investment in Securities	2,846,257	2,344,792	2,026,512	1,729,455	1,928,916
Property under Facility Operations	278,100	327,016	398,936	434,786	441,632
Others*4	3,397,115	3,249,613	3,532,780	3,952,830	4,093,119
Total Assets	¥ 11,439,874	¥ 10,992,918	¥ 11,231,895	¥ 11,425,982	¥ 12,174,917
Short-term Debt, Long-term Debt and Deposits*4					
	¥ 5,701,356	¥ 5,685,014	¥ 5,753,059	¥ 5,890,720	¥ 6,423,512
Policy Liabilities and Policy Account Balances					
	2,073,650	1,668,636	1,564,758	1,511,246	1,521,355
Common Stock	220,056	220,469	220,524	220,961	221,111
Additional Paid-in Capital	255,595	257,629	268,138	267,291	257,625
ORIX Corporation Shareholders' Equity					
	2,152,198	2,310,431	2,507,698	2,682,424	2,897,074
Number of Issued Shares	1,323,644,528	1,324,058,828	1,324,107,328	1,324,495,728	1,324,629,128
Number of Outstanding Shares*5	1,308,642,971	1,309,514,020	1,302,587,061	1,280,000,872	1,279,961,352

	As of and for the Year Ended March 31,					
	2015	2016	2017	2018	2019	
	(Yen and dollars, except ratios and number of employees)					
<b>Key ratios (%)*6:</b>						
Return on ORIX Corporation shareholders' equity ("ROE")		11.5	11.7	11.3	12.1	11.6
Return on assets ("ROA")		2.29	2.32	2.46	2.76	2.74
ORIX Corporation shareholders' equity ratio		18.8	21.0	22.3	23.5	23.8
Allowance/investment in direct financing leases and installment loans		2.0	1.6	1.5	1.4	1.3

**Per share data and employees:**

ORIX Corporation shareholders' equity per share*7	¥1,644.60	¥1,764.34	¥1,925.17	¥2,095.64	¥2,263.41
Basic earnings per share for income attributable to ORIX Corporation shareholders from continuing operations*8					
	179.24	198.73	208.88	244.40	252.92
Basic earnings per share for net income attributable to ORIX Corporation shareholders					
	179.47	198.73	208.88	244.40	252.92
Diluted earnings per share for net income attributable to ORIX Corporation shareholders					
	179.21	198.52	208.68	244.15	252.70
Dividends applicable to fiscal year per share	36.00	45.75	52.25	66.00	76.00
Dividends applicable to fiscal year per share*9	\$ 0.29	\$ 0.40	\$ 0.48	\$ 0.60	\$ 0.69
Number of employees	31,035	33,333	34,835	31,890	32,411

\*1 Accounting Standards Update 2014-09 ("Revenue from Contracts with Customers"—ASC 606 ("Revenue from Contracts with Customers")), Accounting Standards Update 2016-01 ("Recognition and Measurement of Financial Assets and Financial Liabilities"—ASC 825-10 ("Financial Instruments—Overall")) and Accounting Standards Update 2016-16 ("Intra-Entity Transfers of Assets Other Than Inventory"—ASC 740 ("Income Taxes")) have been adopted since April 1, 2018. For further information, see Note 1 of "Item 18. Financial Statements."

\*2 Consumption tax is excluded from the stated amount of total revenues.

- \*3 The sum of assets considered 90 days or more past due and loans individually evaluated for impairment amounted to ¥123,042 million, ¥94,327 million, ¥80,347 million ¥71,974 million, and ¥86,046 million as of March 31, 2015, 2016, 2017 2018, and 2019, respectively. These sums included: (i) investment in direct financing leases considered 90 days or more past due of ¥15,373 million, ¥12,556 million, ¥11,600 million, ¥12,084 million and ¥14,807 million as of March 31, 2015, 2016, 2017 2018, and 2019, respectively, (ii) installment loans (excluding loans individually evaluated for impairment) considered 90 days or more past due of ¥6,635 million, ¥8,178 million, ¥9,722 million, ¥12,748 million and ¥12,412 million as of March 31, 2015, 2016, 2017 2018, and 2019, respectively, and (iii) installment loans individually evaluated for impairment of ¥101,034 million, ¥73,593 million, ¥59,025 million ¥47,142 million, and ¥58,827 million as of March 31, 2015, 2016, 2017, 2018 and 2019, respectively. See “Item 5. Operating and Financial Review and Prospects—Results of Operations—Year Ended March 31, 2019 Compared to Year Ended March 31, 2018—Details of Operating Results—Revenues, New Business Volumes and Investments—Asset quality.”
- \*4 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”)) in fiscal 2017.
- \*5 The Company’s shares held through the Board Incentive Plan Trust, which was established in July 2014 to provide shares at the time of retirement as compensation, are included in the number of treasury stock shares and excluded from the number of outstanding shares. The Board Incentive Plan Trust held 2,153,800 shares, 1,696,217 shares, 2,126,076 shares, 1,651,443 shares and 1,823,993 shares as of March 31, 2015, 2016, 2017, 2018 and 2019, respectively.
- \*6 Return on ORIX Corporation shareholders’ equity is the ratio of net income attributable to ORIX Corporation shareholders for the period to average ORIX Corporation shareholders’ equity based on fiscal year beginning and ending balances for the period. Return on assets is the ratio of net income attributable to ORIX Corporation shareholders for the period to average total assets based on fiscal year beginning and ending balances for the period. ORIX Corporation shareholders’ equity ratio is the ratio as of the period end of ORIX Corporation shareholders’ equity to total assets. Allowance/investment in direct financing leases and installment loans is the ratio as of the period end of the allowance for doubtful receivables on direct financing leases and probable loan losses to the sum of investment in direct financing leases and installment loans.
- \*7 ORIX Corporation shareholders’ equity per share is the amount derived by dividing ORIX Corporation shareholders’ equity by the number of outstanding shares.
- \*8 Basic earnings per share for income attributable to ORIX Corporation shareholders from continuing operations is the amount derived by dividing income attributable to ORIX Corporation shareholders from continuing operations by the weighted-average number of shares outstanding based on month-end balances during the fiscal year. The term basic earnings per share for income attributable to ORIX Corporation shareholders from continuing operations as used throughout this annual report has the meaning described above.
- \*9 The U.S. dollar amounts represent translations of the Japanese yen amounts using noon buying rates for Japanese yen per \$1.00 in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York in effect on the respective dividend payment dates.

## RISK FACTORS

Investing in our securities involves risks. You should carefully consider the risks described below as well as all the other information in this annual report, including, but not limited to, our consolidated financial statements and related notes and “Item 11. Quantitative and Qualitative Disclosures about Market Risk.” Our business activities, financial condition and results of operations and the trading prices of our securities could be adversely affected by any of the factors discussed below or other factors. Even if we do not incur direct financial loss as a result of these risks, our reputation may be adversely affected. This annual report also contains forward-looking statements that involve uncertainties. Our actual results could differ from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, the risks faced by us described below and elsewhere in this annual report. See “Forward-Looking Statements.” Forward-looking statements in this section are made only as of the filing date of this annual report.

### 1. Risks Related to our External Environment

***(1) Global economic weakness and instability or political turmoil could adversely affect our business activities, financial condition and results of operations.***

We conduct business operations in Japan and other areas of Asia, as well as in the Americas, Oceania, the Middle East and Europe. Our business is affected by general economic conditions and financial conditions in these countries and regions. These conditions are affected by changes in various factors including, for example, changes in fiscal and monetary policies, laws and regulations. Recessions, fluctuations or shifts in commodity market prices and consumer demand, political, social or economic instability or acts of violence or war in these countries and regions could also adversely affect our business activities, financial condition and results of operations.

Despite our attempts to minimize the adverse effect of an unstable economic climate on our overall business through, for example, improving our risk management procedures, instability in the global economy and politics could adversely affect our business activities, financial condition and results of operations.

***(2) We may lose market share or suffer reduced profitability as a result of competition based on pricing and other terms***

We compete on the basis of pricing, transaction structure, service quality and other terms. It is possible that our competitors may seek to compete aggressively on the basis of pricing and other terms through their advantageous funding costs or without regard to their profitability. As a result of such aggressive competition by our competitors, our market share or our profitability may decline.

***(3) Negative rumors could affect our business activities, financial condition, results of operations and share price***

Our business is built upon the confidence of our customers and market participants. Whether based on facts or not, negative rumors about our activities, our industries or the parties with whom we do business could harm our reputation and diminish confidence in our business. In such an event, we may lose customers or business opportunities, which could adversely affect our business activities, financial condition and results of operations, as well as our share price.

***(4) Our business activities, financial condition and results of operations may be adversely affected by unpredictable events***

Our business activities, financial condition and results of operations may be adversely affected by unpredictable events or any continuing effects caused by such events. Unpredictable events include man-made

events, such as accidents, war, terrorism and insurgency, and natural events, such as earthquakes, storms, tsunamis, fires and outbreaks of infectious diseases. If any such event occurs, it may, among other things, cause unexpectedly large market price movements or unanticipated deterioration of economic conditions in a country or region, or cause major injuries to our personnel or damage to our facilities, equipment and other property, which could adversely affect our business activities, financial condition and results of operations.

***(5) Dispositions of Shares may adversely affect market prices for our Shares***

Between June 29, 2018, and June 25, 2019, one of our shareholders filed a large shareholder report pursuant to the Financial Instruments and Exchange Act (“FIEA”) indicating, at the time of filing, beneficial ownership, as that term is used in the FIEA, of more than five percent of the total number of our outstanding Shares by each relevant reporting shareholder. This or other of our shareholders may, for strategic, investment or other reasons, decide to reduce their shareholdings in ORIX. Dispositions of Shares, particularly dispositions of large numbers of Shares by major shareholders, may adversely affect market prices for our Shares. For information on major shareholders, see “Item 7. Major Shareholders and Related Party Transactions.”

If foreign investors reduce their investment in Japanese stocks due to changes in global or domestic economic or political conditions, market prices for our Shares could be adversely affected because a large percentage of our Shares are owned by investors outside of Japan.

**2. Credit Risk**

***Our credit-related costs might increase***

We maintain an allowance for doubtful receivables on direct financing leases and probable loan losses. However, we cannot be sure that the allowance will be adequate to cover future credit losses. This allowance may be inadequate due to unexpected adverse changes in the Japanese and overseas economies in which we operate, or deterioration in the conditions of specific customers, industries or markets. While we constantly strive to improve our portfolio management, we may be required to make additional provisions in the future depending on economic trends and other factors.

Furthermore, if adverse economic or market conditions affect the value of underlying collateral, secondhand equipment, or guarantees, our credit-related costs other than the allowance might increase. If any such event occurs, our business activities, financial condition and results of operations could be adversely affected.

**3. Business Risk**

***(1) We are exposed to risks from our diverse and expanding range of products and services, acquisitions of companies and assets, and entry into joint ventures and alliances***

We are engaged in a broad range of businesses in Japan and overseas and continue to expand such range, including through acquisitions of companies and businesses. The breadth of our business and continued expansion may expose us to new and complex risks that we may be unable to fully control or foresee, and, as a result, we may incur unexpected and potentially substantial costs or losses. Such unexpected costs and losses, which may result from regulatory, technological or other factors, may be particularly acute when we expand our business through acquisitions. In addition, we may not achieve targeted results if our business or business opportunities do not develop as expected or if competitive pressures undermine profitability. Furthermore, when we acquire companies or businesses to expand our business, we could be required to make large write-downs of goodwill or other assets if the results of operations of an acquired company or business are lower than what we expected at the time we made such acquisition.

We have a wide range of investments in business operations, including operations that are very different from our financial services business. If we fail to manage our investee companies effectively, we may experience

financial losses as well as losses of future business opportunities. In addition, we may not be able to sell or otherwise dispose of investments at times or prices we initially expected or at all. We may also need to provide financial support, including credit support or equity investments, to some investee companies if their financial condition deteriorates.

From time to time we also enter into joint ventures and other alliances, and the success of these alliances is often dependent upon the operational capabilities, the financial stability and the legal environment of our counterparties. If an alliance suffers a decline in its financial condition or is subject to operational instability because of a change in applicable laws or regulations, we may be required to pay in additional capital, reduce our investment at a loss, or terminate the alliance.

If any such events occur, our business activities, financial condition and results of operations may be adversely affected.

***(2) We are exposed to risks related to asset value volatility***

In the management of our businesses, we hold various classes of assets and investments, including ships, aircraft, real estate, equipment and other assets in Japan and overseas, which we may hold for our own use or lease to our customers. The market values of these assets and investments may be volatile and may decline substantially in the future.

Asset valuation losses are recorded based on the fair market values at the time when revaluation is conducted in accordance with applicable accounting principles. However, losses from the sale of these assets, including as a result of a sudden need for liquidity or to mitigate an adverse credit event at one of our customers, may exceed the amount of recorded valuation losses.

We estimate the residual value for certain operating leases at the time of contract. Our estimates of the residual value of equipment are based on current market values of used equipment and assumptions about when and to what extent the equipment will become obsolete; however, we may need to recognize additional valuation losses if our estimates differ from actual trends in equipment valuation and the secondhand market, and we may incur losses if we are unable to collect such estimated residual amounts.

If any event described above occurs, our business activities, financial condition and results of operations may be adversely affected.

***(3) Risks related to our other businesses***

We operate a wide range of businesses in Japan and overseas, including financial services businesses.

Entry into new businesses, and the results of operations following such entry, are accompanied by various uncertainties, and if any unanticipated risk does occur, it may adversely affect our business activities, financial condition and results of operations.

#### **4. Market Risk**

***(1) Changes in market interest rates and currency exchange rates could adversely affect our assets and our business activities, financial condition and results of operations***

Our business activities are subject to risks relating to changes in market interest rates and currency exchange rates in Japan and overseas. Although we conduct asset-liability management (“ALM”), changes in the yield curve and currency exchange rates could adversely affect our results of operations.

When fund procurement costs increase due to actual or perceived increases in market interest rates, financing lease terms and loan interest rates for new transactions may diverge from the trend in market interest rates.

Changes in market interest rates could have an adverse effect on the credit quality of our assets and our asset structure. For example, with respect to floating-rate loan assets, if market interest rates increase, the repayment burdens of our customers may also increase, which could adversely affect the financial condition of such customers and their ability to repay their obligations to us. Alternatively, a decline in interest rates could result in increased prepayments of loans and a decrease in our assets, which could impact our revenue generation capabilities.

Though we enter into derivative investments to hedge our market interest and currency risks, we may not be able to perfectly hedge against all risks arising from our business operations in foreign currencies and overseas investments. As a result, a significant change in interest rates or currency exchange rates could have an adverse impact on our business activities, financial condition and results of operations.

***(2) Our use of derivatives may adversely affect our business activities, financial condition and results of operations***

We may use derivative instruments to reduce fluctuations in the value of our investments and to hedge against interest rate and currency risks. However, it is possible that this risk management strategy may not be fully effective in all circumstances due to our failure to appraise the value of assets being hedged or execute such derivative instruments properly or at all, or our failure to achieve the intended results of such hedging due to the unavailability of offsetting or roll-over transactions in the event of sudden turbulence in the market or otherwise. Furthermore, our derivatives counterparties could fail to honor the terms of their contracts with us. Our existing derivative contracts and new derivative transactions may also be adversely affected if our credit ratings are downgraded.

In such instances, our business activities, financial condition and results of operations could be adversely affected.

***(3) Fluctuations in market prices of stocks and bonds may adversely affect our business activities, financial condition and results of operations***

We hold investments in shares of private and public company stock, including shares of our equity method affiliates, and corporate and government bonds in Japan and overseas. The market values of our investment assets are volatile and may fluctuate substantially in the future. A significant decline in the value of our investment assets could adversely affect our business activities, financial condition and results of operations.

## **5. Liquidity Risk (Risk Relating to Fund Procurement)**

***Our access to liquidity and capital may be restricted by economic conditions, instability in the financial markets or changes in our credit ratings***

Our primary sources of financing include: borrowings from banks and other institutional lenders, funding from capital markets (such as through issuances of bonds, medium-term notes or commercial paper (“CP”) and securitization of leases, loans receivables and other assets) and deposits. Such sources include a significant amount of short-term debt, such as CP and other short-term borrowings from various institutional lenders and the portion of our long-term debt maturing in the current fiscal year. Some of our committed credit lines require us to comply with financial covenants.

Adverse economic conditions or financial market instability, among other things, may adversely affect our ability to raise new funds or to renew existing funding sources, and may subject us to increased funding costs or

credit market volatility. If our access to liquidity is restricted, or if we are unable to obtain our required funding at acceptable costs, our business activities, financial condition and results of operations may be significantly and adversely affected.

We obtain credit ratings from ratings agencies. Downgrades of our credit ratings could result in increases in our interest expenses and could have an adverse effect on our fund-raising ability by increasing costs of issuing CP and corporate debt securities and borrowing from banks and other financial institutions, reducing the amount of bank credit available to us or decreasing the attractiveness of our equity securities to investors. As a result, our business activities, financial condition and results of operations may be significantly and adversely affected.

## **6. Compliance Risk**

***A failure to maintain adequate internal controls to comply with regulations may harm our reputation and adversely affect our business activities, financial condition and results of operations***

Our efforts to implement and maintain thorough internal controls for compliance and legal risk management, as well as compliance education programs for our staff, and to prevent violations of applicable laws, regulations and internal rules may not be fully effective in preventing all violations. In addition, we engage in a wide range of businesses, and our expansion into new businesses through acquisitions may cause our current internal controls to not be fully effective. If we are unable to implement and maintain robust internal controls to prevent any such violations and adjust such controls in response to expansion of our business, we may be subject to sanctions or penalties, which could also apply to our officers or employees. Such events could adversely affect our business activities, financial condition, results of operations and reputation.

## **7. Legal Risk**

***(1) We are subject to various laws and regulations in Japan and overseas which may restrict our business activities, subject us to legal liability or otherwise put us at a disadvantage***

Our businesses and employees in Japan are subject to laws, as well as regulatory oversight by government authorities who implement those laws, relating to the various sectors in which we operate. These include laws and regulations applicable to specific industries, such as the Moneylending Business Act, the Installment Sales Act, the Insurance Business Act, the Banking Act, the Trust Business Act, the Building Lots and Buildings Transaction Business Act and the Building Standards Act, as well as laws applicable to our business activities, such as the Companies Act, the Financial Instruments and Exchange Act, the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade and the Act on the Protection of Personal Information.

Our businesses outside of Japan are also subject to the laws and regulations of the jurisdictions in which they operate and are subject to oversight by the regulatory authorities of those jurisdictions. For example, in addition to being subject to U.S. securities laws, we are also subject to the USA PATRIOT Act, which prohibits us from entering into any transactions with countries listed as state sponsors of terrorism, and the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act 2010, which prohibit us from offering bribes.

In addition, certain of our businesses are subject to industry-specific laws and regulations in Japan and overseas, including requirements to obtain appropriate licenses and permits to operate. A total or partial suspension of operations, whether due to an actual or alleged violation of applicable law or regulation, failure to obtain or maintain necessary licenses or permits or otherwise, may adversely affect our business activities, financial condition and results of operations.

Regardless of whether we have violated any laws, if we become the subject of a governmental investigation, litigation or other proceeding in connection with our businesses, our business activities, financial condition and results of operations may be adversely affected.

***(2) Enactment of, or changes in, laws, regulations and accounting standards may affect our business activities, financial condition and results of operations***

Enactment of, or changes in, laws and regulations may adversely affect the way that we conduct our business and the products or services that we may offer, as well as our customers, borrowers, invested companies and funding sources. Such enactment or changes may increase our compliance costs. If accounting standards are changed, even if such changes do not directly affect our profitability or financial soundness, industries related to our businesses, our clients or the financial market may be negatively affected. As a result of such enactments or changes, our business activities, financial condition and results of operations could be adversely affected.

## **8. Information Asset Risk**

***(1) Risks relating to loss, alteration, falsification or leakage of information***

We maintain various information assets such as customer information including information on individuals, accounting information and personnel information. We have implemented internal rules and training programs to properly manage such information assets. We also implement technical measures such as maintaining various network security measures to protect against or mitigate cyber-attacks. However, in spite of such efforts, our measures may not be always effective and it is possible that our information assets may be lost, damaged or leaked.

In such event, we could be subject to a governmental investigation, litigation or other proceedings in connection with potential violations of applicable data protection laws and regulations, such as the Act on the Protection of Personal Information and the General Data Protection Regulation, and may be sued for damages. In addition, our operations, financial standing and performance may be adversely affected due to, but not limited to, loss of customer and market confidence in us and deterioration of our reputation.

***(2) Failures in our computer and other information systems could interfere with our operations and damage our business activities, financial condition and results of operations***

We use information systems for financial transactions, personal information management, business monitoring and processing and as part of our business decision-making and risk management activities. Some of these information systems may be outsourced.

System shutdowns, malfunctions or failures, the mishandling of data or fraudulent acts by employees, vendors or other third parties, attack by a computer virus, hacking, unauthorized access or other types of cyber-terrorism, or a large-scale natural disaster, could have adverse effects on our operations, by causing, for example, delays in the receipt and payment of funds, the leakage, loss or destruction of confidential or personal information of our customers or employees, the generation of errors in information used by our management for business decision-making and risk management evaluation and planning, the suspension of certain products or services we provide to our customers or other interruptions of our business activities. In such event, our liquidity or the liquidity of customers who rely on us for financing or payment could be adversely affected. We may also incur substantial costs to recover our business functionality or be penalized by regulatory authorities in the jurisdictions in which we operate for violating applicable laws and regulations and may be sued for damages.

As a result of the above, our operations, financial standing and performance may be adversely affected.

## **9. Operational Risk**

***(1) If our internal control over financial reporting is insufficient, our share price, reputation and business activities may be adversely affected***

We have established and assessed our internal control over financial reporting in a manner intended to ensure compliance with the requirements of various laws and regulations. However, in future periods we or our

independent registered public accounting firm may identify material weaknesses in our internal control over financial reporting, and such finding may cause us and our accountants to disclose that our internal control over financial reporting is ineffective, which could cause a loss of investor confidence in the reliability of our financial statements and cause our share price to fall. As a result, our business activities, financial condition and results of operations may be adversely affected.

***(2) Our risk management may not be effective***

We continuously seek to improve our risk management function. However, due to the rapid expansion of our business or significant changes in the business environment, our risk management may not always be effective. As a result, our business activities, financial condition and results of operations may be adversely affected. For a detailed discussion of our risk management system, see “Item 5. Operating and Financial Review and Prospects—Risk Management.”

***(3) We may not be able to hire or retain qualified personnel***

Our businesses require a considerable investment in human resources and the retention of qualified personnel in order to successfully compete in markets in Japan and overseas. If we cannot develop, hire or retain the necessary qualified personnel, our business activities, financial condition and results of operations may be adversely affected.

***(4) Other operational risks***

Our business entails many types of operational risks. Examples include inappropriate sales practices; inadequate handling of client and customer complaints; inadequate internal communication of necessary information; misconduct of officers, employees, agents, franchisees, trading associates, vendors or other third parties; errors in the settlement of accounts and conflicts with employees concerning labor and workplace management.

When we offer new products or services, we must ensure that we have the capacity to properly undertake and perform such operations. If we are unable to do so successfully, we may lose the confidence of the market and our customers which may cause us to suffer decreased profitability or force us to withdraw from such operations.

Our management attempts to manage operational risk and maintain it at a level that we believe is appropriate. However, operational risk is part of the business environment in which we operate, and despite our control measures, our business activities, financial condition and results of operations may be adversely affected at any time due to this risk.

**10. Risks Related to Holding or Trading our Shares and ADRs**

***(1) Rights of shareholders under Japanese law may be different from those under the laws of other jurisdictions***

Our Articles of Incorporation, the regulations of our board of directors and the Companies Act govern our corporate affairs. Legal principles relating to matters such as the validity of corporate procedures, directors’ and officers’ fiduciary duties and shareholders’ rights are different from those that would apply if we were incorporated elsewhere. Shareholders’ rights under Japanese law are different in some respects from shareholders’ rights under the laws of jurisdictions within the United States and other countries. You may have more difficulty in asserting your rights as a shareholder than you would as a shareholder of a corporation organized in a jurisdiction outside Japan. For a detailed discussion of the relevant provisions of the Companies Act and our Articles of Incorporation, see “Item 10. Additional Information—Memorandum and Articles of Incorporation.”

***(2) It may not be possible for investors to affect service of process within the United States upon ORIX or ORIX's directors or executive officers, or to enforce against ORIX or those persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States***

ORIX is a joint stock corporation formed in Japan. Most or all of ORIX's directors and executive officers are residents of countries other than the United States. Although some of ORIX's subsidiaries have substantial assets in the United States, substantially all of ORIX's assets and the assets of ORIX's directors and executive officers are located outside the United States. As a result, it may not be possible for investors to affect service of process within the United States upon ORIX or ORIX's directors and executive officers or to enforce against ORIX or those persons, in U.S. courts, judgments of U.S. courts predicated upon the civil liability provisions of U.S. securities laws. ORIX has been advised by its Japanese counsel that there is doubt, in original actions or in actions to enforce judgments of U.S. courts, as to the enforceability in Japan of civil liabilities based solely on U.S. securities laws. A Japanese court may refuse to allow an original action based on U.S. securities laws.

The United States and Japan do not currently have a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil or commercial matters. Therefore, if you obtain a civil judgment by a U.S. court, you will not necessarily be able to enforce such judgment directly in Japan.

***(3) We may be a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. investors***

We believe that we may have been a passive foreign investment company (a "PFIC") under the U.S. Internal Revenue Code of 1986, as amended, for the year to which this report relates because of the composition of our assets and the nature of our income. In addition, we may be a PFIC in the foreseeable future. Assuming this is the case, U.S. investors in our Shares or ADSs will be subject to special rules of taxation in respect of certain dividends or gains on such Shares or ADSs, including the treatment of gains realized on the disposition of, and certain dividends received on, the Shares or ADSs as ordinary income earned pro rata over a U.S. investor's holding period for such Shares or ADSs, taxed at the maximum rate applicable during the years in which such income is treated as earned, with the resulting tax liability subject to interest charges for a deemed deferral benefit. In addition, in the case of any dividends that are not subject to the foregoing rule, the favorable rates of tax applicable to certain dividends received by certain non-corporate U.S. investors would not be available. See "Item 10. Additional Information—Taxation—United States Taxation." Investors are urged to consult their own tax advisors regarding all aspects of the income tax consequences of investing in our Shares or ADSs.

***(4) If you hold fewer than 100 Shares, you will not have all the rights of shareholders with 100 or more Shares***

One "unit" of our Shares is comprised of one hundred Shares. Each unit of the Shares has one vote. A holder who owns Shares other than in multiples of one hundred will own less than a whole unit (i.e., for the portion constituting of fewer than one hundred Shares.) The Companies Act imposes significant restrictions on the rights of holders of shares constituting less than a whole unit, which include restrictions on the right to vote. Under the unit share system, a holder of Shares constituting less than a unit has the right to require ORIX to purchase its Shares and the right to require ORIX to sell it additional Shares to create a whole unit. However, a holder of ADRs is not permitted to withdraw underlying Shares representing less than one unit, which is equivalent to 20 ADSs, and, as a practical matter, is unable to require ORIX to purchase those underlying Shares. The unit share system, however, does not affect the transferability of ADSs, which may be transferred in lots of any number of whole ADSs.

***(5) Foreign exchange fluctuations may affect the value of our securities and dividends***

Market prices for our ADSs may decline if the value of the yen declines against the dollar. In addition, the dollar amount of cash dividends or other cash payments made to holders of ADSs will decline if the value of the yen declines against the dollar.

***(6) A holder of ADRs has fewer rights than a shareholder and must act through the depositary to exercise those rights***

The rights of shareholders under Japanese law to take various actions, including voting shares, receiving dividends and distributions, bringing derivative actions, examining a company's accounting books and records and exercising dissenters' rights, are available only to holders of record on a company's register of shareholders. The Shares represented by our ADSs are registered in the name of a nominee of the depositary, through its custodian agent. Only the depositary is able to exercise those rights in connection with the deposited Shares. The depositary will make efforts to vote the Shares represented by our ADSs as instructed by the holders of the ADRs representing such ADSs and will pay to those holders the dividends and distributions collected from us. However, a holder of ADRs will not be able to directly bring a derivative action, examine our accounting books and exercise dissenters' rights through the depositary unless the depositary specifically undertakes to exercise those rights and is indemnified to its satisfaction by the holder for doing so.

**Item 4. Information on the Company**

**GENERAL**

ORIX is a joint stock corporation (*kabushiki kaisha*) formed under Japanese law. Our principal place of business is at World Trade Center Building, 2-4-1 Hamamatsu-cho, Minato-ku, Tokyo 105-6135, Japan, and our phone number is: +81 3 3435 3000. Our general contact URL is [https://ssl.orix-form.jp/ir/inquiry\\_e/](https://ssl.orix-form.jp/ir/inquiry_e/) and our corporate website URL is: <https://www.orix.co.jp/grp/en>. The information on our website is not incorporated by reference into this annual report. ORIX Corporation USA ("ORIX USA") is ORIX's agent in the United States, and its principal place of business is at 1717 Main Street, Suite 1100, Dallas, Texas 75201, USA.

**CORPORATE HISTORY**

ORIX was established in April, 1964 in Osaka, Japan as Orient Leasing Co., Ltd. by three trading companies and five banks that included Nichimen Corporation, Nissho Corporation and Iwai Corporation (presently Sojitz Corporation), the Sanwa Bank (presently The Bank of Mitsubishi UFJ, Ltd.), Toyo Trust & Banking (presently Mitsubishi UFJ Trust and Banking Corporation), the Industrial Bank of Japan and Nippon Kangyo Bank (presently Mizuho Bank, Ltd.), and the Bank of Kobe (presently Sumitomo Mitsui Banking Corporation).

Our initial development occurred during the period of sustained economic growth in Japan during the 1960s and the early 1970s. We capitalized on the growing demand in this period by expanding our portfolio of leasing assets.

During this time, our marketing strategy shifted from a focus on using the established networks of the trading companies and other initial shareholders to one that concentrated on independent marketing as the number of our branches expanded. In April 1970, we listed our Shares on the second section of the Osaka Securities Exchange. Since February 1973, our Shares have been listed on the first sections of the Tokyo Stock Exchange and the Osaka Securities Exchange (which was integrated into Tokyo Stock Exchange in 2013). ORIX was also listed on the first section of the Nagoya Stock Exchange from February 1973 to October 2004.

ORIX set up a number of specialized leasing companies to tap new market potential, starting with the establishment of Orient Auto Leasing Corporation (presently ORIX Auto Corporation) in 1973 and Orient Instrument Rentals Corporation (presently ORIX Rentec Corporation), Japan's first electric measuring equipment rental company, in 1976. With the establishment of the credit company Family Consumer Credit Corporation (presently ORIX Credit Corporation, concentrating on card loans) in 1979, ORIX began to move into the retail market by offering financing services to individuals.

It was also during this time that ORIX began expanding overseas, commencing with the establishment of its first overseas office in Hong Kong in 1971, followed by Singapore (1972), Malaysia (1973), Indonesia (1975), the Philippines (1977) and Thailand (1978).

In the 1980s and early 1990s, ORIX established offices in the United States (1981), Australia (1986), Pakistan (1986) and Taiwan (1991). The Japanese company Budget Rent-a-Car (presently ORIX Auto Corporation) was also established in 1985.

In 1989, we introduced a corporate identity program and changed our name to ORIX Corporation from Orient Leasing Co., Ltd. to reflect our increasingly international profile and diversification into financial services other than leasing.

In 1991, ORIX established ORIX Aviation Systems Limited in Ireland. In the same year, ORIX established ORIX Omaha Life Insurance Corporation (presently ORIX Life Insurance Corporation) and entered the life insurance business. In 1998, ORIX purchased Yamaichi Trust & Bank, Ltd. (presently ORIX Bank Corporation). In 1998, ORIX listed on the New York Stock Exchange (Ticker Symbol: IX) and, through registration with the U.S. Securities and Exchange Commission (“SEC”), has worked to further strengthen its corporate governance regulations. ORIX Real Estate Corporation was established in 1999 to concentrate on condominium development that was first begun in 1993 as well as develop office buildings in pursuit of improved real estate expertise. In 1999, we established ORIX Asset Management and Loan Services Corporation.

Since 2000, we have actively expanded our automobile-related operations by acquiring companies and assets. We combined seven automobile-related companies into ORIX Auto Corporation in 2005.

We have also continued our overseas expansion. In China, we established a rental company in Tianjin in 2004 and in 2005 established a leasing company in Shanghai. In 2009, we established a Chinese Headquarters in Dalian. We also set up local subsidiaries in Saudi Arabia (2001), and the United Arab Emirates (2002).

In 2006, we entered the investment banking field in the United States with the acquisition of Houlihan Lokey, Inc. (“Houlihan Lokey”) (whose shares we partially sold through our wholly-owned subsidiary ORIX USA in August 2015). In 2010, we acquired RED Capital Group, a U.S.-based company that provides financing for multi-family, senior living and healthcare-related real estate development projects in the United States. In 2010, we also acquired Mariner Investment Group LLC, a leading independent SEC-registered hedge fund manager.

We managed ORIX Credit Corporation (“ORIX Credit”) over a continuous three-year period jointly with Sumitomo Mitsui Banking Corporation pursuant to an alliance established in July 2009. In June 2012, ORIX purchased all the shares of ORIX Credit, making ORIX Credit a wholly-owned subsidiary of ORIX.

In July 2013, ORIX acquired Robeco Groep N.V. (presently ORIX Corporation Europe N.V.), a holding company of global asset management companies based in the Netherlands, to pursue a new business model by combining finance with related services. In October 2016, ORIX purchased all the shares of Robeco, making Robeco a wholly-owned subsidiary of ORIX.

In July 2014, we acquired Hartford Life Insurance K.K. (“HLIKK”) (presently ORIX Life Insurance Corporation). In December 2014, we acquired Yayoi Co., Ltd. (“Yayoi”), a software service provider targeting small businesses.

In December 2015, ORIX and VINCI Airports S.A.S., an airport concession holder and operator based in France, established Kansai Airports to operate and manage Kansai International Airport and Osaka International Airport.

## STRATEGY

### Operating Environment

The world economy continued strong with the support of the U.S. economy in the first half of fiscal 2019. However, in the second half of fiscal 2019, its uncertainty raised due to the increasing trade tensions and tighter financial conditions and caused the price down in stock market.

U.S. economy showed strong growth supported by the effect of the fiscal policy. On the other hand, economic growth slowdown was concerned in China and Europe due to an increase in the trade tensions with the U.S. and a decrease in external demand, respectively.

Japanese economy gradually recovered with the effect of the easy monetary policy along with strong domestic demand. The interest rate still remained low.

### Target Performance Indicators FY2019-2021

In its pursuit of sustainable growth, ORIX Group uses the following performance indicators: Net income attributable to ORIX Corporation shareholders to indicate profitability, ROE to indicate capital efficiency and ROA to indicate asset efficiency. From the fiscal year ended March 31, 2019 to the fiscal year ending March 31, 2021, ORIX Group aims to achieve annual net income attributable to ORIX Corporation shareholders growth of between 4% to 8%, and to maintain ROE above 11% by increasing asset efficiency through quality asset expansion in order to capture business opportunities and increasing capital efficiency by strengthening profit-earning opportunities such as fee-based businesses.

Three-year trends in performance indicators are as follows.

		As of March 31,		
		2017	2018	2019
Net income attributable to ORIX Corporation				
shareholders	(Millions of yen)	¥273,239	¥313,135	¥323,745
ROE <sup>(1)</sup>	(%)	11.3	12.1	11.6
ROA <sup>(2)</sup>	(%)	2.46	2.76	2.74

(1) ROE is the ratio of Net income attributable to ORIX Corporation shareholders for the period to average ORIX Corporation shareholders' equity based on fiscal year beginning and ending balances.

(2) ROA is the ratio of Net income attributable to ORIX Corporation shareholders for the period to average total assets based on fiscal year beginning and ending balances.

### Medium- Term Strategic Directions FY2019-2021

ORIX Group manages its business portfolio by dividing it into six segments: Corporate Financial Services, Maintenance Leasing, Real Estate, Investment and Operation, Retail, and Overseas Business.

Furthermore, taking risk and capital requirements into account, ORIX Group categorizes these six segments into three categories: "Finance," "Operation" and "Investment" to describe its mid-term strategic directions. The "Finance" business is ORIX Group's customer base and source of information. However, given that the low interest rate environment makes growth difficult in financial businesses, ORIX Group will continue to focus on "Operation" and "Investment" to grow stable earnings and will proactively enter new markets to nurture its next core businesses.

The "Operation" business for which operational risk is taken by ORIX Group is positioned as ORIX Group's growth driver and source for new and stable earnings. ORIX Group will engage in M&A and expand

new investment with a focus on the environment and energy business, asset management business, concession business and life insurance business as well as other new business areas coming from the change in society and the market.

The “Investment” business provides ORIX Group with opportunities to develop new businesses. ORIX Group focuses mainly on private equity businesses in Japan and overseas, aircraft- and ship-related operations and will expand the scale of those businesses.

### Development of business structure toward the realization of management strategies

It is vital for ORIX Group to continue to maintain and develop a business structure that can be flexibly and swiftly adapted to the changing business environment. ORIX Group will take the following three steps in order to achieve the aforementioned mid-term strategic directions.

*Further advancement of risk management:* Recognizing that business expansion and growth has diversified and globalized our risk, strengthen the business foundation with support our growth by readily and continuously utilizing our risk management structure and our ability to assess risks.

*Pursue transactions that are both socially responsible and economically viable:* Pursue transactions that are socially responsible from a social and environmental standpoint while providing products and services that are valued by clients and improve ORIX Group’s overall profitability.

*Create a fulfilling workplace:* Focus on ORIX Group’s strengths as a global organization to create a fulfilling work environment for all employees regardless of nationality, age, gender, background or position.

## PROFILE OF BUSINESS BY SEGMENT

For a discussion of the basis for the breakdown of segments, see Note 33 of “Item 18. Financial Statements.” The following table shows a breakdown of profits by segment for fiscal 2017, 2018 and 2019.

	Years ended March 31,		
	2017	2018	2019
	(Millions of yen)		
Corporate Financial Services . . . . .	¥ 38,032	¥ 49,275	¥ 25,482
Maintenance Leasing . . . . .	39,787	40,162	38,841
Real Estate . . . . .	84,479	74,395	89,247
Investment and Operation . . . . .	73,362	84,097	38,170
Retail . . . . .	72,865	74,527	84,211
Overseas Business . . . . .	112,386	106,622	125,444
Total segment profits . . . . .	420,911	429,078	401,395
Difference between segment total and consolidated amounts . . . . .	4,054	6,423	(5,665)
Total Consolidated Amounts . . . . .	¥424,965	¥435,501	¥395,730

Each of our segments is briefly described below.

## BUSINESS SEGMENTS

ORIX organizes its businesses into six segments to facilitate strategy formulation, resource allocation and portfolio balancing at the segment level. These six business segments are: Corporate Financial Services,

Maintenance Leasing, Real Estate, Investment and Operation, Retail and Overseas Business. Management believes that organizing our business into large, strategic units allows us to maximize our corporate value by identifying and cultivating strategic advantages vis-à-vis anticipated competitors in each area and by helping ORIX Group achieve competitive advantage overall.

An overview of operation, operating environment and operating strategy for each of the six segments follows.

## **Corporate Financial Services Segment**

### ***Overview of Operation***

This segment has its origin in the leasing business developed at the time of ORIX's establishment in 1964. Even today, this segment serves as the foundation for the entire ORIX Group's sales activities.

Operating through a nationwide network, ORIX provides leasing and loans and engages in various other fee businesses by providing products and services aligned with customer needs to its core customer base of domestic small- and medium-sized enterprises ("SMEs"). Corporate Financial Services segment functions as the central point of contact for the entire ORIX Group by gathering information on customers and products/services and responding to customer needs, including in connection with business succession and overseas expansion.

This segment promotes consolidated management by collaborating with other business segments and Group companies, both domestic and foreign. In this way, this segment creates cross-functional tie-ups with Group customers in order to swiftly provide wide-ranging services backed by expertise.

### ***Operating Environment***

See Segment Information of "Item 5. Operating and Financial Review and Prospects—Results of operations."

### ***Mid-term Strategic Directions***

- Diversify the source of services income
- Strengthen solution offerings especially for supporting business succession
- Capture the future demand associated with Japan's imperial transition and beginning of a new imperial era and the revision of Consumption Tax Law expected with respect to Yayoi

### ***Operating Strategy***

Through various transactions, sales personnel in Corporate Financial Services segment deepen their understanding of the segment's customers, including their specific needs and management issues. With this segment constituting ORIX's sales platform, sales personnel develop and deliver optimum solutions to customers by leveraging the high-level expertise of the Group's business segments to expand the Group's business opportunities. We seek to enhance the profitability of the Group as a whole by expanding the customer base through stronger cooperation with Group companies. Moreover, we seek to increase revenues from fee businesses by providing products and services aligned with customer needs.

Specifically, we provide a wide range of products and services such as life insurance, environment and energy service, auto leasing related services and also strengthen our business to provide solutions against diversified business challenges which customers face such as business succession. Moreover, the segment will also focus on new areas such as IT and healthcare to develop new business opportunities.

This segment seeks to develop new businesses and services to expand the Group's customer base and build a more stable revenue base.

## **Maintenance Leasing Segment**

### ***Overview of Operation***

Maintenance Leasing segment consists of ORIX's automobile and rental operations, both of which possess a high level of expertise.

In its automobile related business, ORIX engages in leasing, automobile rental and car sharing businesses. Automobile leasing operations began by offering leases including maintenance to corporate clients. Today, the segment's services include a complete range of vehicle maintenance outsourcing services requiring high-level expertise that encompasses solutions that meet clients' compliance, environmental and safety management needs. This segment also offers a broad spectrum of tailor-made services that address both corporate and individual client needs.

Having initially specialized in precision measuring equipment rentals for corporate customers, the rental business has greatly expanded the range of offered products and currently includes IT-related equipment and medical equipment, environmental analysis equipment as well as tablet computers. The rental business also offers a diverse range of services such as technical support, sales of software packages, equipment calibration and asset management.

### ***Operating Environment***

See Segment Information of "Item 5. Operating and Financial Review and Prospects—Results of operations."

### ***Mid-term Strategic Directions***

- Make the change of industrial structure into new business opportunities
- Integrate the automobile leasing, automobile rental and car sharing to meet clients' needs
- Offer shared services in various equipment through ORIX Rentec Corporation

### ***Operating Strategy***

The automobile related business aims to increase its leased assets to reinforce and expand its customer base. In Japan, while the leasing rate of vehicle fleets for enterprises that own more than 30 vehicles is relatively high, it is very low for enterprises and individuals that own 30 vehicles or fewer. Instead, these smaller enterprises and individuals account for a large proportion of the vehicles owned in Japan. Therefore, the automobile related business will strive to increase the proportion of the customer base consisting of smaller enterprises and individuals while continuing to grow the large-enterprise customer base. Moreover, we will strive to reinforce relationships with customers through cross-functional marketing activities with corporate sales departments in Japan that cut across the Group.

In addition, the automobile related business is strengthening the provision of high value-added services. Seeking to ensure a stable revenue stream and differentiate itself from competitors, the automobile related business leverages its consulting capabilities to select and offer optimum services to customers, including from a wide range of vehicle management services. While continually reviewing the line-up of products and services in response to changes in the business environment and evolving customer needs, the automobile related business develops new products and services to create new market segments. In addition, to develop the business for individuals, we will propose a wide range of approaches to car use, such as car rental and car sharing, to meet individual customer's diverse needs and provide elaborate services.

In the equipment rental business, while working to maintain our high market share, we intend to expand and strengthen our revenue base by increasing the number of new customers by focusing on growth areas, increasing rental of high margin products and introducing new rental items. We will also expand our customer base and

range of products in the fields of environment and energy, environmental analysis, electronic components and next-generation automobile development and promote medical equipment rentals that require a high level of expertise and other high value-added rentals by providing applications and cloud services designed to meet the needs of customers renting tablet computers. We will seek tie-ups with manufacturers and system companies in order to expand our products and services.

All of our businesses in Maintenance Leasing segment will seek to continue strengthening business management and cost control to maintain their high profitability and competitiveness.

## **Real Estate Segment**

### ***Overview of Operation***

Real Estate segment is mainly comprised of the real estate development, rental and management, facility operation, and real estate investment management.

In the real estate development, rental and management business, ORIX Group is involved not only in developing and leasing properties such as office buildings, commercial properties, logistics centers and residences but also in asset management, where ORIX Group has a high level of expertise.

The facilities operations business handles accommodations, aquariums, training facilities, baseball stadiums, and theaters.

### ***Operating Environment***

See Segment Information of “Item 5. Operating and Financial Review and Prospects—Results of operations.”

### ***Mid-term Strategic Directions***

- Invest and sell properties flexibly by capturing opportunities based on market conditions
- Promote large-scale projects through integration with DAIKYO INCORPORATED (hereinafter, “DAIKYO”)
- Create new businesses by leveraging collective strength

### ***Operating Strategy***

In the real estate development business, we will promote the development of complex facilities not only in major urban areas but also in areas abundant in tourism resources with the knowledge and experience acquired through the various real estate development and rental businesses and facility operation businesses. And we also develop the most advanced logistic facilities which is adopted to online shopping market by utilizing the land information acquired through the sales network and grasping customers’ needs. In the real estate rental business, we will enhance our portfolio by selling properties at appropriate times and by promoting new investments in properties continuously. In the real estate management business, we aim to receive new orders from a broad range of real estate categories in addition to condominiums.

In the real estate investment management business, we will increase the assets under management in ORIX Asset Management Corporation and ORIX Real Estate Investment Advisors Corporation to expand our fee business. In the facilities operation business, we will continue to invest in hotels and inns by selecting those locations carefully. In operating our existing facilities, we believe ORIX can add value through providing attractive accommodations that our customers are satisfied with and want to revisit.

Furthermore, ORIX will establish itself as a comprehensive real estate group through incorporating the functions and know-how held by DAIKYO, which became a wholly owned subsidiary of ORIX in January 2019.

As mentioned above, we will make stable profit through the asset management business and facility operating business while developing new businesses by making best use of our broad expertise in real estate business and group network.

## **Investment and Operation Segment**

### ***Overview of Operation***

In Investment and Operation segment, ORIX is engaged in three core business activities: environment and energy, private equity and concession.

For more than ten years, ORIX has been actively involved in the environment and energy business through the collection and disposal of waste generated from end-of-lease assets. In addition to waste processing, recycling and energy-saving services our environment and energy business includes renewable energy such as mega-solar and electric power retailing. Overseas, we have invested in projects including a wind power generation business in India and in the large private hydropower company in Vietnam to further strengthen the energy business in Asia.

We also invest in private equity both in Japan and overseas and capitalizes on the expertise and collective strength of the Group to increase the corporate value of investees.

On April 1, 2016, Kansai Airports, established by a consortium anchored by ORIX and VINCI Airports, a French company, commenced operation of the Kansai International Airport and Osaka International Airport as a concession. Balancing the ingenuity, dynamism, and the social responsibilities for managing public infrastructure as the first airport operator managed by private company in our country, Kansai Airports will contribute to the ongoing development.

### ***Operating Environment***

See Segment Information of “Item 5. Operating and Financial Review and Prospects—Results of operations.”

### ***Mid-term Strategic Directions***

- Increase the enterprise value of existing investees and seek opportunities with careful attention to those target prices for new investments
- Accelerate renewable energy business overseas
- Develop new business area in concession

### ***Operating Strategy***

In the environment and energy business, we will increase investment in renewable energy. In Japan, we will focus on the development of energy sources other than solar power, such as wind power, geothermal power and biomass, and will work together with our domestic sales and marketing divisions to become one of Japan’s leading renewable energy power companies. We also seek to expand the business of the deregulation of the electricity retail market. As for overseas, we will also use the experience and expertise cultivated in Japan to strengthen its electric power generation and renewable energy business in emerging countries, in which energy demand is expected to expand. As part of this strategy, we invested in Ormat Technologies, Inc., (“Ormat”) the U.S. listed geothermal energy company in July 2017.

In the private equity business, we will leverage our track record to carefully select and actively invest in foreign and domestic business operations. After investing, we will provide hands-on support backed by

specialists, use our business platform of the Group to develop a base of customers and business partners and implement other measures to improve the corporate value of investees in a manner unique to ORIX. We will seek opportunistic investments without limiting the industries we invest in. In Japan, we emphasize domestic investment in medical-related fields, IT services and the food industry.

As for concession business, we commenced to operate Kobe Airport with VINCI Airports and Kansai Airports in April 2018 and will integrate the operation of Kansai International Airport, Osaka International Airport, and Kobe Airport. We also took part in the operation of wastewater treatment plant in Hamamatsu City and will continue to expand our operation to various public infrastructure.

## **Retail Segment**

### ***Overview of Operation***

Retail segment consists of life insurance, banking and card loan.

ORIX Life Insurance Corporation (“ORIX Life Insurance”) was founded in 1991 and operates mainly through agencies and mail order sales. On July 1, 2014, ORIX Life Insurance acquired HLIKK, and the two companies merged on July 1, 2015. Regarding the banking business, ORIX Bank Corporation (“ORIX Bank”) inherited the housing loan business ORIX began handling in 1980 and is now involved in corporate lending and other services. ORIX Bank began card loan operations in March 2012.

### ***Operating Environment***

See Segment Information of “Item 5. Operating and Financial Review and Prospects—Results of operations.”

### ***Mid-term Strategic Directions***

- Expand product lineups and optimize marketing channels in the life insurance business
- Seek new source of earnings by utilizing customer base in the banking business

### ***Operating Strategy***

In this segment, as an overall strategy, we will continue to provide products with a high level of customer satisfaction and seek to develop a new market aimed at individual customers while continuing to enhance our efficiency and unique expertise in niche markets.

ORIX Life Insurance will continue to enhance its product lineup with new insurance products developed to meet customer needs. In addition to third-sector insurance such as cancer and medical treatment insurance, the company will focus on first-sector insurance such as life insurance and increasing the number of contracts. Regarding sales channels, while supporting continuous growth in the existing agency channel, we intend to expand our direct distribution channels. We will also seek to improve our financial strength by improving overall business efficiency.

ORIX Bank will keep operating and raising funds efficiently with high loan-deposit-ratio in order to meet active demand for money. In the housing-loan business, the company will increase its loan balance by making full use of its networks and know-how accumulated over many years. ORIX Bank will also enter new business fields such as the investment trust business.

The card loan business plans to expand in two ways to acquire potential demand in the shrinking market. The first is to increase card loan balance through the collaboration of ORIX Bank and ORIX Credit by taking advantage of their human and knowledge resources. The second is to expand loan guarantee to other financial institutions by utilizing ORIX Credit’s know-how of credit screening.

## **Overseas Business Segment**

### ***Overview of Operation***

Since first expanding into Hong Kong in 1971, ORIX Group has established an overseas network spanning 730 bases in 37 countries and regions.

In Overseas Business segment, in the United States, asset management is at the heart of efforts to expand non-finance business and boasts a high level of expertise in the fields of corporate finance, securities investment, private equity, loan origination and servicing and also fund management. Underpinned by a leasing, automobile leasing and corporate finance operating base that is aligned with the conditions of each country in Asia, Overseas Business segment engages in private equity activities, real estate-related businesses, as well as aircraft- and ship-related operations that include leasing, financing, management, investment, intermediary and sales activities in the field of aircraft and ship.

Furthermore, in Europe, Overseas Business segment conducts asset management operations for individual and corporate clients through ORIX Corporation Europe N.V., a Dutch holding company of global asset management companies that became a consolidated subsidiary of ORIX Group in July 2013 (hereinafter, “ORIX Europe,” one of the Company’s subsidiaries, has changed its name from Robeco Groep N.V. on January 1, 2018).

### ***Operating Environment***

See Segment Information of “Item 5. Operating and Financial Review and Prospects—Results of operations.”

### ***Mid-term Strategic Directions***

- Develop aircraft-related operations multidirectionally, leverage synergies with Avolon Holdings Limited (hereinafter, “Avolon”)
- Develop asset management business in the United States
- Expand private equity investment business in the United States and Greater China

### ***Operating Strategy***

In the United States, we maintain a stable presence in our traditional business of investing in municipal bonds, CMBS and other fixed-income securities and providing corporate finance services. We also enhance the fee business through Red Capital Group’s loan structuring and servicing services and Mariner Investment Group’s fund management services. Since the acquisition of Boston Financial Investment Management LP, a syndicator in the low income housing tax credit industry in July 2016, Lancaster Pollard Holdings, LLC, which provides integrated investment banking, mortgage banking, balance sheet lending and private equity services focused on the full continuum of senior living in September 2017 and NXT Capital Group, LLC (hereinafter, “NXT Capital”) which is involved in loan origination and asset management operations in August 2018, we continue to expand our fee businesses. Furthermore, we invest in infrastructure related companies and continuously expand those businesses by meeting demands in public infrastructure services in the United States

In Asia and Oceania, while seeking to maintain stable profits from the financial services business platform of our existing local subsidiaries, which offer locally based lending and leasing, we plan to diversify our business into related fields. We will promote new investment activities in as-yet unexplored areas.

In the aircraft-related operations, we will make new investments by carefully selecting aircraft types, age and other important factors for our portfolio. In addition to pursuing opportunities to profit from Company-owned assets, we will seek to generate fees from our services relating to the management of the aircraft to

investors and financial institutions. Furthermore, we will scale up our aircraft-related operations by increasing access to primary markets through the investment in Avolon. In the ship-related operations, we will accelerate investment in shipping loans particularly in Europe with the cultivated expertise ranging from ship finance, ownership, management and operations to ship purchases, sales and brokerage.

In addition to the sustained growth of ORIX Europe, we will endeavor to expand the asset management business and also consider new investments.

## DIVISIONS, MAJOR SUBSIDIARIES AND AFFILIATES

A list of major subsidiaries and affiliates can be found in Exhibit 8.1.

## CAPITAL PRINCIPAL EXPENDITURES AND DIVESTITURES

We are a financial services company with significant leasing, lending, real estate development and other operations based on investment in tangible assets. As such, we are continually acquiring and developing such assets as part of our business. A detailed discussion of these activities is presented elsewhere in this annual report, including in other parts of “Item 4. Information on the Company” and in “Item 5. Operating and Financial Review and Prospects.”

In general, we seek to expand and deepen our product and service offerings and enhance our financial performance through acquisitions of businesses or assets. We continually review acquisition opportunities, and selectively pursue such opportunities. We have in the past deployed a significant amount of capital for acquisition activities and expect to continue to make investments, on a selective basis. For a discussion of certain of our past acquisitions, see “Item 4. Information on the Company—Corporate History.”

## PROPERTY, PLANT AND EQUIPMENT

Because our primary business is to provide various financial services to our clients, we do not own any material factories or facilities that manufacture products. We have no plans to build any factories that manufacture products.

The following table shows the book values of the primary facilities we own, which include three office buildings, two thermal power stations, three solar power stations and one hotel.

	As of March 31, 2019	
	Book Value	Land Space <sup>(1)</sup>
	(Millions of yen)	(Thousands of m <sup>2</sup> )
Office building (Tachikawa, Tokyo) . . . . .	¥13,539	3
Office building (Shiba, Minato-ku, Tokyo) . . . . .	30,910	2
Office building (Osaka, Osaka) . . . . .	9,855	2
Thermal power station (Kitakyushu, Fukuoka) . . . . .	33,200	37
Thermal power station (Soma, Fukushima) . . . . .	29,357	63
Solar power station (Tsu, Mie) . . . . .	14,693	1,193
Solar power station (Niigata, Niigata) . . . . .	13,099	251
Solar power station (Tomakomai, Hokkaido) . . . . .	11,353	—
Hotel (Beppu, Oita) <sup>(2)</sup> . . . . .	11,871	166

<sup>(1)</sup> Land space is provided only for those facilities where we own the land.

<sup>(2)</sup> Book value of hotel (Beppu, Oita) includes advances for property under facility operations of ¥605 million.

We plan to make capital expenditures totaling approximately ¥651,200 million to support the growth and development of our operating lease business and power generation business during fiscal 2020. The following table shows a breakdown of planned capital expenditures and includes the estimated investment amounts and expected methods of financing the expenditures.

	Fiscal 2020	
	Estimated investment amounts	Expected methods of financing
	(Millions of yen)	
Operating lease equipment and property .....	¥620,000	Funds on hand, bank borrowings, etc.
Power generation equipment .....	31,200	Funds on hand, bank borrowings, etc.
Total .....	<u>¥651,200</u>	<u>—</u>

Our operations are generally conducted in leased office space in cities throughout Japan and in other countries in which we operate. We believe our leased office space is suitable and adequate for our needs. We utilize, or expect to utilize in the near future, substantially all of our leased office space.

We own office buildings, apartment buildings and recreational facilities for our employees and others with an aggregate book value of ¥108,390 million as of March 31, 2019.

As of March 31, 2019, the acquisition cost of equipment we held for operating leases amounted to ¥1,938,515 million, consisting of ¥1,304,925 million of transportation equipment, ¥266,436 million of measuring and information-related equipment, ¥336,002 million of real estate and ¥31,152 million of others, before accumulated depreciation. Accumulated depreciation on equipment held for operating leases was ¥634,478 million as of the same date.

#### SEASONALITY

Our business is not materially affected by seasonality.

#### RAW MATERIALS

Our business does not materially depend on the supply of raw materials.

#### PATENTS, LICENSES AND CONTRACTS

Our business and profitability are not materially dependent on any patents or licenses, industrial, commercial or financial contracts, or new manufacturing processes.

#### BUSINESS REGULATION

ORIX and its group companies in Japan are incorporated under, and our corporate activities are governed by, the Companies Act. However, ORIX and its group companies are involved in diverse businesses in overseas jurisdictions, including in Asia, the Americas, Oceania, the Middle East and Europe, and are therefore subject to various regulations and supervision in each jurisdiction in which they operate, including, but not limited to, regulations relating to business and investment approvals, antitrust, anti-bribery, consumer and business taxation, foreign exchange controls, intellectual property and personal information protection.

The next section describes the laws and regulations applicable to our business in Japan and the United States and Europe, our major areas of operation outside Japan.

## **JAPAN**

There is no general regulatory regime which governs the conduct of our direct financing lease and operating lease businesses in Japan, although various laws regulate certain aspects of particular lease transactions, depending on the type of leased property.

The major regulations that govern our businesses are as follows:

### ***Moneylending Business***

ORIX and certain of our group companies are engaged in the moneylending business in Japan. The moneylending business is regulated by the Interest Rate Restriction Act, the Act Regulating the Receipt of Contributions, the Receipt of Deposits and Interest Rates and the Moneylending Business Act. The Moneylending Business Act requires that all companies engaged in moneylending business register with the Prime Minister or the relevant prefectural governors. Moneylenders permitted to register are regulated by the Financial Services Agency (“FSA”), and are required to file various notifications and provide documents such as their annual business reports. Further, moneylenders are required to comply with applicable laws and to establish an internal management system to ensure the appropriate management of money lending operations. These obligations are supervised by the FSA. Accordingly, pursuant to the Moneylending Business Act, ORIX and certain of our group companies have registered with the Prime Minister or various prefectural governors, established the necessary internal systems, and provide the necessary reporting and notification to the FSA. The FSA has the power to issue business improvement orders, suspend all or part of a money lender’s activities, or to revoke the registration of a moneylender that has violated the law, depending on the severity of the violation.

### ***Real Estate Business***

ORIX and certain of our group companies, including ORIX Real Estate Corporation and DAIKYO, are engaged in the real estate business in Japan, including buying and selling land and buildings. Companies engaged in such operations are required to be licensed by the Ministry of Land, Infrastructure and Transport (“MoLIT”) or relevant prefectural governors under the Building Lots and Buildings Transaction Business Act, and their operations are regulated by such laws, including the maintenance of registered real estate transaction managers on staff and the duty to provide and deliver material information to counterparties. DAIKYO has a Construction Business License from MoLIT. Inns and hotels operated by ORIX Group have licenses from relevant prefectural governors under the Inns and Hotels Act, etc.

### ***Car Rental Business***

ORIX Auto Corporation (“OAC”) is registered with MoLIT under the Road Transportation Law to engage in the car rental business in Japan and is subject to the requirements of this law and is licensed by the Minister of MoLIT.

### ***Insurance Business***

ORIX Life Insurance is engaged in the life insurance business and has a license from the Prime Minister under the Insurance Business Act. The FSA has broad regulatory powers over the life insurance business of ORIX Life Insurance, including the authority to request information regarding its business or financial condition and to conduct on-site inspections. The FSA also has the power to issue business improvement orders, suspend all or part of an insurance company’s activities, or to revoke the license of an insurance company that has violated the law or that has an insufficient internal management system, depending on the severity of the violation or insufficiency. ORIX Life Insurance generally must also receive FSA approval for the sale of new products and to set new pricing terms. In addition, any party attempting to acquire voting rights in an insurance

company at or above a specified threshold must receive approval from the Prime Minister in accordance with the Insurance Business Act Regulations. We have received such approval as a major shareholder of ORIX Life Insurance. Furthermore, an insurance company is obliged to provide and deliver material information and explain risks to its customers, and in case of a violation, the insurance contract may be cancelled, and administrative penalties may be imposed. An insurance company must establish a system for the protection of customers' interests, which is supervised by the FSA. Insurance solicitation, which we and our group companies conduct, is also governed by the Insurance Business Act. We and certain of our group companies, such as OAC, are registered as insurance agents with the Prime Minister.

### ***Financial Instruments Exchange Business***

Certain businesses conducted by ORIX and our group companies in Japan are governed by the Financial Instruments and Exchange Act, the main purpose of which is to establish comprehensive and cross-sectional protection for investors. "The financial instruments business" as defined in the Financial Instruments and Exchange Act has four classifications, depending on the type of business: (1) First Class Financial Instruments Exchange Business, (2) Second Class Financial Instruments Exchange Business, (3) Investment Management Business, and (4) Investment Advisory and Agency Business. All companies engaged in such businesses are required to register with the Prime Minister, after which they designated "registered financial instruments traders." Registered financial instruments traders are regulated by the FSA and obliged to provide and deliver material information and explain risks to their customers, and in case of a violation, the contract may be cancelled, and administrative penalties may be imposed. A registered financial instruments trader must establish an internal management system to ensure the compliance with the relevant laws and regulations, and the appropriate management of its operations. These obligations are supervised by the FSA. The FSA has the power to order improvement of a business, or suspension of a part or the whole of a business, or to revoke the registration of such a trader that has violated the law, depending on the severity of the violation. Business regulations applicable to ORIX and our group companies are as follows:

#### ***Second Class Financial Instruments Exchange Business***

ORIX and certain of our group companies are registered with the Prime Minister under the Financial Instruments and Exchange Act to conduct second class financial instruments exchange business.

#### ***Investment Management Business***

ORIX Asset Management Corporation ("OAM"), ORIX Real Estate Investment Advisors Corporation ("ORIA"), wholly owned subsidiaries, and Robeco Japan Company Limited ("Robeco Japan"), a subsidiary of ORIX Europe, are each registered with the Prime Minister under the Financial Instruments and Exchange Act as an investment manager. OAM is responsible for the asset management of a real estate investment corporation, ORIX JREIT Inc., which is listed on the Tokyo Stock Exchange. Under the Financial Instruments and Exchange Act, any entity possessing voting rights in an investment manager at or above a specified threshold is considered a major shareholder and must report its shareholding to the Prime Minister. ORIX has filed such report as a major shareholder of OAM, ORIA and Robeco Japan.

#### ***Investment Advisory and Agency Business***

ORIA and Mariner Japan Inc., an affiliate of Mariner Investment Group LLC, are registered with the Prime Minister under the Financial Instruments and Exchange Act to engage in the investment advisory and agency business and regulated by the FSA.

### ***Banking and Trust Business***

ORIX Bank is licensed by the Prime Minister to engage in the banking and trust business and is regulated under the Banking Act and the Act on Engagement in Trust Business by Financial Institutions. The Banking Act governs the general banking business and the Act on Engagement in Trust Business by Financial Institutions and

the Trust Business Act govern the trust business. In addition, any entity that attempts to obtain voting rights in a bank at or above a specified threshold must receive permission from the Prime Minister in accordance with the Banking Act. ORIX has received such permission as a major shareholder of ORIX Bank. A bank must establish a system for the protection of customers' interests, which is supervised by the FSA.

#### ***Debt Management and Collection Business***

ORIX Asset Management & Loan Services Corporation (“OAMLS”) is engaged in the loan servicing business and the business of managing and collecting certain assets. All companies engaged in such business are regulated under the Act on Special Measures Concerning Business of Management and Collection of Claims and licensed by the Minister of Justice under such law.

#### ***Waste Management***

ORIX Environmental Resources Management Corporation and ORIX Eco Services Corporation provide waste management services. All companies engaged in such business are regulated by the Waste Management and Public Cleansing Act and licensed by the relevant prefectural governors.

#### ***Regulation on Share Acquisitions***

Certain activities of ORIX and our group companies are regulated by the Foreign Exchange and Foreign Trade Law of Japan and regulations promulgated thereunder (the “Foreign Exchange Regulations”).

Under the Foreign Exchange Regulations, ORIX and certain of our group companies in Japan are regulated as “residents” conducting “capital transactions” or “foreign direct investments.”

To conduct such activities under the Foreign Exchange Regulations, notices or reports are required to be filed with the Minister of Finance through the Bank of Japan.

### **OUTSIDE JAPAN**

ORIX USA is incorporated under the laws of the state of Delaware, and its corporate activities are governed by the Delaware General Corporation Law.

The SEC, the Financial Industry Regulation Authority (“FINRA”), and various state agencies regulate the issuance and sale of securities and the activities of broker-dealers, investment companies and investment advisers in the United States. ORIX USA’s majority-owned subsidiary, Mariner Investment Group, LLC (“Mariner”), is a registered investment adviser regulated by the SEC. ORIX USA’s wholly-owned subsidiary Mariner Group Capital Markets, LLC (“MGCM”) is a registered limited purpose broker-dealer regulated by the SEC and FINRA. ORIX USA’s wholly-owned subsidiary NXT Capital Investment Advisers, LLC is also a registered investment adviser regulated by the SEC. ORIX USA’s wholly-owned subsidiary OREC Securities, LLC, is a registered broker-dealer regulated by the SEC and FINRA, and is also regulated by the SEC as a registered municipal adviser. ORIX USA and its other subsidiaries are not subject to these regulations but must comply with U.S. federal and state securities laws.

ORIX USA’s corporate finance, real estate finance, and public finance businesses are subject to numerous state and federal laws and regulations. Commercial and real estate loans may be governed by the USA Patriot Act, the Equal Credit Opportunity Act and Regulation B thereunder, and state usury laws. Real estate transactions are also governed by state real property and foreclosure laws. ORIX USA’s secured finance transactions are governed by the Uniform Commercial Code, as adopted by the various states. ORIX USA is registered with or has obtained licenses from the various state agencies that regulate the activity of commercial lenders in such states. For example, its consolidated subsidiary, ORIX Corporate Capital Inc., is a Delaware Licensed Lender, and its consolidated subsidiary, ORIX Growth Capital, LLC, is licensed as a California Finance Lender.

In May 2010, ORIX USA acquired RED Capital Group, LLC (“RED”), and in September 2017, ORIX USA acquired Lancaster Pollard Holdings, LLC (“LPH”). In January 2019, RED and LPH merged as ORIX Real Estate Capital Holdings, LLC (“ORECH”) and the combined business is based in Columbus, Ohio and provides debt and equity capital, as well as advisory services, to the housing, health care, and real estate industries. ORECH and its subsidiaries must comply with rules and regulations administered by the Government National Mortgage Association, the Federal National Mortgage Association, the Department of Housing and Urban Development, the United States Department of Agriculture, the Federal Housing Administration and the Federal Home Loan Mortgage Corporation. ORIX Real Estate Capital, LLC and OREC Structured Finance Co., LLC, both wholly-owned subsidiaries of ORECH, are licensed California Finance Lenders. As noted above, OREC Securities, LLC, is a registered broker-dealer and municipal adviser regulated by the SEC and FINRA.

In December 2010, ORIX USA acquired MIG Holdings, LLC, the parent company of Mariner. As stated above, Mariner is registered with the SEC as an investment advisor and is headquartered in Harrison, New York, with affiliated offices in the New York City, London, Tokyo, Philadelphia, Dallas, Rowayton and Summit. In addition, Mariner is registered as a commodity pool operator with the U.S. Commodity Futures Trading Commission and a member of the National Futures Association. ORIX USA’s wholly owned subsidiary and private equity platform, ORIX Capital Partners, LLC, is an affiliated relying adviser to Mariner and registered with the SEC.

In July 2016, ORIX USA acquired Boston Financial Investment Management, LP (“BFIM”), a Boston, Massachusetts based syndicator and portfolio and asset manager of low income apartment properties that benefit from the Federal Low Income Housing Tax Credit (LIHTC). As the beneficiary of tax credits and often other subsidy and loan programs, a LIHTC property is typically regulated at the Federal, state and local levels. Day to day responsibility of the property resides with a third party general partner, who in addition to directing the agent that manages the property, has responsibility for compliance with applicable laws and regulations. As the general partner of a fund, BFIM monitors such compliance on behalf of the fund investors.

In August 2018, ORIX USA acquired NXT Capital, a Chicago based middle-market lender and asset manager. NXT Capital provides a full range of structured financing solutions on a direct basis through its Corporate Finance and Real Estate Finance groups. NXT Capital also manages capital for third parties through its asset management platform and offers investors proprietary access to primarily first lien senior secured loans that are not broadly traded or otherwise generally available without a loan origination platform. As noted above, NXT Capital Investment Advisers, LLC is registered with the SEC as an investment adviser. NXT Capital, LLC, a consolidated subsidiary of NXT Capital, is licensed as a California Finance Lender.

Disruptions in the U.S. financial markets starting in 2007 caused lawmakers and regulators to evaluate the effectiveness of their oversight of the financial services industry, and eventually resulted in the adoption of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) by the U.S. Congress in January 2010. Certain regulations promulgated under the Dodd-Frank Act may affect our business operations. For example, the Dodd-Frank Act establishes the Financial Stability Oversight Counsel (“FSOC”) charged with, among other things, designating systemically important nonbank financial institutions for heightened supervisory requirements and prudential standards, supervision and regulation. In April 2012, the FSOC adopted its final rule and issued interpretive guidelines on criteria for designating systemically important nonbank financial institutions. The FSOC has not as of this date designated ORIX as a systemically important nonbank financial institution.

Outside of the United States, Mariner Investment (Europe) LLP is an affiliated relying adviser to Mariner that is headquartered in London and authorized and regulated by the Financial Conduct Authority (“FCA”) in the UK and as such is subject to minimum regulatory capital requirements. Mariner Investment (Europe) LLP is categorized as a “BIPRU €50k limited license” firm. It is an investment management firm. Also outside of the United States, in December 2016, ORIX USA, through its Brazilian subsidiary, acquired a controlling interest in RB Capital S.A. (“RB Capital”), a Brazilian capital markets and asset management platform. RB Capital controls

two publicly held companies, RB Capital Companhia de Securitização and Rioloan 2 Companhia Securitizadora de Créditos Financeiros, registered before the Securities and Exchange Commission of Brazil (“CVM”). RB Capital Companhia de Securitização is also a securitization company and regulated by the CVM. In addition, RB Capital controls an asset management company, RB Capital Asset Management Ltda., which is registered and authorized by the CVM to manage assets in Brazil.

On July 1, 2013, ORIX acquired approximately 90.01% (90% plus one share) of the total voting shares (equity interests) of ORIX Corporation Europe N.V. (“ORIX Europe”), the ultimate holding company of the ORIX Europe Group. On October 21, 2016, ORIX acquired the remaining 9.99% (10% minus one share) of the total voting shares (equity interests) of ORIX Europe. The ORIX Europe Group consists of the following regulated entities:

Robeco Institutional Asset Management B.V. (“RIAM”), an indirect subsidiary of ORIX Europe, is authorized and regulated by *The Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten* (“AFM”) and *The Dutch Central Bank (De Nederlandsche Bank* (“DNB”) in the Netherlands, *inter alia*, to offer certain investment services. RIAM has branches and representative offices worldwide, including in Dubai, Germany, Spain, Italy and the United Kingdom, each of which either benefits from RIAM’s European passport or is subject to local regulatory supervision.

Transtrend B.V., an indirect subsidiary of ORIX Europe that offers asset management and commodity trading advisory services, is also authorized and regulated by AFM and DNB, and is registered with the National Futures Association in the United States (“NFA”) and regulated by the NFA and the Commodity Futures Trading Commission in the United States (“CFTC”).

Harbor Capital Advisors, Inc., Boston Partners Global Investors, Inc., and Robeco Institutional Asset Management US, Inc. are registered with and regulated by the SEC to provide investment advisory services in the United States.

Harbor Services Group, Inc. acts as transfer agent and is registered with the SEC.

Boston Partners Global Investors, Inc. is also registered with the *Financial Services Commission* (“FSC”) in Korea. Furthermore, Boston Partners Global Investors, Inc. is registered as a commodity trading adviser and a commodity pool operator with the CFTC and is a member of the NFA.

Boston Partners Securities L.L.C. and Harbor Funds Distributors Inc. are investment advisors (broker-dealers) registered with the SEC and members of the FINRA.

Boston Partners UK Ltd is a wholly owned subsidiary of Boston Partners Global Investors, Inc and is registered as an investment adviser with the UK *Financial Conduct Authority* (“FCA”).

Boston Partners Trust Company is a wholly owned subsidiary of Boston Partners Global Investors, Inc. and is registered with the *New Hampshire Banking Commission* (“NHBC”).

RobecoSAM AG, an indirect subsidiary of ORIX Europe, is authorized and regulated by the *Swiss Financial Market Supervisory Authority* (“FINMA”).

Robeco Luxembourg S.A., an indirect subsidiary of ORIX Europe, is authorized and regulated by the *Commission de Surveillance du Secteur Financier* in Luxembourg (“CSSF”).

Robeco Hong Kong Ltd. (“RHK”), an indirect subsidiary of ORIX Europe, is licensed by the *Securities & Futures Commission of Hong Kong* (“SFC”) to offer asset management and investment advisory services. RHK has a branch in Australia which has been approved by the *Australian Securities and Investments Commission* (“ASIC”).

Robeco France S.A.S., an indirect subsidiary of ORIX Europe, is authorized and regulated by the *Autorité de controle prudentiel et de resolution* (“ACPR”) in France and the *Autorité des Marchés Financiers* (“AMF”) in France.

Robeco Singapore Private Limited, an indirect subsidiary of ORIX Europe, is licensed by the *Monetary Authority of Singapore* (“MAS”).

Robeco Miami B.V. an indirect subsidiary of ORIX Europe, is registered with and regulated by the SEC and member of the FINRA.

## LEGAL PROCEEDINGS

We are a plaintiff or a defendant in various lawsuits arising in the ordinary course of our business. We aggressively manage our pending litigation and assess appropriate responses to lawsuits in light of a number of factors, including the potential impact of the actions on the conduct of our operations. In the opinion of management, none of the pending legal matters is expected to have a material adverse effect on our financial condition or results of operations. However, there can be no assurance that an adverse decision in one or more of these lawsuits will not have a material adverse effect.

### Item 4A. Unresolved Staff Comments

None.

### Item 5. Operating and Financial Review and Prospects

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## OVERVIEW

The following discussion provides management’s explanation of factors and events that have significantly affected our financial condition and results of operations. Also included is management’s assessment of factors and trends which are anticipated to have a material effect on our financial condition and results of operations in the future. However, please be advised that our financial condition and results of operations in the future may also be affected by factors other than those discussed here. This discussion should be read in conjunction with “Item 3. Key Information—Risk Factors” and “Item 18. Financial Statements” included in this annual report.

## Results Overview

Continuing from last fiscal year, due to the growth of the existing businesses and profit contribution from new businesses, as well as the impact of the reversal of the deferred tax liabilities previously recorded for undistributed earnings of DAIKYO, ORIX recorded tall-time high net income for the fifth consecutive years and net income growth for the tenth consecutive years achieved net income attributable to ORIX Corporation shareholders of ¥323.7 billion for fiscal 2019. In addition, ROE of 11.6% exceeds its target ROE above 11%.

Net Income Attributable to ORIX Corporation Shareholders for fiscal 2019 increased 3% to ¥323.7 billion compared to fiscal 2018, primarily due to increases in profits from Real Estate segment, Retail segment and Overseas Business segment, although profits from Corporate Financial Services segment, Maintenance Leasing segment and Investment and Operation segment decreased.

The main factors underlying our performance in fiscal 2019 are outlined below.

Corporate Financial Services segment's profits decreased due to decreases in finance revenues from a decrease in average investment balance and decreases in gains on investment securities and dividends.

Maintenance Leasing segment's profits decreased due to increases in selling, general and administrative expenses including personnel-related expenses, despite increases in operating leases revenues in line with an increased average segment asset balance.

Real Estate segment's profits increased due to increases in operating leases revenues in line with an increase in gains on sales of rental properties and in services income from facilities operations which resulted from sales of property under large facility operations.

Investment and Operation segment's profits decreased due to decreases in sales of goods by a subsidiary in the private equity business and in gains on sales of shares of subsidiaries and affiliates and liquidation losses, net.

Retail segment's profits increased due to an increase in life insurance premiums of the life insurance business and finance revenues of the banking business.

Overseas Business segment's profits increased due to increases in finance revenues through an acquisition of a corporation which is involved in loan origination and asset management operations in the United States and due to increases in operating leases revenues through gain on sale of aircraft in aircraft-related operations.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Note 1 of "Item 18. Financial Statements" includes a summary of the significant accounting policies used in the preparation of our consolidated financial statements. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and the possibility that future events affecting the estimates may differ significantly from management's current judgments. We consider the accounting estimates discussed in this section to be critical for us for two reasons. First, the estimates require us to make assumptions about matters that are highly uncertain at the time the accounting estimates are made. Second, different estimates that we reasonably could have used in the relevant period, or changes in the accounting estimates that are reasonably likely to occur from period to period, could have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. We believe the following represent our critical accounting policies and estimates.

## FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, a number of

significant judgments, assumptions and estimates may be required. If observable market prices are not available, we use internally-developed valuation techniques, such as discounted cash flow methodologies, to measure fair value. These valuation techniques involve determination of assumptions that market participants would use in pricing the asset or liability. This determination involves significant judgment, and the use of different assumptions and/or valuation techniques could have a material impact on our financial condition or results of operations. Significant assumptions used in measuring fair values have a pervasive effect on various estimates, such as estimates of the allowance for real estate collateral-dependent loans, measurement of impairment of investments in securities, measurement of impairment of goodwill and indefinite-lived intangible assets, measurement of impairment of long-lived assets and recurring measurements of loans held for sale, investments in securities and derivative instruments.

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). We mainly measure certain loans held for sale, trading debt securities, available-for-sale debt securities, certain equity securities, derivatives, reinsurance recoverables in other assets and variable annuity and variable life insurance contracts in policy liabilities and policy account balances at fair value on a recurring basis. Certain subsidiaries measure certain loans held for sale, certain foreign government bond securities and foreign corporate debt securities included in available-for-sale debt securities, certain investment funds included in equity securities, certain reinsurance contracts, and variable annuity and variable life insurance contracts at fair value on a recurring basis as they elected the fair value option.

The following table presents recorded amounts of major financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2019:

	March 31, 2019			
Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(Millions of yen)			
<b>Financial Assets:</b>				
Loans held for sale	¥ 38,671	¥ 0	¥ 38,671	¥ 0
Trading debt securities	1,564	0	1,564	0
Available-for-sale debt securities	1,264,244	24,831	1,138,966	100,447
Equity securities	425,593	68,631	295,769	61,193
Derivative assets	15,495	299	9,924	5,272
Other assets	12,449	0	0	12,449
Total	<u>¥1,758,016</u>	<u>¥93,761</u>	<u>¥1,484,894</u>	<u>¥179,361</u>
<b>Financial Liabilities:</b>				
Derivative liabilities	¥ 25,958	¥ 522	¥ 25,436	¥ 0
Policy Liabilities and Policy Account Balances	360,198	0	0	360,198
Total	<u>¥ 386,156</u>	<u>¥ 522</u>	<u>¥ 25,436</u>	<u>¥360,198</u>

Compared to financial assets classified as Level 1 and Level 2, measurements of financial assets classified as Level 3 are particularly sensitive because of their significance to the financial statements and the possibility that future events affecting the fair value measurements may differ significantly from management's current measurements.

As of March 31, 2019, financial assets measured at fair value on a recurring basis and classified as Level 3 and the percentages of total assets are as follows:

	<b>March 31, 2019</b>	
	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Percentage of Total Assets (%)</b>
	<b>(Millions of yen, except percentage data)</b>	
<b>Level 3 Assets:</b>		
Available-for-sale debt securities . . . . .	¥ 100,447	1
Japanese prefectural and foreign municipal bond securities . . . . .	2,888	0
Corporate debt securities . . . . .	7,158	0
Other asset-backed securities and debt securities . . . . .	90,401	1
Equity securities . . . . .	61,193	1
Investment funds . . . . .	61,193	1
Derivative assets . . . . .	5,272	0
Options held/written and other . . . . .	5,272	0
Other assets . . . . .	12,449	0
Reinsurance recoverables . . . . .	12,449	0
Total Level 3 financial assets . . . . .	¥ 179,361	1
Total assets . . . . .	¥12,174,917	100

As of March 31, 2019, the amount of financial assets classified as Level 3 was ¥179,361 million, among financial assets that we measured at fair value on a recurring basis. Level 3 assets represent 1% of our total assets.

Other asset-backed securities and debt securities classified as Level 3 available-for-sale debt securities were ¥90,401 million as of March 31, 2019, which are 90% of total Level 3 available-for-sale debt securities.

With respect to the other asset-backed securities, we determined that due to the lack of observable trades for older vintage and below investment grade securities, we continue to limit the reliance on independent pricing service vendors and brokers. As a result, we established internally developed pricing models using valuation techniques such as discounted cash flow methodologies using Level 3 inputs in order to estimate fair value of these debt securities and classified them as Level 3. Under the models, we 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 other asset-backed securities.

In determining whether the inputs are observable or unobservable, we 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.

For more discussion, see Note 2 of "Item 18. Financial Statements."

## **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 represents management's estimate of probable losses inherent in the portfolio. This evaluation process is subject to numerous estimates and judgments. The estimate made in determining the allowance for doubtful receivables on direct financing leases and probable loan losses is a critical accounting estimate for all of our segments.

In developing the allowance for doubtful receivables on direct financing leases and probable loan losses, we consider, among other things, the following factors:

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

We 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, we evaluate prior charge-off experience as segmented by debtors' 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.

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, we develop the allowance for credit losses based on the difference between the book value and the estimated collectible amount of such loans.

We 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.

## **IMPAIRMENT OF INVESTMENT IN SECURITIES**

We make decisions about impairment of investment in debt securities other than trading and investment in equity securities elected for the measurement alternative as follows.

For debt securities other than trading, where the fair value is less than the amortized cost, we consider whether those securities are other-than-temporarily impaired using all available information about their collectability. We do not consider a debt security to be other-than-temporarily impaired if (1) we do not intend to sell the debt security, (2) it is not more likely than not that we 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, we consider a debt security to be other-than-temporarily

impaired if any of the above mentioned three conditions are not met. When we deem a debt security to be other-than-temporarily impaired, we recognize the entire difference between the amortized cost and the fair value of the debt security in earnings if we intend to sell the debt security or it is more likely than not that we will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss. However, if we do not intend to sell the debt security and it is not more likely than not that we will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, we separate the difference between the amortized cost and the fair value of the debt security 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.

In assessing whether available-for-sale debt securities are other-than-temporarily impaired, we consider all available information relevant to the collectability of the debt security, including but not limited to the following factors:

- duration and the extent to which the fair value has been less than the amortized cost basis;
- continuing analysis of the underlying collateral, age of the collateral, business climate, economic conditions and geographical considerations;
- historical loss rates and past performance of similar assets;
- trends in delinquencies and charge-offs;
- payment structure and subordination levels of the debt security;
- changes to the rating of the security by a rating agency; and
- subsequent changes in the fair value of the debt security after the balance sheet date.

For equity securities elected for the measurement alternative, we determine that the investment shall be written down to its fair value with losses included in income if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value.

In assessing whether equity securities elected for the measurement alternative are impaired, we make a qualitative assessment considering impairment indicators, including but not limited to the following factors:

- a significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee;
- a significant adverse change in the regulatory, economic, or technological environment of the investee;
- a significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates;
- a bona fide offer to purchase, an offer by the investee to sell, or a completed auction process for the same or similar investment for an amount less than the carrying amount of that investment; and
- factors that raise significant concerns about the investee's ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants.

Determinations of whether investments in securities are impaired often involve estimating the outcome of future events that are highly uncertain at the time the estimates are made. Management's judgment, mainly based on objective factors, is required in determining whether there are any facts that an impairment loss should be recognized at the balance sheet date.

If the financial condition of an investee deteriorates, its forecasted performance is not met or actual market conditions are less favorable than those projected by management, we may charge against income additional losses on investment in securities.

The accounting estimates relating to impairment of investment in securities could affect all segments.

## **IMPAIRMENT OF GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS**

We perform an impairment test for goodwill and any indefinite-lived intangible assets at least annually. Additionally, if events or changes in circumstances indicate that the asset might be impaired, we test for impairment when such events or changes occur.

We have the option to perform a qualitative assessment to determine whether to calculate the fair value of a reporting unit under the first step of the two-step goodwill impairment test. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then we do not perform the two-step impairment test. However, if we conclude otherwise, we 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 implied fair value of goodwill is determined in the same manner used to determine the amount of goodwill recognized in a business combination. We test the goodwill either at the operating segment level or one level below the operating segments. We 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.

We have the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, we conclude that it is not more likely than not that the indefinite-lived intangible asset is impaired, then we do not perform the quantitative impairment test. However, if we conclude otherwise, we 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. We 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.

The fair value of a reporting unit under the first step and the second step is determined by estimating the outcome of future events and assumptions made by management. Similarly, estimates and assumptions are used in determining the fair value of any indefinite-lived intangible assets. When necessary, we refer to an evaluation by a third party in determining the fair value of a reporting unit; however, such determinations are often made by using discounted cash flows analyses performed by us. This approach uses numerous estimates and assumptions, including projected future cash flows of a reporting unit, discount rates reflecting the inherent risk and growth rate. If actual cash flows or any items which affect a fair value are less favorable than those projected by management due to economic conditions or our own risk in the reporting unit, we may charge additional losses to income.

The accounting estimates relating to impairment of goodwill and any indefinite-lived intangible assets could affect all segments.

## **IMPAIRMENT OF LONG-LIVED ASSETS**

We periodically perform an impairment review for long-lived assets held and used in operations, including tangible assets, intangible assets being amortized and real estate development projects. The assets are tested for recoverability whenever events or changes in circumstances indicate that those assets might be impaired, including, but not limited to, the following:

- significant decline in the market value of an asset;

- significant deterioration in the usage range and method, or physical condition, of an asset;
- significant deterioration of legal regulatory or business environments, including an adverse action or assessment by a relevant regulator;
- acquisition and construction costs substantially exceeding estimates;
- continued operating loss or actual or potential loss of cash flows; or
- potential loss on a planned sale.

When we determine that assets might be impaired based upon the existence of one or more of the above factors or other factors, we estimate the future cash flows expected to be generated by those assets. Our estimates of the future cash flows are based upon historical trends adjusted to reflect our best estimate of future market and operating conditions. Our estimates also include the expected future periods in which future cash flows are expected. As a result of the recoverability test, when the sum of the estimated future undiscounted cash flows expected to be generated by those assets is less than its carrying amount, and when its fair value is less than its carrying amount, we determine the amount of impairment based on the fair value of those assets.

If the asset is considered impaired, an impairment charge is recorded for the amount by which the carrying amount of the asset exceeds fair value. We 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, as appropriate. If actual market and operating conditions under which assets are operated are less favorable than those projected by management, resulting in lower expected future cash flows or shorter expected future periods to generate such cash flows, additional impairment charges may be required. In addition, changes in estimates resulting in lower fair values due to unanticipated changes in business or operating assumptions could adversely affect the valuations of long-lived assets.

The accounting estimates relating to impairment of long-lived assets could affect all segments.

#### **UNGUARANTEED RESIDUAL VALUE FOR DIRECT FINANCING LEASES AND OPERATING LEASES**

We estimate unguaranteed residual values of leased equipment except real estate, which is explained in “Impairment of Long-lived Assets” described above, when we calculate unearned lease income to be recognized as income over the lease term for direct financing leases and when we calculate depreciation amounts for operating leases that carry inherently higher obsolescence and resale risks. Our estimates are based upon current market values of used equipment and estimates of when and how much equipment will become obsolete, and actual recovery being experienced for similar used equipment. If actual demand for re-lease or actual market conditions of used equipment is less favorable than that projected by management, write-downs of unguaranteed residual value may be required.

The accounting estimates relating to unguaranteed residual value for direct financing leases and operating leases affect mainly Corporate Financial Services segment, Maintenance Leasing segment and Overseas Business segment.

#### **INSURANCE POLICY LIABILITIES AND DEFERRED POLICY ACQUISITION COSTS**

A certain subsidiary writes life insurance policies to customers. Policy liabilities and policy account balances for future policy benefits are measured using the net level premium method, based on actuarial estimates of the amount of future policyholder benefits. The policies are characterized as long-duration policies and mainly consist of whole life, term life, endowments, medical insurance and individual annuity insurance contracts. For policies other than individual annuity insurance contracts, computation of policy liabilities necessarily includes assumptions about mortality, morbidity, lapse rates, future yields on related investments and

other factors applicable at the time the policies are written. The 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 to adjust recorded liabilities as well as underwriting criteria and product offerings. If actual assumption data, such as mortality, morbidity, lapse rates, investment returns and other factors, do not properly reflect future policyholder benefits, we may establish a premium deficiency reserve.

A certain subsidiary elected the fair value option for the entire variable annuity and variable life insurance contracts with changes in the fair value recognized in earnings. 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. Additionally, 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. Therefore, the subsidiary adjusts the fair value of the underlying investments by incorporating changes in fair value of the minimum guarantee risk in the evaluation of the fair value of the entire variable annuity and variable life insurance contracts. The fair value of the minimum guarantee risk is measured using discounted cash flow methodologies based on discount rates, mortality, lapse rates, annuitization rates and other factors.

Certain subsidiaries ceded a portion of its minimum guarantee risk related to variable annuity and variable life insurance contracts to reinsurance companies in order to mitigate the risk and elected the fair value option for the reinsurance contracts with the remaining risk economically hedged through 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.

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.

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. Periodically, deferred policy acquisition costs are reviewed to determine whether relevant insurance and investment income are expected to recover the unamortized balance of the deferred acquisition costs. When such costs are expected to be unrecoverable, they are charged to income in that period. If the historical data, such as lapse rates, investment returns, mortality, morbidity and expense margins, which we use to calculate these assumptions, do not properly reflect future profitability, additional amortization may be required.

The accounting estimates relating to insurance policy liabilities and deferred policy acquisition costs affect Retail segment.

## **ASSESSING HEDGE EFFECTIVENESS AND MEASURING INEFFECTIVENESS**

We use foreign currency swap agreements, interest rate swap agreements and foreign exchange contracts for hedging purposes and apply fair value hedge, cash flow hedge or net investment hedge accounting to measure and account for subsequent changes in their fair value.

To qualify for hedge accounting, details of the hedging relationship are formally documented at the inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risks that are to be hedged, the derivative instrument and how effectiveness is being assessed. Derivatives for hedging purposes must be highly effective in offsetting either changes in fair value or cash flows, as appropriate, for the risk being hedged and effectiveness needs to be assessed at the inception of the relationship.

Hedge effectiveness is assessed quarterly on a retrospective and prospective basis. Ineffectiveness is also measured quarterly, with the results recognized in earnings. If specified criteria for the assumption of effectiveness are not met at hedge inception or upon quarterly testing, then hedge accounting is discontinued. To assess effectiveness and measure ineffectiveness, we use techniques including regression analysis and the cumulative dollar offset method.

The accounting estimates used to assess hedge effectiveness and measure ineffectiveness could affect mainly Overseas Business segment and Retail segment.

## **PENSION PLANS**

The determination of our projected benefit obligation and expense for our employee pension benefits is mainly dependent on the size of the employee population, actuarial assumptions, expected long-term rate of return on plan assets and the discount rate used in the accounting.

Pension expense is directly related to the number of employees covered by the plans. Increased employment through internal growth or acquisition would result in increased pension expense.

In estimating the projected benefit obligation, actuaries make assumptions regarding mortality rates, turnover rates, retirement rates and rates of compensation increase. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, affect expense in future periods.

We 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. We use a number of factors to determine the reasonableness of 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.

We use March 31 as a measurement date for our pension assets and projected benefit obligation balances under all of our material plans. If we were to assume a 1% increase or decrease in the expected long-term rate of return, holding the discount rate and other actuarial assumptions constant, pension expense for fiscal 2019 would decrease or increase, respectively, by approximately ¥2,205 million.

Discount rates are used to determine the present value of our future pension obligations. The discount rates are reflective of rates available on long-term, high-quality fixed-income debt instruments with maturities that closely correspond to the timing of defined benefit payments. Discount rates are determined annually on the measurement date.

If we were to assume a 1% increase in the discount rate, and keep the expected long-term rate of return and other actuarial assumptions constant, pension expense for fiscal 2019 would decrease by approximately ¥2,552 million. If we were to assume a 1% decrease in the discount rate, and keep other assumptions constant, pension expense for fiscal 2019 would increase by approximately ¥2,331 million.

While we believe the estimates and assumptions used in our pension accounting are appropriate, differences in actual results or changes in these assumptions or estimates could adversely affect our pension obligations and future expenses.

## **INCOME TAXES**

In preparing the consolidated financial statements, we make estimates relating to income taxes of the Company and its subsidiaries in each of the jurisdictions in which we operate. The process involves estimating

our actual current income tax position together with assessing temporary differences resulting from different treatment of items for income tax reporting and financial reporting purposes. Such differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheets. We must then assess the likelihood of whether our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that realizability is not more likely than not, we must establish a valuation allowance. When we establish a valuation allowance or increase this allowance during a period, we must include an expense within the provision for income taxes in the consolidated statements of income.

Significant management judgments are required in determining our provision for income taxes, current income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets. We 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. Management judgments, including the interpretations about the application of the complex tax laws of Japan and certain foreign tax jurisdictions, are required in the process of evaluating tax positions; therefore, these judgments may differ from the actual results. We have recorded a valuation allowance due to uncertainties about our ability to utilize certain deferred tax assets, primarily certain net operating loss carryforwards, before they expire. 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 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 all of the deferred tax assets, net of the valuation allowance, will be realized. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. If actual results differ from these estimates or if we adjust these estimates in future periods, we may need to establish additional valuation allowances, which could materially impact the consolidated financial position and results of operations.

#### DISCUSSION WITH AND REVIEW BY THE AUDIT COMMITTEE

Our management discussed the development and selection of each critical accounting estimate with our Audit Committee in June 2019.

#### FAIR VALUE OF INVESTMENT AND RENTAL PROPERTY

We own real estate such as rental office buildings, rental logistics centers, rental commercial facilities other than office buildings, rental condominiums and land which is utilized for development as operating leases. A large portion of our real estate held for investment and rental is located around major cities in Japan such as Tokyo. The following table sets forth the carrying amount of investment and rental property as of the beginning and end of fiscal 2019, as well as the fair value as of the end of fiscal 2019.

Year ended March 31, 2019			
Carrying amount*1			
Balance at April 1, 2018	Change amount	Balance at March 31, 2019	Fair value at March 31, 2019*2
(Millions of yen)			
¥372,083	¥(42,113)	¥329,970	¥403,678

\*1 Carrying amounts are stated as cost less accumulated depreciation.

\*2 Fair value is either obtained from appraisal reports by external qualified appraisers, calculated by internal appraisal department in accordance with “Real estate appraisal standards,” or calculated by other reasonable internal calculation utilizing similar methods.

Investment and rental property revenue and expense for fiscal 2019 were as follows:

Year Ended March 31, 2019		
Revenue*1	Expense*2	Net
<u>¥91,049</u>	<u>¥34,981</u>	<u>¥56,068</u>

\*1 Revenue consists of revenue from leases and gains on sales of real estate under operating leases. Revenue from leases is composed of real estate-related revenues from “Operating leases” and “Life insurance premiums and related investment income.”

\*2 Expense consists of costs related to the above revenue such as depreciation expense, repair cost, insurance cost, tax and duty which are included in “Costs of operating leases,” and “Write-downs of long-lived assets.”

## RESULTS OF OPERATIONS

### GUIDE TO OUR CONSOLIDATED STATEMENT OF INCOME

The following discussion and analysis provide information that management believes to be relevant to an understanding of our consolidated financial condition and results of operations. This discussion should be read in conjunction with our consolidated financial statements, including the notes thereto, included in this annual report. See “Item 18. Financial Statements.”

Our consolidated results of operations are presented in the accompanying financial statements with sub-categorization of revenues and expenses designed to enable the reader to better understand the diversified operating activities contributing to our overall operating performance.

As further described in “Item 4. Information on the Company,” after developing the Japanese leasing market in 1964, we extended the scope of our operations into various types of businesses which have become significant contributors to our consolidated operating results. Our initial leasing business has expanded into the provision of broader financial services, including direct lending to our lessees and other customers. Initial direct lending broadened into diversified finance such as housing loans, loans secured by real estate, unsecured loans and non-recourse loans. Through our lending experience, we developed a loan servicing business and a loan securitization business. Through experience gained by our focusing on real estate as collateral for loans, we also developed our real estate leasing, development and management operations.

Furthermore, we also expanded our business by adding securities-related operations, to generate capital gains. Thereafter, we established and acquired a number of subsidiaries and affiliates in Japan and overseas to expand our operations into businesses such as banking, life insurance, real estate and asset management. Investment and Operation Headquarters selectively invests in companies and actively seeks to fulfill the needs of companies involved in or considering M&A activity, including, among other things, management buyouts, privatization or carve-outs of subsidiaries or business units and business succession.

The diversified nature of our operations is reflected in our presentation of operating results through the categorization of our revenues and expenses to align with operating activities. We categorize our revenues into finance revenues, gains on investment securities and dividends, operating leases, life insurance premiums and

related investment income, sales of goods and real estate and services income, and these revenues are summarized into a subtotal of “Total revenues” consisting of our “Operating Income” on our consolidated statements of income.

The following provides supplemental explanation of certain account captions on our consolidated statements of income:

Finance revenues include primarily direct financing leases, interest on loans and interest on investment securities because we believe that capital we deploy is fungible and, whether used to provide financing in the form of loans and leases or through investment in debt securities, the decision to deploy the capital is a banking-type operation that shares the common objective of managing earning assets to generate a positive spread over our cost of borrowings. In addition, revenues from guarantees, which are from commission income by guarantees against loans disbursed by other financial institutions, are also included in finance revenues.

Securities investment activities originated by the Company were extended to certain group companies, including our subsidiaries operating in the Americas.

Sales of goods and real estate consists of revenues from sales of real estate and various types of goods, including precious metals and jewels.

Services income consists of revenues derived from various operations that are considered a part of our recurring operating activities, such as asset management and servicing, automobile related services, facilities operation, environment and energy services, real estate management, brokerage and contract work, maintenance services of software, measurement equipment and other, and fee business.

Similar to our revenues, we categorize our expenses based on our diversified operating activities. “Total expenses” includes mainly interest expense, costs of operating leases, life insurance costs, costs of goods and real estate sold, services expense and selling, general and administrative expenses.

Services expense is directly associated with the sales and revenues separately reported within services income. Interest expense is based on monies borrowed mainly to fund revenue-generating assets, including to purchase equipment for leases, extend loans and invest in securities and real estate operations. We also consider the principal part of selling, general and administrative expenses to be directly related to the generation of revenues. Therefore, they have been included within “Total expenses” deducted to derive “Operating Income.” We similarly view the provision for doubtful receivables and probable loan losses to be directly related to our finance activities and accordingly have included it within “Total expenses.” As our principal operations consist of providing financial products and/or finance-related services to our customers, these expenses are directly related to the potential risks and changes in these products and services. See “Year Ended March 31, 2019 Compared to Year Ended March 31, 2018” and “Year Ended March 31, 2018 Compared to Year Ended March 31, 2017.”

We have historically reflected write-downs of long-lived assets under “Operating Income” as related assets, primarily real estate assets, representing significant operating assets under management or development. Accordingly, the write-downs were considered to represent an appropriate component of “Operating Income” derived from the related real estate investment activities. Similarly, as we have identified investment in securities to represent an operating component of our financing activities, write-downs of securities are presented under “Operating Income.”

We believe that our financial statement presentation, as explained above, with the expanded presentation of revenues and expenses, aids in the comprehension of our diversified operating activities in Japan and overseas and supports the fair presentation of our consolidated statements of income.

## YEAR ENDED MARCH 31, 2019 COMPARED TO YEAR ENDED MARCH 31, 2018

### Performance Summary

#### Financial Results

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
	(Millions of yen, except ratios, per Share data and percentages)			
Total revenues .....	¥2,862,771	¥2,434,864	¥(427,907)	(15)
Total expenses .....	2,526,576	2,105,426	(421,150)	(17)
Income before Income Taxes .....	435,501	395,730	(39,771)	(9)
Net Income Attributable to ORIX Corporation				
Shareholders .....	313,135	323,745	10,610	3
Earnings per Share (Basic) .....	244.40	252.92	8.52	3
(Diluted) .....	244.15	252.70	8.55	4
ROE* <sup>1</sup> .....	12.1	11.6	(0.5)	—
ROA* <sup>2</sup> .....	2.76	2.74	(0.02)	—

\*<sup>1</sup> ROE is the ratio of Net Income Attributable to ORIX Corporation Shareholders for the period to average ORIX Corporation Shareholders' Equity based on fiscal year beginning and ending balances.

\*<sup>2</sup> ROA is the ratio of Net Income Attributable to ORIX Corporation Shareholders for the period to average Total Assets based on fiscal year beginning and ending balances.

Total revenues for fiscal 2019 decreased 15% to ¥2,434,864 million compared to fiscal 2018. Operating leases revenues increased mainly due to an increase in gains on sales of real estate under operating leases. Services income increased due to an increase in sales of the environment and energy business. On the other hand, sales of goods and real estate decreased due to a decrease in related revenues from a subsidiary in the private equity business.

Total expenses for fiscal 2019 decreased 17% to ¥2,105,426 million compared to fiscal 2018. Services expense increased in line with the aforementioned increase in revenues. Costs of goods and real estate sold decreased in line with the aforementioned decrease in revenues.

Equity in net income of affiliates for fiscal 2019 decreased compared to fiscal 2018 due mainly to the recognition of significant gains on sales of investments in real estate joint ventures during fiscal 2018. Gains on sales of subsidiaries and affiliates and liquidation losses, net decreased compared to fiscal 2018 due to the recognition of significant gains on sales of subsidiaries and affiliates recorded during fiscal 2018.

As a result of the foregoing, income before income taxes for fiscal 2019 decreased 9% to ¥395,730 million compared to fiscal 2018. On the other hand, provision for income taxes decreased due to the reversal of the deferred tax liabilities previously recorded for undistributed earnings of DAIKYO result in the net income attributable to ORIX Corporation shareholders increased 3% to ¥323,745 million compared to fiscal 2018.

## Balance Sheet data

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
	(Millions of yen except ratios, per share and percentages)			
Total Assets . . . . .	¥11,425,982	¥12,174,917	¥748,935	7
(Segment assets) . . . . .	9,098,918	9,997,698	898,780	10
Total Liabilities . . . . .	8,619,688	9,211,936	592,248	7
(Long- and Short-term Debt) . . . . .	4,133,258	4,495,771	362,513	9
(Deposits) . . . . .	1,757,462	1,927,741	170,279	10
ORIX Corporation Shareholders' Equity . . . . .	2,682,424	2,897,074	214,650	8
ORIX Corporation Shareholders' Equity per share . .	2,095.64	2,263.41	167.77	8
ORIX Corporation Shareholders' Equity ratio* . . . . .	23.5%	23.8%	0.3%	—
D/E ratio (Debt-to-equity ratio) (Long- and Short-term Debt (excluding deposits) / ORIX Corporation Shareholders' Equity) . . . . .	1.5x	1.6x	0.1x	—

\* ORIX Corporation Shareholders' Equity ratio is the ratio as of the period end of ORIX Corporation Shareholder's Equity to total assets.

Total assets increased 7% to ¥12,174,917 million compared to the balance as of March 31, 2018. Installment loans increased due primarily to the acquisition of NXT Capital which is involved in loan origination and asset management operations in the United States. Investment in securities increased due primarily to the purchase of investment in securities in the life insurance business. Investment in affiliates increased due to the acquisition of the shares of Avolon, which is a leading global aircraft leasing company in Ireland. In addition, segment assets increased 10% to ¥9,997,698 million compared to the balance as of March 31, 2018.

In line with the increase in assets, long-term debt and deposits in liabilities increased compared to the balance as of March 31, 2018.

Shareholders' equity increased 8% to ¥2,897,074 million compared to the balance as of March 31, 2018 due primarily to an increase in retained earnings.

## Details of Operating Results

The following is a discussion of certain items in the consolidated statements of income, operating assets in the consolidated balance sheets and other selected financial information, including on a segment by segment basis.

### Segment Information

Our business is organized into six segments that are based on major products, nature of services, customer base, and management organizations to facilitate strategy formulation, resource allocation and portfolio rebalancing at the segment level. Our six business segments are: Corporate Financial Services, Maintenance Leasing, Real Estate, Investment and Operation, Retail and Overseas Business.

Financial information about the operating segments reported below is that which is available by segment and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. We evaluate the performance of these segments based on income before income taxes, net income attributable to the noncontrolling interests and net income attributable to the redeemable noncontrolling interests before applicable tax effect. Tax expenses are not included in segment profits.

The Company made DAIKYO a wholly-owned subsidiary in fiscal 2019 to complement their respective real estate businesses and to jointly aim for medium- and long-term growth as a comprehensive real estate business.

Accordingly, ORIX changed the segment classification of DAIKYO from Investment and Operation segment to Real Estate segment. As a result of this change, segment amounts as of the end of and for the previous fiscal year have been retrospectively reclassified.

Certain line items presented in the consolidated statements of income have been changed starting from fiscal 2019. For further information, see Note 1 of “Item 18. Financial Statements.”

From fiscal 2019, consolidated variable interest entities (hereinafter, “VIEs”) for securitizing financial assets such as lease receivables and loan receivables, which had been excluded from segment revenues, segment profits and segment assets until the previous fiscal year, are included in segment revenues, segment profits and segment assets of each segment. As a result of this change, segment amounts as of the end of and for the previous fiscal year have been retrospectively reclassified.

For a description of the business activities of our segments, see “Item 4. Information on the Company—Business Segments.” See Note 33 of “Item 18. Financial Statements” for additional segment information, a discussion of how we prepare our segment information and the reconciliation of segment totals to consolidated financial statement amounts.

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Segment Revenues:</b>				
Corporate Financial Services .....	¥ 115,837	¥ 95,212	¥ (20,625)	(18)
Maintenance Leasing .....	275,933	288,211	12,278	4
Real Estate .....	489,752	529,064	39,312	8
Investment and Operation .....	1,083,505	615,151	(468,354)	(43)
Retail .....	428,697	428,904	207	0
Overseas Business .....	479,619	490,730	11,111	2
Segment Total .....	<u>2,873,343</u>	<u>2,447,272</u>	<u>(426,071)</u>	(15)
Difference between Segment Total and Consolidated				
Amounts .....	<u>(10,572)</u>	<u>(12,408)</u>	<u>(1,836)</u>	—
Consolidated Amounts .....	<u>¥ 2,862,771</u>	<u>¥ 2,434,864</u>	<u>¥(427,907)</u>	(15)
(Millions of yen, except percentage data)				
<b>Segment Profits:</b>				
Corporate Financial Services .....	¥ 49,275	¥ 25,482	¥ (23,793)	(48)
Maintenance Leasing .....	40,162	38,841	(1,321)	(3)
Real Estate .....	74,395	89,247	14,852	20
Investment and Operation .....	84,097	38,170	(45,927)	(55)
Retail .....	74,527	84,211	9,684	13
Overseas Business .....	106,622	125,444	18,822	18
Segment Total .....	<u>429,078</u>	<u>401,395</u>	<u>(27,683)</u>	(6)
Difference between Segment Total and Consolidated				
Amounts .....	<u>6,423</u>	<u>(5,665)</u>	<u>(12,088)</u>	—
Consolidated Amounts .....	<u>¥ 435,501</u>	<u>¥ 395,730</u>	<u>¥ (39,771)</u>	(9)

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Segment Assets:</b>				
Corporate Financial Services .....	¥ 991,818	¥ 959,725	¥ (32,093)	(3)
Maintenance Leasing .....	847,190	873,775	26,585	3
Real Estate .....	801,969	720,221	(81,748)	(10)
Investment and Operation .....	674,617	733,612	58,995	9
Retail .....	3,174,505	3,571,437	396,932	13
Overseas Business .....	2,608,819	3,138,928	530,109	20
Segment Total .....	9,098,918	9,997,698	898,780	10
Difference between Segment Total and Consolidated				
Amounts .....	2,327,064	2,177,219	(149,845)	(6)
Consolidated Amounts .....	¥11,425,982	¥12,174,917	¥ 748,935	7

### *Corporate Financial Services Segment*

This segment is involved in finance and fee business.

In this segment, we are focusing on fee businesses related to life insurance, environment and energy, auto leasing related products and services provided to domestic small- and medium-sized enterprise customers while engaging in highly competitive businesses such as leasing and lending with a focus on profitability. We aim to grow our profit by maximizing synergies with Yayoi, a software service provider in the group, and by utilizing our domestic network to create new businesses.

Based on the aforementioned strategy, segment revenues decreased 18% to ¥95,212 million compared to the previous fiscal year due to decreases in finance revenues in line with decreases in average investment balances of direct financing leases and in gains on investment securities and dividends.

As a result of the foregoing and the recognition of gains on sales of shares of subsidiaries and affiliates and liquidation losses, net through sales of affiliates during the previous fiscal year, segment profits decreased 48% to ¥25,482 million compared to the previous fiscal year.

Segment assets decreased 3% to ¥959,725 million compared to the end of the previous fiscal year due to a decrease in investment in direct financing leases despite an increase in investment in securities.

Although asset efficiency decreased compared to the previous fiscal year, we maintained stable profit from fee businesses.

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
Finance revenues	¥ 30,737	¥ 28,829	¥ (1,908)	(6)
Gains on investment securities and dividends	17,083	(777)	(17,860)	—
Operating leases	23,355	23,522	167	1
Services income	40,283	39,259	(1,024)	(3)
Other	4,379	4,379	0	—
<b>Total Segment Revenues</b>	<b>115,837</b>	<b>95,212</b>	<b>(20,625)</b>	<b>(18)</b>
Interest expense	5,019	4,067	(952)	(19)
Costs of operating leases	14,058	14,319	261	2
Services expense	8,064	10,100	2,036	25
Selling, general and administrative expenses	39,085	37,896	(1,189)	(3)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	1,218	1,106	(112)	(9)
Other	1,404	1,489	85	6
<b>Total Segment Expenses</b>	<b>68,848</b>	<b>68,977</b>	<b>129</b>	<b>0</b>
<b>Segment Operating Income</b>	<b>46,989</b>	<b>26,235</b>	<b>(20,754)</b>	<b>(44)</b>
Equity in Net income (Loss) of Affiliates, and others	2,286	(753)	(3,039)	—
<b>Segment Profits</b>	<b>¥ 49,275</b>	<b>¥ 25,482</b>	<b>¥ (23,793)</b>	<b>(48)</b>

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
Investment in direct financing leases	¥ 439,329	¥ 403,639	¥ (35,690)	(8)
Installment loans	369,882	364,818	(5,064)	(1)
Investment in operating leases	26,350	24,143	(2,207)	(8)
Investment in securities	19,208	31,522	12,314	64
Property under facility operations	15,075	16,973	1,898	13
Inventories	49	51	2	4
Advances for DFL and operating lease	203	122	(81)	(40)
Investment in affiliates	16,845	16,276	(569)	(3)
Advances for property under facility operations	720	0	(720)	(100)
Goodwill, intangible assets acquired in business combinations	104,157	102,181	(1,976)	(2)
<b>Total Segment Assets</b>	<b>¥ 991,818</b>	<b>¥ 959,725</b>	<b>¥ (32,093)</b>	<b>(3)</b>

### ***Maintenance Leasing Segment***

This segment consists of automobile leasing and rentals, car-sharing, and test and measurement instruments and IT-related equipment rentals and leasing.

In the automobile related businesses, which cover a large part of this segment, we aim to increase market share in small- and medium-sized enterprises and individuals as well as large corporate customers by enhancing our competitive advantages coming from our industry-leading number of fleets under management and one-stop automobile-related services. Furthermore, we intend to develop new products and services to adapt to the change of industrial structure and get new business opportunities. In the rental business, we strengthened our engineering solution businesses by developing new services for robots and three-dimensional (3D) printing.

Based on the aforementioned strategy, segment revenues increased 4% to ¥288,211 million compared to the previous fiscal year due to an increase in operating leases revenues in line with increases in average investment balances of operating leases.

Segment profits decreased 3% to ¥38,841 million compared to the previous fiscal year due to increases in selling, general and administrative expenses including personnel-related expenses.

Segment assets increased 3% to ¥873,775 million compared to the end of the previous fiscal year due to an increase in new executions of investment in direct finance leases and operating leases.

Although asset efficiency decreased compared to the previous fiscal year, we have maintained stable profitability as a result of a steady number of new auto leases. In the rental business, we maintained stable profit from test and measurement instruments and IT-related equipment rentals and from Yodogawa Transformer Co. Ltd., the largest renter of power receiving and transforming facilities and equipment, which we acquired in the previous fiscal year.

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
Finance revenues	¥ 14,247	¥ 14,352	¥ 105	1
Operating leases	189,655	197,963	8,308	4
Services income	67,752	70,551	2,799	4
Other	4,279	5,345	1,066	25
Total Segment Revenues	275,933	288,211	12,278	4
Interest expense	3,242	3,026	(216)	(7)
Costs of operating leases	145,402	154,410	9,008	6
Services expense	40,096	40,575	479	1
Selling, general and administrative expenses	44,107	46,514	2,407	5
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	222	1,048	826	372
Other	2,499	4,891	2,392	96
Total Segment Expenses	235,568	250,464	14,896	6
Segment Operating Income	40,365	37,747	(2,618)	(6)
Equity in Net income (Loss) of Affiliates, and others	(203)	1,094	1,297	—
Segment Profits	¥ 40,162	¥ 38,841	¥ (1,321)	(3)

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
Investment in direct financing leases . . . . .	¥ 319,927	¥ 328,424	¥ 8,497	3
Investment in operating leases . . . . .	505,472	525,392	19,920	4
Investment in securities . . . . .	560	506	(54)	(10)
Property under facility operations . . . . .	904	988	84	9
Inventories . . . . .	461	587	126	27
Advances for DFL and operating lease . . . . .	197	669	472	240
Investment in affiliates . . . . .	1,996	33	(1,963)	(98)
Goodwill, intangible assets acquired in business combinations . . . . .	17,673	17,176	(497)	(3)
Total Segment Assets . . . . .	<u>¥ 847,190</u>	<u>¥ 873,775</u>	<u>¥ 26,585</u>	3

### ***Real Estate Segment***

This segment consists of real estate development, rental and management, facility operation, and real estate investment management.

In this segment, we aim to promote portfolio rebalancing by selling rental properties into favorable markets and also to expand the scale of our asset management business such as REIT and real estate investment advisory services in order to construct a portfolio that is less affected by changes in the real estate market. We also aim to gain stable profits by accumulating expertise through the operation of various facilities such as hotels and Japanese inns and to develop new businesses by taking advantage of our value chain of real estate development and rental, asset management and facility operations.

Based on the aforementioned strategy, segment revenues increased 8% to ¥529,064 million compared to the previous fiscal year due to increases in operating leases revenues in line with an increase in gains on sales of rental properties and in services income resulted from recognition of significant gains on a sale of property under facility operations.

Despite a decrease in equity in net income of affiliates due to significant gains on sales of investment in real estate joint ventures that were recognized during the previous fiscal year, due to increases in operating leases revenues and in services income as mentioned above, segment profits increased 20% to ¥89,247 million compared to the previous fiscal year.

Segment assets decreased 10% to ¥720,221 million compared to the end of the previous fiscal year due to decreases in investment in operating leases resulting from sales of rental properties and in property under facility operations through significant sales of the assets in facility operations.

Asset efficiency increased compared to the previous fiscal year by replacing the portfolio by capturing opportunities based on market conditions. We continuously made new investments mainly for the operating facilities for which we launched new hotel and inn brands in carefully selected areas and properties.

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
Finance revenues	¥ 2,072	¥ 2,065	¥ (7)	(0)
Operating leases	55,202	72,483	17,281	31
Sales of goods and real estate	131,829	141,489	9,660	7
Services income	300,092	313,059	12,967	4
Other	557	(32)	(589)	—
<b>Total Segment Revenues</b>	<b>489,752</b>	<b>529,064</b>	<b>39,312</b>	<b>8</b>
Interest expense	2,285	2,249	(36)	(2)
Costs of operating leases	27,642	25,950	(1,692)	(6)
Costs of goods and real estate sold	112,204	121,414	9,210	8
Services expense	254,383	261,064	6,681	3
Selling, general and administrative expenses	43,170	43,982	812	2
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	4,180	1,576	(2,604)	(62)
Other	124	753	629	507
<b>Total Segment Expenses</b>	<b>443,988</b>	<b>456,988</b>	<b>13,000</b>	<b>3</b>
<b>Segment Operating Income</b>	<b>45,764</b>	<b>72,076</b>	<b>26,312</b>	<b>57</b>
Equity in Net income (Loss) of Affiliates, and others	28,631	17,171	(11,460)	(40)
<b>Segment Profits</b>	<b>¥ 74,395</b>	<b>¥ 89,247</b>	<b>¥ 14,852</b>	<b>20</b>

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
Investment in direct financing leases	¥ 33,589	¥ 35,420	¥ 1,831	5
Installment loans	312	316	4	1
Investment in operating leases	273,036	242,022	(31,014)	(11)
Investment in securities	4,354	8,038	3,684	85
Property under facility operations	195,463	146,100	(49,363)	(25)
Inventories	80,108	80,920	812	1
Advances for DFL and operating lease	21,639	29,946	8,307	38
Investment in affiliates	100,219	107,072	6,853	7
Advances for property under facility operations	19,351	6,790	(12,561)	(65)
Goodwill, intangible assets acquired in business combinations	73,898	63,597	(10,301)	(14)
<b>Total Segment Assets</b>	<b>¥ 801,969</b>	<b>¥ 720,221</b>	<b>¥ (81,748)</b>	<b>(10)</b>

### *Investment and Operation Segment*

This segment consists of environment and energy, private equity, and concession.

In the environment and energy business, we aim to increase services revenue by promoting our renewable energy business and our electric power retailing business as a comprehensive energy service provider. In our solar power business, we have a secured one gigawatt of solar power capacity and are operating projects that generate approximately 840 megawatts of electricity as of March 31, 2019, making us one of the largest solar power producers in Japan. We will accelerate our renewable energy business overseas by utilizing the expertise

we have gained in the domestic market. In the private equity business, we aim to earn stable profits from investees and sustainable gains on sales through rebalancing our portfolio. We intend to diversify our investment methods and expand our target zone. Regarding the concession business, we aim to strengthen our operations in the three airports, Kansai International Airport, Osaka International Airport and Kobe Airport, and also aim to proactively engage in the operation of public infrastructure other than airports.

Based on the aforementioned strategy, despite increases in services income in the environment and energy business and from subsidiaries in the private equity business, due to decreases in sales of goods by a subsidiary and in gains on investment securities and dividends segment revenues decreased 43% to ¥615,151 million compared to the previous fiscal year.

As a result of the foregoing and a decrease in gains on sales of shares of subsidiaries and affiliates and liquidation losses, net by the recognition of significant gains on sales of shares of a large subsidiary during the previous fiscal year, segment profits decreased 55% to ¥38,170 million compared to the previous fiscal year.

Segment assets increased 9% to ¥733,612 million compared to the end of the previous fiscal year due to increases in property under facility operations in the environment and energy business and in goodwill and other intangible assets acquired in business combination through private equity investments.

Although asset efficiency decreased compared to the previous year, the operation rate of solar power generation projects has improved and profit from the concession business has steadily increased.

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
Finance revenues	¥ 9,274	¥ 9,063	¥ (211)	(2)
Gains on investment securities and dividends	7,598	78	(7,520)	(99)
Sales of goods and real estate	924,220	436,044	(488,176)	(53)
Services income	140,088	169,139	29,051	21
Other	2,325	827	(1,498)	(64)
<b>Total Segment Revenues</b>	<b>1,083,505</b>	<b>615,151</b>	<b>(468,354)</b>	<b>(43)</b>
Interest expense	5,670	7,054	1,384	24
Costs of goods and real estate sold	875,456	400,625	(474,831)	(54)
Services expense	110,630	131,688	21,058	19
Selling, general and administrative expenses	55,467	51,862	(3,605)	(6)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	(836)	8	844	—
Other	914	413	(501)	(55)
<b>Total Segment Expenses</b>	<b>1,047,301</b>	<b>591,650</b>	<b>(455,651)</b>	<b>(44)</b>
<b>Segment Operating Income</b>	<b>36,204</b>	<b>23,501</b>	<b>(12,703)</b>	<b>(35)</b>
Equity in Net income (Loss) of Affiliates, and others	47,893	14,669	(33,224)	(69)
<b>Segment Profits</b>	<b>¥ 84,097</b>	<b>¥ 38,170</b>	<b>¥ (45,927)</b>	<b>(55)</b>

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases . . . . .	¥ 25,497	¥ 25,696	¥ 199	1
Installment loans . . . . .	59,437	47,573	(11,864)	(20)
Investment in operating leases . . . . .	4,123	5,474	1,351	33
Investment in securities . . . . .	28,562	25,786	(2,776)	(10)
Property under facility operations . . . . .	208,106	264,994	56,888	27
Inventories . . . . .	24,260	30,776	6,516	27
Advances for DFL and operating lease . . . . .	146	1,340	1,194	818
Investment in affiliates . . . . .	156,896	161,966	5,070	3
Advances for property under facility operations . . . . .	44,901	11,291	(33,610)	(75)
Goodwill, intangible assets acquired in business combinations . . . . .	122,689	158,716	36,027	29
Total Segment Assets . . . . .	¥ 674,617	¥ 733,612	¥ 58,995	9

### ***Retail Segment***

This segment consists of life insurance, banking, and card loan.

In the life insurance business, we aim to increase the number of policies in force and revenues from insurance premiums by offering simple-to-understand products through sales agencies and online. In the banking business, we aim to increase finance revenues by increasing the balance of outstanding housing loans which is a core of our banking business. In the card loan business, we aim to increase revenues from guarantee fees by expanding guarantees against loans disbursed by other financial institutions. We also aim to increase finance revenues by making loans directly to our customers through our experience and expertise in credit screening while taking into account the amendments to the Money Lending Business Act for the purpose of reducing over-indebtedness.

Based on the aforementioned strategy, segment revenues kept roughly the same level at ¥428,904 million compared to the previous fiscal year, since life insurance premiums of the life insurance business and finance revenues of the banking business increased with the growth of the businesses, while investment income from assets under variable annuity and variable life insurance contracts decreased.

In addition to the increase in life insurance premium for insurance contracts other than the variable annuity and variable life insurance contracts of the life insurance business outweighing the increase in life insurance costs, as a result of the foregoing and a decrease in life insurance costs from decreases in provision of liability reserve under the variable annuity and variable life insurance contracts, segment profits increased 13% to ¥84,211 million compared to the previous fiscal year.

Segment assets increased 13% to ¥3,571,437 million compared to the end of the previous fiscal year due to increases in investment in securities with the growth of the life insurance business and in installment loans with the growth of the banking business.

Asset efficiency increased compared to the previous fiscal year. We have steadily expanded our businesses by increasing the balance of housing loans in the banking business and have also achieved 4 million policies in force for individual insurance in the life insurance business.

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
Finance revenues	¥ 72,929	¥ 76,693	¥ 3,764	5
Life insurance premiums and related investment income	352,974	348,255	(4,719)	(1)
Other	2,794	3,956	1,162	42
<b>Total Segment Revenues</b>	<b>428,697</b>	<b>428,904</b>	<b>207</b>	<b>0</b>
Interest expense	4,026	4,080	54	1
Life insurance costs	256,309	247,809	(8,500)	(3)
Selling, general and administrative expenses	79,177	78,655	(522)	(1)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	11,245	11,541	296	3
Other	3,420	2,591	(829)	(24)
<b>Total Segment Expenses</b>	<b>354,177</b>	<b>344,676</b>	<b>(9,501)</b>	<b>(3)</b>
<b>Segment Operating Income</b>	<b>74,520</b>	<b>84,228</b>	<b>9,708</b>	<b>13</b>
Equity in Net income (Loss) of Affiliates, and others	7	(17)	(24)	—
<b>Segment Profits</b>	<b>¥ 74,527</b>	<b>¥ 84,211</b>	<b>¥ 9,684</b>	<b>13</b>

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
Investment in direct financing leases	¥ 208	¥ 42	¥ (166)	(80)
Installment loans	1,852,761	2,049,980	197,219	11
Investment in operating leases	44,319	29,810	(14,509)	(33)
Investment in securities	1,260,291	1,474,750	214,459	17
Investment in affiliates	702	631	(71)	(10)
Goodwill, intangible assets acquired in business combinations	16,224	16,224	0	—
<b>Total Segment Assets</b>	<b>¥ 3,174,505</b>	<b>¥3,571,437</b>	<b>¥ 396,932</b>	<b>13</b>

### ***Overseas Business Segment***

This segment consists of asset management, aircraft- and ship-related operations, private equity, and finance.

In the United States, we aim to expand our business areas by engaging in equity investment and fee business such as fund management in addition to corporate finance and investment in bonds. In our aircraft-related operations, we are focusing on profit opportunities within operating lease, sales of used aircraft to domestic and overseas investors, and asset management services for the aircrafts owned by other. All of these opportunities are backed by the growing demand of passengers and aircrafts. We also aim to promote the expansion of functionality and diversification in our overseas group companies.

Based on the aforementioned strategy, segment revenues increased 2% to ¥490,730 million compared to the previous fiscal year due to increases in finance revenues through the acquisition of NXT Capital which is involved in loan origination and asset management operations in the United States and due to increases in operating leases revenues through gain on sale of aircraft in aircraft-related operations.

Despite the recognition of losses in an affiliate in India, as a result of the foregoing and increases in equity in net income of affiliates due to the acquisition of the shares of Avolon, a leading global aircraft leasing company, and due to the recognition of losses in an affiliate in the Middle East during the previous fiscal year, segment profits increased 18% to ¥125,444 million compared to the previous fiscal year.

Segment assets increased 20% to ¥3,138,928 million compared to the end of the previous fiscal year due to increases in installment loans through the aforementioned acquisition and investment in affiliates in line with the acquisition of the shares of Avolon.

Asset efficiency increased compared to the previous fiscal year. The asset management business in the United States has steadily developed through the acquisition of NXT Capital, and the profit in aircraft-related operations also increased due to the contribution from the investment in Avolon.

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 98,426	¥ 111,634	¥ 13,208	13
Gains on investment securities and dividends	17,453	16,565	(888)	(5)
Operating leases	111,569	121,913	10,344	9
Services income	238,615	233,110	(5,505)	(2)
Other	13,556	7,508	(6,048)	(45)
Total Segment Revenues	479,619	490,730	11,111	2
Interest expense	51,536	62,821	11,285	22
Costs of operating leases	64,363	62,529	(1,834)	(3)
Services expense	70,419	66,543	(3,876)	(6)
Selling, general and administrative expenses	177,852	183,657	5,805	3
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	8,101	10,903	2,802	35
Other	10,675	8,610	(2,065)	(19)
Total Segment Expenses	382,946	395,063	12,117	3
Segment Operating Income	96,673	95,667	(1,006)	(1)
Equity in Net income (Loss) of Affiliates, and others	9,949	29,777	19,828	199
Segment Profits	¥ 106,622	¥ 125,444	¥ 18,822	18

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
Investment in direct financing leases	¥ 368,721	¥ 362,391	¥ (6,330)	(2)
Installment loans	534,586	814,847	280,261	52
Investment in operating leases	491,132	509,117	17,985	4
Investment in securities	413,440	385,339	(28,101)	(7)
Property under facility operations and servicing assets	43,995	44,149	154	0
Inventories	5,923	3,161	(2,762)	(47)
Advances for DFL and operating lease	9,487	10,932	1,445	15
Investment in affiliates	314,569	556,682	242,113	77
Goodwill, intangible assets acquired in business combinations	426,966	452,310	25,344	6
<b>Total Segment Assets</b>	<b>¥ 2,608,819</b>	<b>¥3,138,928</b>	<b>¥ 530,109</b>	<b>20</b>

### Revenues, New Business Volumes and Investments

#### Finance revenues

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Finance revenues:</b>				
Finance revenues	¥ 228,252	¥ 242,893	¥ 14,641	6

Note: Revenues from guarantees in the consolidated statements of income have been reclassified from “Services income” to “Finance revenues” from fiscal 2019. This change aims to reflect revenue structure of the Company and its subsidiaries more appropriately accompanying the adoption of ASC606 (“Revenue from Contracts with Customers”). Corresponding to this change, the presented amounts in the consolidated statements of income for the previous fiscal year have also been reclassified retrospectively to conform to the presentation for fiscal 2019.

Finance revenues increased 6% to ¥242,893 million for fiscal 2019 compared to fiscal 2018 primarily due to an increase in the average balance of installment loans.

#### Direct financing leases

	As of and for the year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Direct financing leases:</b>				
New equipment acquisitions	¥ 472,070	¥ 439,252	¥ (32,818)	(7)
Japan	264,953	254,613	(10,340)	(4)
Overseas	207,117	184,639	(22,478)	(11)
Investment in direct financing leases	1,194,888	1,155,632	(39,256)	(3)

New equipment acquisitions related to direct financing leases decreased 7% to ¥439,252 million compared to fiscal 2018. In Japan, new equipment acquisitions decreased 4% in fiscal 2019 compared to fiscal 2018 due to a decreasing trend except for auto leases. In overseas, new equipment acquisitions decreased 11% in fiscal 2019 compared to fiscal 2018 due to decreases in Asia.

Investment in direct financing leases as of March 31, 2019 decreased 3% to ¥1,155,632 million compared to March 31, 2018 due to decreases in new equipment acquisitions described above.

As of March 31, 2019, no single lessee represented more than 1% of the balance of direct financing leases. As of March 31, 2019, 69% of our direct financing leases were to lessees in Japan, while 31% were to overseas lessees. Approximately 6% of our direct financing leases were to lessees in Hong Kong and Malaysia, and approximately 5% of our direct financing leases were to lessees in Indonesia. No other overseas country represented more than 5% of our total portfolio of direct financing leases.

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investment in direct financing leases by category:</b>				
Transportation equipment	¥ 489,687	¥ 495,605	¥ 5,918	1
Industrial equipment	240,646	222,049	(18,597)	(8)
Electronics	154,522	143,209	(11,313)	(7)
Information-related and office equipment	105,040	101,504	(3,536)	(3)
Commercial services equipment	53,065	51,671	(1,394)	(3)
Other	151,928	141,594	(10,334)	(7)
Total	<u>¥ 1,194,888</u>	<u>¥1,155,632</u>	<u>¥ (39,256)</u>	(3)

For further information, see Note 7 of “Item 18. Financial Statements.”

#### *Installment loans*

	As of and for the year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Installment loans:</b>				
New loans added	¥ 1,397,467	¥1,462,009	¥ 64,542	5
Japan	945,436	1,047,720	102,284	11
Overseas	452,031	414,289	(37,742)	(8)
Installment loans	<u>2,823,769</u>	<u>3,277,670</u>	<u>453,901</u>	<u>16</u>

Note: The balance of installment loans related to our life insurance operations is included in installment loans in our consolidated balance sheets; however, income and losses on these loans are recorded in life insurance premiums and related investment income in our consolidated statements of income.

New loans added increased 5% to ¥1,462,009 million compared to fiscal 2018. In Japan, new loans added increased 11% to ¥1,047,720 million in fiscal 2019 compared to fiscal 2018 mainly due to an increase in housing loans. In overseas, new loans added decreased 8% to ¥414,289 million compared to fiscal 2018 due to a decreased lending activity in Asia.

The balance of installment loans as of March 31, 2019 increased 16% to ¥3,277,670 million compared to March 31, 2018, mainly due to an increase of housing loans in banking business and an increase through the acquisition of NXT Capital which is involved in loan origination and asset management operations in the United States.

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Installment loans:</b>				
<b>Consumer borrowers in Japan</b>				
Housing loans . . . . .	¥ 1,375,380	¥1,560,832	¥ 185,452	13
Card loans . . . . .	264,323	245,139	(19,184)	(7)
Other . . . . .	34,333	32,962	(1,371)	(4)
Subtotal . . . . .	<u>1,674,036</u>	<u>1,838,933</u>	<u>164,897</u>	10
<b>Corporate borrowers in Japan</b>				
Real estate companies . . . . .	278,076	288,851	10,775	4
Non-recourse loans . . . . .	18,318	53,067	34,749	190
Commercial, industrial and other companies . . . . .	301,083	266,675	(34,408)	(11)
Subtotal . . . . .	<u>597,477</u>	<u>608,593</u>	<u>11,116</u>	2
<b>Overseas</b>				
Non-recourse loans . . . . .	54,987	49,915	(5,072)	(9)
Commercial, industrial companies and other . . . . .	478,336	763,813	285,477	60
Subtotal . . . . .	<u>533,323</u>	<u>813,728</u>	<u>280,405</u>	53
Purchased loans* . . . . .	18,933	16,416	(2,517)	(13)
Total . . . . .	<u>¥ 2,823,769</u>	<u>¥3,277,670</u>	<u>¥ 453,901</u>	16

\* 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.

As of March 31, 2019, ¥11,778 million, or 0.5%, of our portfolio of installment loans to consumer and corporate borrowers in Japan related to our life insurance operations. We reflect income from these loans as life insurance premiums and related investment income in our consolidated statements of income.

As of March 31, 2019, ¥393,734 million, or 12%, of the balance of installment loans were to real estate companies in Japan and overseas. Among these amounts, ¥2,380 million, or 0.1% were loans individually evaluated for impairment. We recognized an allowance of ¥419 million on these impaired loans. As of March 31, 2019, we had installment loans outstanding in the amount of ¥66,047 million, or 2% of the balance of installment loans, to companies in the entertainment industry. Among these amounts, ¥1,382 million, or 0.04% were loans individually evaluated for impairment. We recognized an allowance of ¥490 million on these impaired loans.

The balance of installment loans to consumer borrowers in Japan as of March 31, 2019 increased 10% to ¥1,838,933 million compared to the balance as of March 31, 2018, primarily due to an increase in the balance of housing loans. The balance of installment loans to corporate borrowers in Japan as of March 31, 2019 increased 2% to ¥608,593 million compared to the balance as of March 31, 2018, primarily due to an increase in the balance of non-recourse loans. The balance of installment loans in overseas as of March 31, 2019 increased 53% to ¥813,728 million compared to the balance as of March 31, 2018 in line with the aforementioned acquisition.

For further information, see Note 9 of “Item 18. Financial Statements.”

## Asset quality

### Direct financing leases

	As of March 31,	
	2018	2019
	(Millions of yen, except percentage data)	
<b>90+ days past-due direct financing leases and allowances for direct financing leases:</b>		
90+ days past-due direct financing leases . . . . .	¥12,084	¥14,807
90+ days past-due direct financing leases as a percentage of the balance of investment in direct financing leases . . . . .	1.01%	1.28%
Provision as a percentage of average balance of investment in direct financing leases* . . . .	0.19%	0.37%
Allowance for direct financing leases . . . . .	¥10,089	¥12,049
Allowance for direct financing leases as a percentage of the balance of investment in direct financing leases . . . . .	0.84%	1.04%
The ratio of charge-offs as a percentage of the average balance of investment in direct financing leases* . . . . .	0.22%	0.19%

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

The balance of 90+ days past-due direct financing leases increased ¥2,723 million to ¥14,807 million as of March 31, 2019 compared to March 31, 2018. As a result, the ratio of 90+ days past-due direct financing leases increased 0.27% to 1.28% from March 31, 2018.

We believe that the ratio of allowance for doubtful receivables to the balance of investment in direct financing leases provides a reasonable indication that our allowance for doubtful receivables was appropriate as of March 31, 2019 for the following reasons:

- lease receivables are generally diversified and the amount of realized loss on any particular contract is likely to be relatively small; and
- all lease contracts are secured by collateral consisting of the underlying leased equipment, and we can expect to recover at least a portion of the outstanding lease receivables by selling the collateral.

### Loans not individually evaluated for impairment

	As of March 31,	
	2018	2019
	(Millions of yen, except percentage data)	
<b>90+ days past-due loans and allowance for installment loans:</b>		
90+ days past-due loans not individually evaluated for impairment . . . . .	¥12,748	¥12,412
90+ days past-due loans not individually evaluated for impairment as a percentage of the balance of installment loans not individually evaluated for impairment . . . . .	0.46%	0.39%
Provision as a percentage of average balance of installment loans not individually evaluated for impairment* . . . . .	0.48%	0.50%
Allowance for probable loan losses on installment loans exclusive of those loans individually evaluated for impairment . . . . .	¥30,239	¥32,231
Allowance for probable loan losses on installment loans exclusive of those loans individually evaluated for impairment as a percentage of the balance of installment loans not individually evaluated for impairment . . . . .	1.09%	1.00%
The ratio of charge-offs as a percentage of the average balance of loans not individually evaluated for impairment* . . . . .	0.36%	0.44%

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

The balance of 90+ days past-due loans not individually evaluated and evaluated as a homogeneous group for impairment due to their individual significance decreased ¥336 million to ¥12,412 million as of March 31, 2019 compared to March 31, 2018.

	As of March 31,	
	2018	2019
(Millions of yen)		
<b>90+ days past-due loans not individually evaluated for impairment:</b>		
Consumer borrowers in Japan		
Housing loans	¥ 2,077	¥ 1,388
Card loans	1,785	1,671
Other	8,464	8,993
Subtotal	<u>12,326</u>	<u>12,052</u>
Overseas		
Other	422	360
Total	<u>¥12,748</u>	<u>¥12,412</u>

We recognize allowance for housing loans, card loans and other loans in Japan after careful evaluation of the value of collateral underlying the loans, past loss experience and any economic conditions that we believe may affect the default rate. We determine the allowance for our other items on the basis of past loss experience, general economic conditions and the current portfolio composition.

*Loans individually evaluated for impairment*

	As of March 31,	
	2018	2019
(Millions of yen)		
<b>Loans individually evaluated for impairment:</b>		
Impaired loans	¥47,142	¥58,827
Impaired loans requiring an allowance	39,329	41,234
Allowance for loans individually evaluated for impairment*	14,344	13,731

\* The allowance 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.

New provision for probable loan losses was ¥1,498 million in fiscal 2018 and ¥3,201 million in fiscal 2019, and charge-off of impaired loans was ¥6,785 million in fiscal 2018 and ¥3,936 million in fiscal 2019. New provision for probable loan losses increased ¥1,703 million compared to fiscal 2018. Charge-off of impaired loans decreased ¥2,849 million compared to fiscal 2018.

The table below sets forth the outstanding balance of impaired loans by region and type of borrower as of the dates indicated. Consumer loans in Japan primarily consist of restructured smaller-balance homogeneous loans individually evaluated for impairment.

	As of March 31,	
	2018	2019
(Millions of yen)		
<b>Impaired loans:</b>		
Consumer borrowers in Japan		
Housing loans .....	¥ 3,544	¥ 4,378
Card loans .....	4,060	3,945
Other .....	<u>11,082</u>	<u>14,216</u>
Subtotal .....	<u>18,686</u>	<u>22,539</u>
Corporate borrowers in Japan		
Real estate companies .....	1,598	1,540
Non-recourse loans .....	254	232
Commercial, industrial and other companies .....	<u>9,174</u>	<u>7,103</u>
Subtotal .....	<u>11,026</u>	<u>8,875</u>
Overseas		
Non-recourse loans .....	3,491	4,216
Commercial, industrial companies and other .....	<u>8,838</u>	<u>19,433</u>
Subtotal .....	<u>12,329</u>	<u>23,649</u>
Purchased loans .....	<u>5,101</u>	<u>3,764</u>
Total .....	<u>¥47,142</u>	<u>¥58,827</u>

For further information, see Note 10 of “Item 18. Financial Statements.”

### *Provision for doubtful receivables and probable loan losses*

We recognize provision for doubtful receivables and probable loan losses for direct financing leases and installment loans.

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Provision for doubtful receivables on direct financing leases and probable loan losses:</b>				
Beginning balance	¥ 59,227	¥ 54,672	¥ (4,555)	(8)
Direct financing leases	10,537	10,089	(448)	(4)
Loans not individually evaluated for impairment	28,622	30,239	1,617	6
Loans individually evaluated for impairment	20,068	14,344	(5,724)	(29)
Provision	17,265	22,525	5,260	30
Direct financing leases	2,241	4,324	2,083	93
Loans not individually evaluated for impairment	13,526	15,000	1,474	11
Loans individually evaluated for impairment	1,498	3,201	1,703	114
Charge-offs (net)	(19,465)	(19,213)	252	(1)
Direct financing leases	(2,701)	(2,255)	446	(17)
Loans not individually evaluated for impairment	(9,979)	(13,022)	(3,043)	30
Loans individually evaluated for impairment	(6,785)	(3,936)	2,849	(42)
Other*	(2,355)	27	2,382	—
Direct financing leases	12	(109)	(121)	—
Loans not individually evaluated for impairment	(1,930)	14	1,944	—
Loans individually evaluated for impairment	(437)	122	559	—
Ending balance	54,672	58,011	3,339	6
Direct financing leases	10,089	12,049	1,960	19
Loans not individually evaluated for impairment	30,239	32,231	1,992	7
Loans individually evaluated for impairment	14,344	13,731	(613)	(4)

\* Other mainly includes foreign currency translation adjustments and others.

For further information, see Note 10 of “Item 18. Financial Statements.”

### *Investment in Securities*

	As of and for the year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investment in securities:</b>				
New securities added	¥ 439,383	¥ 623,172	¥183,789	42
Japan	300,406	504,515	204,109	68
Overseas	138,977	118,657	(20,320)	(15)
Investment in securities	1,729,455	1,928,916	199,461	12

Note: The balance of investment in securities related to our life insurance operations are included in investment in securities in our consolidated balance sheets; however, income and losses on these investment in securities are recorded in life insurance premiums and related investment income in our consolidated statements of income.

New securities added increased 42% to ¥623,172 million in fiscal 2019 compared to fiscal 2018. New securities added in Japan increased 68% in fiscal 2019 compared to fiscal 2018 primarily due to an increase in investments in government bond securities and corporate debt securities. New securities added overseas decreased 15% in fiscal 2019 compared to fiscal 2018.

The balance of our investment in securities as of March 31, 2019 increased 12% to ¥1,928,916 million compared to March 31, 2018.

	<u>As of March 31,</u> <u>2018</u>
	(Millions of yen)
<b>Investment in securities by security type:</b>	
Trading securities .....	¥ 422,053
Available-for-sale securities .....	1,015,477
Held-to-maturity securities .....	113,891
Other securities .....	178,034
Total .....	<u>¥1,729,455</u>
	<u>As of March 31,</u> <u>2019</u>
	(Millions of yen)
<b>Investment in securities by security type:</b>	
Equity securities .....	¥ 549,047
Trading debt securities .....	1,564
Available-for-sale debt securities .....	1,264,244
Held-to-maturity debt securities .....	114,061
Total .....	<u>¥1,928,916</u>

Investments in equity securities as of March 31, 2019 decreased compared to March 31, 2018 primarily due to a decrease in the assets under management of variable annuity and variable life insurance contracts. In addition, investments in trading debt securities as of March 31, 2019 decreased compared to March 31, 2018 due to sales of municipal bond securities in the Americas. On the other hand, investments in available-for-sale debt securities as of March 31, 2019 increased compared to March 31, 2018 primarily due to an increase in investments in government bond securities and corporate debt securities in Japan. Held-to-maturity debt securities mainly consist of our life insurance business's investment in Japanese government bonds.

For further information, see Note 11 of "Item 18. Financial Statements."

#### ***Gains on investment securities and dividends***

	<u>Year ended March 31,</u>		<u>Change</u>	
	<u>2018</u>	<u>2019</u>	<u>Amount</u>	<u>Percent (%)</u>
	(Millions of yen, except percentage data)			
<b>Gains on investment securities and dividends:</b>				
Net gains on investment securities .....	¥ 39,139	¥ 14,273	¥(24,866)	(64)
Dividends income, other .....	4,163	1,685	(2,478)	(60)
Total .....	<u>¥ 43,302</u>	<u>¥ 15,958</u>	<u>¥(27,344)</u>	(63)

Notes: 1. Income and losses on investment in securities related to our life insurance operations are recorded in life insurance premiums and related investment income in our consolidated statements of income.

2. Accounting Standards Update 2016-01 (“Recognition and Measurement of Financial Assets and Financial Liabilities”—ASC 825-10 (“Financial Instruments—Overall”)) has been applied since April 1, 2018. The unrealized change in fair value of investment in equity securities has been included in “Net gains on investment securities” since April 1, 2018 for this application.

Gains on investment securities and dividends decreased 63% to ¥15,958 million in fiscal 2019 compared to fiscal 2018 mainly due to a decrease in net gains on investment securities. Net gains on investment securities decreased 64% to ¥14,273 million in fiscal 2019 compared to fiscal 2018 due to a decrease in gains on sales of shares, as well as a decrease in net unrealized holding gains on equity securities caused by declines in market prices of stocks. Dividends income, other decreased 60% to ¥1,685 million in fiscal 2019 compared to fiscal 2018.

As of March 31, 2018, gross unrealized gains and gross unrealized losses on available-for-sale securities, including those held in connection with our life insurance operations, were ¥29,220 million and ¥15,856 million, respectively. As of March 31, 2019, gross unrealized gains and gross unrealized losses on available-for-sale debt securities, including those held in connection with our life insurance operations, were ¥35,034 million and ¥10,530 million, respectively.

### *Operating leases*

	As of and for the year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
	(Millions of yen, except percentage data)			
<b>Operating leases:</b>				
Operating lease revenues	¥ 379,665	¥ 413,918	¥ 34,253	9
Costs of operating leases	252,327	257,321	4,994	2
New equipment acquisitions	495,609	544,715	49,106	10
Japan	215,832	233,721	17,889	8
Overseas	279,777	310,994	31,217	11
Investment in operating leases	1,344,926	1,335,959	(8,967)	(1)

Revenues from operating leases in fiscal 2019 increased 9% to ¥413,918 million compared to fiscal 2018 primarily due to increases in gains on sales of aircraft in aircraft-related operations and sales of rental property. In fiscal 2018 and 2019, gains from the disposition of operating lease assets were ¥35,291 million and ¥62,883 million, respectively.

Costs of operating leases increased 2% to ¥257,321 million in fiscal 2019 compared to fiscal 2018 primarily due to an increase in depreciation expenses resulting from a year on year increase in the average balance of investment in the automobile leasing business, despite a decrease in costs from rental property.

New equipment acquisitions related to operating leases increased 10% to ¥544,715 million in fiscal 2019 compared to fiscal 2018 primarily due to an increase in purchases of aircraft overseas.

Investment in operating leases as of March 31, 2019 decreased 1% to ¥1,335,959 million compared to March 31, 2018.

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investment in operating leases by category:</b>				
Transportation equipment	¥ 864,008	¥ 888,625	¥ 24,617	3
Measuring and information-related equipment	89,326	105,179	15,853	18
Real estate	348,867	297,343	(51,524)	(15)
Other	12,210	12,890	680	6
Accrued rental receivables	30,515	31,922	1,407	5
Total	<u>¥1,344,926</u>	<u>¥1,335,959</u>	<u>¥ (8,967)</u>	(1)

Investment in transportation equipment operating leases as of March 31, 2019 increased 3% to ¥888,625 million compared to March 31, 2018 primarily due to an increase in new equipment acquisitions in the automobile leasing business and aircraft-related operations. Investment in measuring and information-related equipment operating leases as of March 31, 2019 increased 18% to ¥105,179 million compared to March 31, 2018 primarily due to an increase in new equipment acquisitions in the rental business. Investment in real estate operating leases as of March 31, 2019 decreased 15% to ¥297,343 million compared to March 31, 2018, primarily due to sales of real estate in Japan.

For further information, see Note 8 of “Item 18. Financial Statements.”

### *Life insurance*

We reflect all income and losses (other than provision for doubtful receivables and probable loan losses) that we recognize on securities, installment loans, real estate under operating leases and other investments held in connection with our life insurance operations as life insurance premiums and related investment income in our consolidated statements of income.

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Life insurance premiums and related investment income and life insurance costs:</b>				
Life insurance premiums	¥ 299,320	¥ 330,811	¥ 31,491	11
Life insurance-related investment income	52,270	16,325	(35,945)	(69)
Total	<u>¥ 351,590</u>	<u>¥ 347,136</u>	<u>¥ (4,454)</u>	(1)
Life insurance costs	<u>¥ 255,070</u>	<u>¥ 246,533</u>	<u>¥ (8,537)</u>	(3)

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Breakdown of life insurance-related investment income (loss):</b>				
Net income on investment securities	¥ 58,921	¥ 10,756	¥(48,165)	(82)
Losses recognized in income on derivative	(7,332)	(1,348)	5,984	(82)
Interest on loans, income on real estate under operating leases, and others	681	6,917	6,236	916
Total	<u>¥ 52,270</u>	<u>¥ 16,325</u>	<u>¥(35,945)</u>	(69)

Life insurance premiums and related investment income decreased 1% to ¥347,136 million in fiscal 2019 compared to fiscal 2018.

Life insurance premiums increased 11% to ¥330,811 million in fiscal 2019 compared to fiscal 2018 due to an increase in the number of policies in force.

Life insurance-related investment income decreased 69% to ¥16,325 million in fiscal 2019 compared to fiscal 2018. Net income on investment securities decreased in investment income from variable annuity and variable life insurance contracts. Losses from derivative contracts held to economically hedge the minimum guarantee risk relating to these variable annuity and variable life insurance contracts decreased. On the other hand, interest on loans, income on real estate under operating leases, and others increased.

Life insurance costs decreased 3% to ¥246,533 million in fiscal 2019 compared to fiscal 2018 due to a decrease in a provision of liability reserve in line with the aforementioned decrease in investment income from variable annuity and variable life insurance contracts.

	<u>As of March 31,</u> <u>2018</u>
(Millions of yen)	
<b>Investments by life insurance operations:</b>	
Trading securities	¥ 403,797
Available-for-sale debt securities	470,634
Available-for-sale equity securities	8,916
Held-to-maturity securities	113,891
Other securities	<u>1,617</u>
Total investment in securities	<u>998,855</u>
Installment loans, real estate under operating leases and other investments	<u>52,080</u>
Total	<u>¥1,050,935</u>
	<u>As of March 31,</u> <u>2019</u>
(Millions of yen)	
<b>Investments by life insurance operations:</b>	
Equity securities	¥ 327,497
Available-for-sale debt securities	766,830
Held-to-maturity debt securities	<u>114,061</u>
Total investment in securities	<u>1,208,388</u>
Installment loans, real estate under operating leases and other investments	<u>41,630</u>
Total	<u>¥1,250,018</u>

Investments in equity securities as of March 31, 2019 decreased compared to March 31, 2018 primarily due to a decrease in the assets under management of variable annuity and variable life insurance contracts. On the other hand, investments in available-for-sale debt securities as of March 31, 2019 increased compared to March 31, 2018 primarily due to an increase in investments in government bond securities and corporate debt securities in Japan.

For further information, see Note 25 of “Item 18. Financial Statements.”

### *Sales of goods and real estate, Inventories*

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
	(Millions of yen, except percentage data)			
<b>Sales of goods and real estate, Inventories:</b>				
Sales of goods and real estate . . . . .	¥ 1,079,052	¥ 596,165	¥(482,887)	(45)
Costs of goods and real estate sold . . . . .	1,003,509	535,261	(468,248)	(47)
New real estate added . . . . .	83,120	97,397	14,277	17
Inventories . . . . .	111,001	115,695	4,694	4

Sales of goods and real estate decreased 45% to ¥596,165 million compared to fiscal 2018 due to a decrease in sales of goods.

Costs of goods and real estate sold decreased 47% to ¥535,261 million compared to fiscal 2018 due to a decrease in costs of goods sold. We recognized ¥936 million and ¥703 million of write-downs for fiscal 2018 and 2019, respectively, which were included in costs of goods and real estate sold. Costs of goods and real estate sold include the upfront costs associated with advertising and creating model rooms.

New real estate added increased 17% to ¥97,397 million in fiscal 2019 compared to fiscal 2018.

Inventories as of March 31, 2019 increased 4% to ¥115,695 million compared to March 31, 2018.

For further information, see Note 4 and 5 of “Item 18. Financial Statements.”

### *Services, Property under Facility Operations*

	As of and for the year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
	(Millions of yen, except percentage data)			
<b>Services, Property under Facility Operations</b>				
Services income . . . . .	¥ 780,910	¥ 818,794	¥ 37,884	5
Services expense . . . . .	482,796	508,320	25,524	5
New assets added . . . . .	82,206	104,839	22,633	28
Japan . . . . .	76,206	103,939	27,733	36
Overseas . . . . .	6,000	900	(5,100)	(85)
Property under Facility Operations . . . . .	434,786	441,632	6,846	2

Notes 1: Revenues from guarantees in the consolidated statements of income have been reclassified from “Services income” to “Finance revenues” from fiscal 2019. This change aims to reflect revenue structure of the Company and its subsidiaries more appropriately accompanying the adoption of ASC606 (“Revenue from Contracts with Customers”). Corresponding to this change, the presented amounts in the consolidated statements of income for the previous fiscal year have also been reclassified retrospectively to conform to the presentation for fiscal 2019.

- 2: In fiscal 2018, 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. In fiscal 2019, revenues are recognized when control of the promised goods or services are transferred to our customers, in the amounts that reflect the consideration we expect to receive in exchange for those goods or services.

Services income increased 5% to ¥818,794 million in fiscal 2019 compared to fiscal 2018 primarily due to service expansion in the environment and energy business and sales of property under facility operations.

Services expense increased 5% to ¥508,320 million in fiscal 2019 compared to fiscal 2018 mainly resulted from the recognition of expenses from the environment and energy business.

New assets added for property under facility operations increased 28% to ¥104,839 million in fiscal 2019 compared to fiscal 2018 due to investment in electric power facilities and completion of property under facility operations.

Property under facility operations as of March 31, 2019 increased 2% to ¥441,632 million compared to March 31, 2018 primarily due to investment in electric power facilities, despite decreases in property under facility operations through sales of the assets.

For further information, see Note 4 and 5 of “Item 18. Financial Statements.”

### ***Expenses***

#### ***Interest expense***

Interest expense increased 22 % to ¥93,337 million in fiscal 2019 compared to ¥76,815 million in fiscal 2018. Our total outstanding short-term debt, long-term debt and deposits as of March 31, 2019 increased 9 % to ¥6,423,512 million compared to ¥5,890,720 million as of March 31, 2018.

The average interest rate on our short-term debt, long-term debt and deposits in domestic currency, calculated on the basis of average monthly balances, remained flat in fiscal 2019 at 0.4% compared to 0.4% in fiscal 2018. The average interest rate on our short-term debt, long-term debt and deposits in foreign currency, calculated on the basis of average monthly balances, increased to 3.3 % in fiscal 2019, from 2.8 % in fiscal 2018. For more information regarding our interest rate risk, see “Item 3. Key Information—Risk Factors.” For more information regarding our outstanding debt, see “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Short-term and long-term debt and deposits.”

#### ***Other (income) and expense, net***

Other (income) and expense, net included a net expense of ¥429 million during fiscal 2018 and a net expense of ¥1,301 million during fiscal 2019. Foreign currency transaction losses (gains) included in other (income) and expense, net included losses of ¥3,220 million in fiscal 2019 compared to gains of ¥2,764 million in fiscal 2018. We recognized impairment losses on goodwill and other intangible assets included in other (income) and expense, net in the amount of ¥606 million in fiscal 2019 compared to ¥194 million of impairment losses on goodwill and other intangible assets during fiscal 2018. For further information on our goodwill and other intangible assets, see Note 15 of “Item 18. Financial Statements.”

### *Selling, general and administrative expenses*

	<u>Year ended March 31,</u>		<u>Change</u>	
	<u>2018</u>	<u>2019</u>	<u>Amount</u>	<u>Percent (%)</u>
(Millions of yen, except percentage data)				
<b>Selling, general and administrative expenses:</b>				
Personnel expenses .....	¥ 241,508	¥ 248,519	¥ 7,011	3
Selling expenses .....	82,850	79,015	(3,835)	(5)
Administrative expenses .....	102,105	104,582	2,477	2
Depreciation of office facilities .....	5,131	4,912	(219)	(4)
Total .....	<u>¥ 431,594</u>	<u>¥ 437,028</u>	<u>¥ 5,434</u>	1

Employee salaries and other personnel expenses accounted for 57% of selling, general and administrative expenses in fiscal 2019, and the remaining portion consists of other expenses, such as rent for office space, communication expenses and travel expenses. Selling, general and administrative expenses in fiscal 2019 increased 1% year on year.

### *Write-downs of long-lived assets*

As a result of impairment reviews we performed in fiscal 2019 for long-lived assets in Japan and overseas, such as office buildings, commercial facilities other than office buildings, condominiums, hotels, and land undeveloped or under construction, write-downs of long-lived assets decreased 56% to ¥2,418 million in fiscal 2019 compared to ¥5,525 million in fiscal 2018. These write-downs, which are reflected as write-downs of long-lived assets, consisted of impairment losses of ¥728 million on two commercial facilities other than office buildings and ¥1,690 million on other long-lived assets, because the assets were classified as held for sale or the carrying amount exceeded the estimated undiscounted future cash flows. In addition, write-downs of other long-lived assets in fiscal 2019 include a write-down of ¥825 million of one hotel. For further information, see Note 26 of “Item 18. Financial Statements.”

### *Write-downs of securities*

Write-downs of securities in fiscal 2019 were mainly for foreign municipal bond securities and non-marketable equity securities. Write-downs of securities increased 11% to ¥1,382 million in fiscal 2019 compared to ¥1,246 million in fiscal 2018. For further information, see Note 11 of “Item 18. Financial Statements.”

### *Equity in net income of affiliates*

Equity in net income of affiliates decreased in fiscal 2019 to ¥32,978 million compared to ¥50,103 million in fiscal 2018 primarily due to the recognition of significant gains on sales of investments in real estate joint ventures in fiscal 2018. For further information, see Note 14 of “Item 18. Financial Statements.”

### *Gains on sales of subsidiaries and affiliates and liquidation losses, net*

Gains on sales of subsidiaries and affiliates and liquidation losses, net decreased to ¥33,314 million in fiscal 2019 compared to ¥49,203 million in fiscal 2018, due to the favorable profit from sales in Japan in fiscal 2018. For further information, see Note 3 of “Item 18. Financial Statements.”

### *Provision for income taxes*

Provision for income taxes decreased to ¥68,691 million in fiscal 2019 compared to ¥113,912 million in fiscal 2018 primarily due to the reversal of the deferred tax liabilities previously recorded for undistributed earnings of DAIKYO. For further information, see Note 18 of “Item 18. Financial Statements.”

### *Net income attributable to the noncontrolling interests*

Net income attributable to the noncontrolling interests was recorded as a result of the noncontrolling interests in earnings of certain of our subsidiaries. Net income attributable to the noncontrolling interests in fiscal 2019 was ¥2,890 million, compared to ¥8,002 million in fiscal 2018.

### *Net income attributable to the redeemable noncontrolling interests*

Net income attributable to the redeemable noncontrolling interests was recorded as a result of the noncontrolling interests in the earnings of our subsidiaries that issued redeemable stock. Net income attributable to the redeemable noncontrolling interests in fiscal 2019 was ¥404 million, compared to ¥452 million in fiscal 2018. For further information, see Note 18 of “Item 20. Financial Statements.”

## **YEAR ENDED MARCH 31, 2018 COMPARED TO YEAR ENDED MARCH 31, 2017**

### **Performance Summary**

#### *Financial Results*

	<u>Year ended March 31,</u>		<u>Change</u>	
	<u>2017</u>	<u>2018</u>	<u>Amount</u>	<u>Percent (%)</u>
	<i>(Millions of yen, except ratios, per Share data and percentages)</i>			
Total revenues . . . . .	¥ 2,678,659	¥2,862,771	¥184,112	7
Total expenses . . . . .	2,349,435	2,526,576	177,141	8
Income before Income Taxes . . . . .	424,965	435,501	10,536	2
Net Income Attributable to ORIX Corporation				
Shareholders . . . . .	273,239	313,135	39,896	15
Earnings per Share (Basic) . . . . .	208.88	244.40	35.52	17
(Diluted) . . . . .	208.68	244.15	35.47	17
ROE* <sup>1</sup> . . . . .	11.3	12.1	0.8	—
ROA* <sup>2</sup> . . . . .	2.46	2.76	0.30	—

\*<sup>1</sup> ROE is the ratio of Net Income Attributable to ORIX Corporation Shareholders for the period to average ORIX Corporation Shareholders’ Equity based on fiscal year beginning and ending balances.

\*<sup>2</sup> ROA is the ratio of Net Income Attributable to ORIX Corporation Shareholders for the period to average Total Assets based on fiscal year beginning and ending balances.

Total revenues for fiscal 2018 increased 7% to ¥2,862,771 million compared to ¥2,678,659 million during fiscal 2017. Life insurance premiums and related investment income in the life insurance business increased due to an increase in life insurance premiums from an increase in in-force policies, and an increase in investment income from assets under variable annuity and variable life insurance contracts following the market’s recovery. In addition, sales of goods and real estate increased due primarily to revenues generated by subsidiaries in the private equity business, and services income increased due primarily to service expansion in the asset management business and the environment and energy business.

Total expenses for fiscal 2018 increased 8% to ¥2,526,576 million compared to ¥2,349,435 million during fiscal 2017. Life insurance costs increased due to an increase in a provision of liability reserve in line with the aforementioned increase in in-force policies and an increase in investment income. In addition, costs of goods and real estate sold and services expense increased in line with the aforementioned increased revenues.

Equity in net income of affiliates for fiscal 2018 increased due mainly to the recognition of significant gains on sales of investments in real estate joint ventures compared to fiscal 2017.

As a result of the foregoing, income before income taxes for fiscal 2018 increased 2% to ¥435,501 million compared to ¥424,965 million during fiscal 2017. In addition, due to the impact from tax reform in the United States, net income attributable to ORIX Corporation shareholders increased 15% to ¥313,135 million compared to ¥273,239 million during fiscal 2017.

### *Balance Sheet data*

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen except ratios, per share and percentages)			
Total Assets	¥11,231,895	¥11,425,982	¥194,087	2
(Segment assets)	8,956,872	9,017,250	60,378	1
Total Liabilities	8,577,722	8,619,688	41,966	0
(Long- and Short-term Debt)	4,138,451	4,133,258	(5,193)	(0)
(Deposits)	1,614,608	1,757,462	142,854	9
ORIX Corporation Shareholders' Equity	2,507,698	2,682,424	174,726	7
ORIX Corporation Shareholders' Equity per share	1,925.17	2,095.64	170.47	9
ORIX Corporation Shareholders' Equity ratio*	22.3%	23.5%	1.2%	—
D/E ratio (Debt-to-equity ratio) (Long- and Short-term Debt (excluding deposits) / ORIX Corporation Shareholders' Equity)	1.7x	1.5x	(0.2)x	—

\* ORIX Corporation Shareholders' Equity ratio is the ratio as of the period end of ORIX Corporation Shareholder's Equity to total assets.

Total assets increased 2% to ¥11,425,982 million compared to ¥11,231,895 million as of March 31, 2017. Investment in securities decreased due primarily to sales of investment in securities as well as the surrender of variable annuity and variable life insurance contracts in the life insurance business. On the other hand, property under facility operations and investment in affiliates increased due primarily to the new large-scale investments in the environment and energy business. In addition, segment assets increased 1% to ¥9,017,250 million compared to the balance as of March 31, 2017.

We manage the balance of our interest-bearing liabilities at an appropriate level taking into account the condition of our assets and liquidity on-hand as well as the domestic and overseas financial environments. As a result, long-term debt decreased, and short-term debt and deposits increased compared to the balance as of March 31, 2017. In addition, policy liabilities and policy account balances decreased due primarily to the aforementioned surrender of contracts.

Shareholders' equity increased 7% to ¥2,682,424 million compared to the balance as of March 31, 2017 due primarily to an increase in retained earnings, despite a decrease due to share repurchases.

### **Details of Operating Results**

The following is a discussion of certain items in the consolidated statements of income, operating assets in the consolidated balance sheets and other selected financial information, including on a segment by segment basis.

#### *Segment Information*

Our business is organized into six segments that are based on major products, nature of services, customer base, and management organizations to facilitate strategy formulation, resource allocation and portfolio rebalancing at the segment level. Our six business segments are: Corporate Financial Services, Maintenance Leasing, Real Estate, Investment and Operation, Retail and Overseas Business.

Financial information about the operating segments reported below is that which is available by segment and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. We evaluate the performance of these segments based on income before income taxes, net income attributable to the noncontrolling interests and net income attributable to the redeemable noncontrolling interests before applicable tax effect. Tax expenses are not included in segment profits.

The Company made DAIKYO a wholly-owned subsidiary in fiscal 2019 to complement their respective real estate businesses and to jointly aim for medium- and long-term growth as a comprehensive real estate business. Accordingly, ORIX changed the segment classification of DAIKYO from Investment and Operation segment to Real Estate segment. As a result of this change, segment amounts as of the end of and for fiscal 2017 and fiscal 2018 have been retrospectively reclassified.

Certain line items presented in the consolidated statements of income have been changed starting from fiscal 2019. For further information, see Note 1 “Significant Accounting and Reporting Policies (ag) Reclassifications.”

From fiscal 2019, consolidated VIEs for securitizing financial assets such as lease receivables and loan receivables, which had been excluded from segment revenues, segment profits and segment assets until the previous fiscal year, are included in segment revenues, segment profits and segment assets of each segment. As a result of this change, segment amounts as of the end of and for fiscal 2017 and fiscal 2018 have been retrospectively reclassified.

For a description of the business activities of our segments, see “Item 4. Information on the Company—Business Segments.” See Note 33 of “Item 18. Financial Statements” for additional segment information, a discussion of how we prepare our segment information and the reconciliation of segment totals to consolidated financial statement amounts.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Segment Revenues:</b>				
Corporate Financial Services . . . . .	¥ 103,146	¥ 115,837	¥ 12,691	12
Maintenance Leasing . . . . .	270,960	275,933	4,973	2
Real Estate . . . . .	512,756	489,752	(23,004)	(4)
Investment and Operation . . . . .	969,956	1,083,505	113,549	12
Retail . . . . .	368,700	428,697	59,997	16
Overseas Business . . . . .	462,740	479,619	16,879	4
Segment Total . . . . .	<u>2,688,258</u>	<u>2,873,343</u>	<u>185,085</u>	7
Difference between Segment Total and Consolidated Amounts . . . . .	<u>(9,599)</u>	<u>(10,572)</u>	<u>(973)</u>	—
Consolidated Amounts . . . . .	<u>¥ 2,678,659</u>	<u>¥ 2,862,771</u>	<u>¥ 184,112</u>	7

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Segment Profits:</b>				
Corporate Financial Services	¥ 38,032	¥ 49,275	¥ 11,243	30
Maintenance Leasing	39,787	40,162	375	1
Real Estate	84,479	74,395	(10,084)	(12)
Investment and Operation	73,362	84,097	10,735	15
Retail	72,865	74,527	1,662	2
Overseas Business	112,386	106,622	(5,764)	(5)
Segment Total	420,911	429,078	8,167	2
Difference between Segment Total and Consolidated Amounts	4,054	6,423	2,369	58
Consolidated Amounts	¥ 424,965	¥ 435,501	¥ 10,536	2

Note: Segment profit is calculated based on net income attributable to the noncontrolling interests and net income attributable to the redeemable noncontrolling interests before applicable tax effect. Tax expenses are not included in segment profits.

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Segment Assets:</b>				
Corporate Financial Services	¥ 1,085,997	¥ 991,818	¥ (94,179)	(9)
Maintenance Leasing	806,722	847,190	40,468	5
Real Estate	843,892	801,969	(41,923)	(5)
Investment and Operation	593,761	674,617	80,856	14
Retail	3,293,448	3,174,505	(118,943)	(4)
Overseas Business	2,578,101	2,608,819	30,718	1
Segment Total	9,201,921	9,098,918	(103,003)	(1)
Difference between Segment Total and Consolidated Amounts	2,029,974	2,327,064	297,090	15
Consolidated Amounts	¥11,231,895	¥11,425,982	¥ 194,087	2

### *Corporate Financial Services Segment*

This segment is involved in finance and fee business.

In this segment, we are focusing on fee businesses related to life insurance, environment and energy, auto leasing related products and services provided to domestic small- and medium-sized enterprise customers while engaging in highly competitive businesses such as leasing and lending with a focus on profitability. We also aim to grow our profit by maximizing synergy potential with Yayoi, the software service provider in the group, and by utilizing domestic network to create new businesses.

Based on the aforementioned strategy, segment revenues increased 12% to ¥115,837 million compared to ¥103,146 million during the previous fiscal year due to an increase in gains on sales of securities, an increase in services income resulting from our stable fee businesses provided to domestic small- and medium-sized enterprise customers and from revenue in line with an increase in contracts of Yayoi, despite a decrease in finance revenues from decreases in average investment balance in direct financing leases and installment loans.

Segment expenses remained at the same level as the previous fiscal year.

As a result of the foregoing, segment profits increased 30% to ¥49,275 million compared to ¥38,032 million during the previous fiscal year.

Segment assets decreased 9% to ¥991,818 million compared to the end of the previous fiscal year due to decreases in investment in direct financing leases, installment loans and investment in securities.

Asset efficiency improved compared to the previous fiscal year due to an increase of stable profit from fee businesses with more variety of services and an increase in gains on sales of securities. Furthermore, we started to build a new domestic distribution network of fruits and vegetables and commenced an online lending service for small businesses to explore new business areas.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 32,449	¥ 30,737	¥ (1,712)	(5)
Gains on investment securities and dividends	¥ 2,454	¥ 17,083	¥ 14,629	596
Operating leases	25,626	23,355	(2,271)	(9)
Services income	38,466	40,283	1,817	5
Other	4,151	4,379	228	5
<b>Total Segment Revenues</b>	<b>103,146</b>	<b>115,837</b>	<b>12,691</b>	<b>12</b>
Interest expense	6,199	5,019	(1,180)	(19)
Costs of operating leases	14,288	14,058	(230)	(2)
Services expense	7,528	8,064	536	7
Selling, general and administrative expenses	39,112	39,085	(27)	(0)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	(76)	1,218	1,294	—
Other	1,129	1,404	275	24
<b>Total Segment Expenses</b>	<b>68,180</b>	<b>68,848</b>	<b>668</b>	<b>1</b>
<b>Segment Operating Income</b>	<b>34,966</b>	<b>46,989</b>	<b>12,023</b>	<b>34</b>
Equity in Net income (Loss) of Affiliates, and others	3,066	2,286	(780)	(25)
<b>Segment Profits</b>	<b>¥ 38,032</b>	<b>¥ 49,275</b>	<b>¥ 11,243</b>	<b>30</b>

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 483,425	¥439,329	¥(44,096)	(9)
Installment loans	402,907	369,882	(33,025)	(8)
Investment in operating leases	30,114	26,350	(3,764)	(12)
Investment in securities	34,773	19,208	(15,565)	(45)
Property under facility operations	13,034	15,075	2,041	16
Inventories	51	49	(2)	(4)
Advances for DFL and operating lease	80	203	123	154
Investment in affiliates	18,392	16,845	(1,547)	(8)
Advances for property under facility operations	139	720	581	418
Goodwill, intangible assets acquired in business combinations	103,082	104,157	1,075	1
<b>Total Segment Assets</b>	<b>¥1,085,997</b>	<b>¥991,818</b>	<b>¥(94,179)</b>	<b>(9)</b>

### *Maintenance Leasing Segment*

This segment consists of automobile leasing and rentals, car sharing, and test and measurement instruments and IT-related equipment rentals and leasing.

In the automobile related businesses which cover a large part of this segment, we aim to increase market share by targeting small- and medium-sized enterprises and individuals as well as large corporate customers by leveraging our industry-leading number of fleets under management and our competitive advantages to provide one-stop automobile-related services. Furthermore, we will also develop new products and services to make the change of industrial structure into new business opportunities. In the rental business, we strengthened our engineering solution businesses by developing new services for robots and three-dimensional (3D) printing.

Based on the aforementioned strategy, segment revenues increased 2% to ¥275,933 million compared to ¥270,960 million during the previous fiscal year due to increases in finance revenues and operating leases revenues in line with an increased average segment asset balance in the automobile leasing business and an increase in services income.

Segment expenses increased in line with the aforementioned revenue increases.

As a result of the foregoing, segment profits increased 1% to ¥40,162 million compared to ¥39,787 million during the previous fiscal year.

Segment assets increased 5% to ¥847,190 million compared to the end of the previous fiscal year due to an acquisition of Yodogawa Transformer Co. Ltd., the largest renter of power receiving and transforming facilities and equipment, and an increase in new auto leases in the automobile leasing business.

In auto-related business, the gain on sales of used cars decreased while assets of new auto leases increased. Although asset efficiency decreased compared to the previous fiscal year due to the aforementioned reason, we have continuously maintained stable profitability. In rental business, we plan to continue to expand our product lineups through the aforementioned acquisition and pursue business synergies.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
Finance revenues	¥ 13,355	¥ 14,247	¥ 892	7
Operating leases	187,302	189,655	2,353	1
Services income	66,250	67,752	1,502	2
Other	4,053	4,279	226	6
<b>Total Segment Revenues</b>	<b>270,960</b>	<b>275,933</b>	<b>4,973</b>	<b>2</b>
Interest expense	3,705	3,242	(463)	(12)
Costs of operating leases	143,265	145,402	2,137	1
Services expense	39,175	40,096	921	2
Selling, general and administrative expenses	42,925	44,107	1,182	3
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	258	222	(36)	(14)
Other	1,813	2,499	686	38
<b>Total Segment Expenses</b>	<b>231,141</b>	<b>235,568</b>	<b>4,427</b>	<b>2</b>
<b>Segment Operating Income</b>	<b>39,819</b>	<b>40,365</b>	<b>546</b>	<b>1</b>
Equity in Net income (Loss) of Affiliates, and others	(32)	(203)	(171)	—
<b>Segment Profits</b>	<b>¥ 39,787</b>	<b>¥ 40,162</b>	<b>¥ 375</b>	<b>1</b>

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases . . . . .	¥308,890	¥319,927	¥11,037	4
Investment in operating leases . . . . .	492,623	505,472	12,849	3
Investment in securities . . . . .	1,322	560	(762)	(58)
Property under facility operations . . . . .	803	904	101	13
Inventories . . . . .	445	461	16	4
Advances for DFL and operating lease . . . . .	335	197	(138)	(41)
Investment in affiliates . . . . .	1,880	1,996	116	6
Goodwill, intangible assets acquired in business combinations . . . . .	424	17,673	17,249	—
Total Segment Assets . . . . .	<u>¥806,722</u>	<u>¥847,190</u>	<u>¥40,468</u>	5

### ***Real Estate Segment***

This segment consists of real estate development, rental and management, facility operation, and real estate investment management.

In this segment, we aim to promote portfolio rebalancing by selling rental properties into favorable markets and also to expand the scale of our asset management business such as REIT and real estate investment advisory services to construct a portfolio that is less affected by changes in the real estate market. We also aim to gain stable profits by accumulating expertise through the operation of various facilities such as hotels and Japanese inns and to develop new businesses by taking advantage of the value chain to the extent of real estate development and rental, asset management and facility operations.

Based on the aforementioned strategy, segment revenues decreased 4% to ¥489,752 million compared to ¥512,756 million during the previous fiscal year due primarily to a decrease in operating leases revenues in line with a decrease in gains on sales of rental property and a decrease in average asset balance in operating leases, despite an increase in sales of goods and real estate and in services income from facilities operations.

Segment expenses increased 3% to ¥443,988 million compared to ¥428,986 million during the previous fiscal year due to increases in costs of goods and real estate sold and in services expense from facilities operations.

As a result of the foregoing, segment profits decreased 12% to ¥74,395 million compared to ¥84,479 million during the previous fiscal year, despite an increase in equity in net income of affiliates in line with the recognition of significant gains on sales of investments in real estate joint ventures.

Segment assets decreased 5% to ¥801,969 million compared to the end of the previous fiscal year due primarily to a decrease in investment in operating leases, which resulted from sales of rental properties.

Asset efficiency decreased compared to the previous fiscal year due to the absence of large capital gain as recorded in the previous fiscal year, despite the increased profit in asset management business and the gain on sales as a result of portfolio rebalance as a market remained favorable.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
Finance revenues	¥ 2,357	¥ 2,072	¥ (285)	(12)
Operating leases	96,024	55,202	(40,822)	(43)
Sales of goods and real estate	121,950	131,829	9,879	8
Services income	292,003	300,092	8,089	3
Other	422	557	135	32
<b>Total Segment Revenues</b>	<b>512,756</b>	<b>489,752</b>	<b>(23,004)</b>	<b>(4)</b>
Interest expense	3,204	2,285	(919)	(29)
Costs of operating leases	30,324	27,642	(2,682)	(9)
Costs of goods and real estate sold	100,853	112,204	11,351	11
Services expense	246,473	254,383	7,910	3
Selling, general and administrative expenses	43,948	43,170	(778)	(2)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	3,936	4,180	244	6
Other	248	124	(124)	(50)
<b>Total Segment Expenses</b>	<b>428,986</b>	<b>443,988</b>	<b>15,002</b>	<b>3</b>
<b>Segment Operating Income</b>	<b>83,770</b>	<b>45,764</b>	<b>(38,006)</b>	<b>(45)</b>
Equity in Net income (Loss) of Affiliates, and others	709	28,631	27,922	—
<b>Segment Profits</b>	<b>¥ 84,479</b>	<b>¥ 74,395</b>	<b>¥ (10,084)</b>	<b>(12)</b>

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
Investment in direct financing leases	¥ 27,523	¥ 33,589	¥ 6,066	22
Installment loans	0	312	312	—
Investment in operating leases	318,306	273,036	(45,270)	(14)
Investment in securities	4,893	4,354	(539)	(11)
Property under facility operations	185,023	195,463	10,440	6
Inventories	90,548	80,108	(10,440)	(12)
Advances for DFL and operating lease	19,757	21,639	1,882	10
Investment in affiliates	110,553	100,219	(10,334)	(9)
Advances for property under facility operations	11,196	19,351	8,155	73
Goodwill, intangible assets acquired in business combinations	76,093	73,898	(2,195)	(3)
<b>Total Segment Assets</b>	<b>¥ 843,892</b>	<b>¥ 801,969</b>	<b>¥ (41,923)</b>	<b>(5)</b>

### ***Investment and Operation Segment***

This segment consists of environment and energy business, private equity, and concession.

In environment and energy business, we aim to increase services revenue by promoting renewable energy business and electric power retailing business as a comprehensive energy service provider. In our solar power business, we have secured one gigawatt of solar power capacity and are operating projects that generate approximately 670 megawatts of electricity as of March 31, 2018, making us one of the largest solar power producers in Japan. We will accelerate renewable energy business overseas by utilizing the expertise gained in

the domestic market. In the private equity business, we aim to earn stable profits from investees and sustainable gains on sales through rebalancing our portfolio. We will diversify our investment methods and expand our target zone. Regarding concession business, we will strengthen the operations of three airports, Kansai International Airport, Osaka International Airport and Kobe Airport, and will also proactively engage in the operation of public infrastructures other than airports.

Based on the aforementioned strategy, segment revenues increased 12% to ¥1,083,505 million compared to ¥969,956 million during the previous fiscal year due to increases in sales of goods from subsidiaries in the private equity business and services income from the environment and energy business.

Segment expenses increased compared to the previous fiscal year in line with the aforementioned revenues expansion.

As a result of the foregoing and due to an increase in equity in net income of affiliates, segment profits increased 15% to ¥84,097 million compared to ¥73,362 million during the previous fiscal year.

Segment assets increased 14% to ¥674,617 million compared to the end of the previous fiscal year due primarily to an investment to Ormat, the U.S. geothermal energy company in the environment and energy business.

Although the gain on sales in private equity investment decreased because of the absence of large gain on sales as recorded in the previous fiscal year, the operation rate of solar power generation projects has improved and profit from concession business has steadily increased. As a result, asset efficiency improved compared to the previous fiscal year. Furthermore, we will engage in geothermal energy projects in Japan and other countries in Asia with Ormat in which we have newly invested.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
Finance revenues . . . . .	¥ 10,981	¥ 9,274	¥ (1,707)	(16)
Gains on investment securities and dividends . . . . .	12,931	7,598	(5,333)	(41)
Sales of goods and real estate . . . . .	824,953	924,220	99,267	12
Services income . . . . .	118,763	140,088	21,325	18
Other . . . . .	2,328	2,325	(3)	(0)
<b>Total Segment Revenues . . . . .</b>	<b>969,956</b>	<b>1,083,505</b>	<b>113,549</b>	<b>12</b>
Interest expense . . . . .	4,889	5,670	781	16
Costs of goods and real estate sold . . . . .	779,386	875,456	96,070	12
Services expense . . . . .	91,640	110,630	18,990	21
Selling, general and administrative expenses . . . . .	55,021	55,467	446	1
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities . . . . .	6,210	(836)	(7,046)	—
Other . . . . .	(32)	914	946	—
<b>Total Segment Expenses . . . . .</b>	<b>937,114</b>	<b>1,047,301</b>	<b>110,187</b>	<b>12</b>
<b>Segment Operating Income . . . . .</b>	<b>32,842</b>	<b>36,204</b>	<b>3,362</b>	<b>10</b>
Equity in Net income (Loss) of Affiliates, and others . . . . .	40,520	47,893	7,373	18
<b>Segment Profits . . . . .</b>	<b>¥ 73,362</b>	<b>¥ 84,097</b>	<b>¥ 10,735</b>	<b>15</b>

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases . . . . .	¥ 26,016	¥ 25,497	¥ (519)	(2)
Installment loans . . . . .	71,478	59,437	(12,041)	(17)
Investment in operating leases . . . . .	5,312	4,123	(1,189)	(22)
Investment in securities . . . . .	46,367	28,562	(17,805)	(38)
Property under facility operations . . . . .	187,674	208,106	20,432	11
Inventories . . . . .	24,817	24,260	(557)	(2)
Advances for DFL and operating lease . . . . .	114	146	32	28
Investment in affiliates . . . . .	60,275	156,896	96,621	160
Advances for property under facility operations . . . . .	55,180	44,901	(10,279)	(19)
Goodwill, intangible assets acquired in business combinations . . . . .	116,528	122,689	6,161	5
Total Segment Assets . . . . .	<u>¥ 593,761</u>	<u>¥ 674,617</u>	<u>¥ 80,856</u>	14

### ***Retail Segment***

This segment consists of life insurance, banking, and card loan.

In life insurance business, we aim to increase the number of policies in-force and revenues from insurance premiums by offering simple-to-understand products through sales agencies and online. In the banking business, we aim to increase finance revenues by increasing balance of outstanding housing loans which is a core of our banking business. In card loan business, we aim to increase revenues from guarantee fees by expanding guarantees against loans disbursed by other financial institutions in addition to increase finance revenues by making loans directly by utilizing our experience and expertise in credit screening while taking into account the amendments to the Money Lending Business Act for the purpose of reducing over-indebtedness.

Based on the aforementioned strategy, segment revenues increased 16% to ¥428,697 million compared to ¥368,700 million during the previous fiscal year due mainly to an increase in life insurance premiums in line with an increase in in-force policies, and an increase in investment income from assets under variable annuity and variable life insurance contracts in the life insurance business due to the market's recovery.

Segment expenses increased compared to the previous fiscal year due to an increase in a provision of liability reserve in line with the aforementioned increase in in-force policies and an increase in investment income.

As a result of the foregoing, segment profits increased 2% to ¥74,527 million compared to ¥72,865 million during the previous fiscal year.

Segment assets decreased 4% to ¥3,174,505 million compared to the end of the previous fiscal year due primarily to sales of investment in securities as well as the surrender of variable annuity and variable life insurance contracts in the life insurance business, despite an increase in installment loans in the banking business.

Asset efficiency improved compared to the previous fiscal year due to the increase in life insurance premiums and financial revenues in addition to the decrease in assets by cancellation of variable annuity and variable life insurance contracts.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
Finance revenues	¥ 68,131	¥ 72,929	¥ 4,798	7
Life insurance premiums and related investment income	297,886	352,974	55,088	18
Other	2,683	2,794	111	4
<b>Total Segment Revenues</b>	<b>368,700</b>	<b>428,697</b>	<b>59,997</b>	<b>16</b>
Interest expense	4,076	4,026	(50)	(1)
Life insurance costs	201,417	256,309	54,892	27
Selling, general and administrative expenses	76,983	79,177	2,194	3
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	10,109	11,245	1,136	11
Other	3,263	3,420	157	5
<b>Total Segment Expenses</b>	<b>295,848</b>	<b>354,177</b>	<b>58,329</b>	<b>20</b>
<b>Segment Operating Income</b>	<b>72,852</b>	<b>74,520</b>	<b>1,668</b>	<b>2</b>
Equity in Net income (Loss) of Affiliates, and others	13	7	(6)	(46)
<b>Segment Profits</b>	<b>¥ 72,865</b>	<b>¥ 74,527</b>	<b>¥ 1,662</b>	<b>2</b>

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
Investment in direct financing leases	¥ 518	¥ 208	¥ (310)	(60)
Installment loans	1,726,979	1,852,761	125,782	7
Investment in operating leases	46,243	44,319	(1,924)	(4)
Investment in securities	1,502,673	1,260,291	(242,382)	(16)
Investment in affiliates	810	702	(108)	(13)
Goodwill, intangible assets acquired in business combinations	16,225	16,224	(1)	(0)
<b>Total Segment Assets</b>	<b>¥3,293,448</b>	<b>¥3,174,505</b>	<b>¥(118,943)</b>	<b>(4)</b>

### ***Overseas Business Segment***

This segment consists of asset management, aircraft- and ship-related operations, private equity, and finance.

In the Americas, we aim to expand our business areas by engaging in fee business such as equity investment, fund management in addition to corporate finance and investment in bonds. In our aircraft-related operations, we are focusing on the profit opportunities within operating lease, sales of used aircraft to domestic and overseas investors, asset management services for the aircrafts owned by others, backed by the growing demand of passengers and aircrafts. We will also aim to promote the expansion of functionality and diversification in our overseas group companies.

Based on the aforementioned strategy, segment revenues increased 4% to ¥479,619 million compared to ¥462,740 million during the previous fiscal year due to increases in services income in the asset management business, operating leases revenues in our aircraft-related operations including gains on sales of aircraft and finance revenues in the Americas, despite a decrease in sales of goods resulting from the sale of a subsidiary during the previous fiscal year.

Segment expenses decreased compared to the previous fiscal year due primarily to a decrease in costs of goods sold resulting from the aforementioned sale of a subsidiary.

As a result of the foregoing and due to decreases in equity in net income of affiliates and gains on sales of subsidiaries and affiliates and liquidation losses, net, segment profits decreased 5% to ¥106,622 million compared to ¥112,386 million in the previous fiscal year.

Segment assets increased 1% to ¥2,608,819 million compared to the end of the previous fiscal year due to increases in investment in operating leases in our aircraft-related operations, installment loans in the Americas and Asia, and the recognition of goodwill and other intangible assets in line with the acquisition of a new subsidiary, despite a decrease in investment in securities.

Asset efficiency decreased compared to the previous fiscal year due to the loss on sales of affiliates and impairment loss in investee. Furthermore, we have expanded our fee businesses through the acquisition of mortgage servicing company in the Americas. We have also made several investments in infrastructure related businesses in Americas as well as fintech companies in China.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues . . . . .	¥ 85,140	¥ 98,426	¥ 13,286	16
Gains on investment securities and dividends . . . . .	13,334	17,453	4,119	31
Operating leases . . . . .	88,414	111,569	23,155	26
Services income . . . . .	216,720	238,615	21,895	10
Other . . . . .	59,132	13,556	(45,576)	(77)
Total Segment Revenues . . . . .	462,740	479,619	16,879	4
Interest expense . . . . .	40,300	51,536	11,236	28
Costs of operating leases . . . . .	54,894	64,363	9,469	17
Services expense . . . . .	65,594	70,419	4,825	7
Selling, general and administrative expenses . . . . .	169,283	177,852	8,569	5
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities . . . . .	18,060	8,101	(9,959)	(55)
Other . . . . .	42,396	10,675	(31,721)	(75)
Total Segment Expenses . . . . .	390,527	382,946	(7,581)	(2)
Segment Operating Income . . . . .	72,213	96,673	24,460	34
Equity in Net income (Loss) of Affiliates, and others . . . . .	40,173	9,949	(30,224)	(75)
Segment Profits . . . . .	¥ 112,386	¥ 106,622	¥ (5,764)	(5)

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 357,732	¥ 368,721	¥ 10,989	3
Installment loans	613,526	534,586	(78,940)	(13)
Investment in operating leases	420,566	491,132	70,566	17
Investment in securities	433,308	413,440	(19,868)	(5)
Property under facility operations and servicing assets	29,705	43,995	14,290	48
Inventories	1,811	5,923	4,112	227
Advances for DFL and operating lease	9,024	9,487	463	5
Investment in affiliates	332,154	314,569	(17,585)	(5)
Advances for property under facility operations	39	0	(39)	—
Goodwill, intangible assets acquired in business combinations	380,236	426,966	46,730	12
Total Segment Assets	¥2,578,101	¥2,608,819	¥ 30,718	1

### Revenues, New Business Volumes and Investments

#### Finance revenues

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 211,852	¥ 228,252	¥ 16,400	8

Note: Revenues from guarantees in the consolidated statements of income have been reclassified from “Services income” to “Finance revenues” from fiscal 2019. This change aims to reflect revenue structure of the Company and its subsidiaries more appropriately accompanying the adoption of ASC606 (“Revenue from Contracts with Customers”). Corresponding to this change, the presented amounts in the consolidated statements of income for the previous fiscal year have also been reclassified retrospectively to conform to the presentation for fiscal 2019.

Finance revenues increased 8% to ¥228,252 million for fiscal 2018 compared to fiscal 2017 primarily due to an increase in the average balance of installment loans.

#### Direct financing leases

	As of and for the year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
	(Millions of yen, except percentage data)			
<b>Direct financing leases:</b>				
New equipment acquisitions	¥ 512,740	¥ 472,070	¥ (40,670)	(8)
Japan	312,788	264,953	(47,835)	(15)
Overseas	199,952	207,117	7,165	4
Investment in direct financing leases	1,204,024	1,194,888	(9,136)	(1)

New equipment acquisitions related to direct financing leases decreased 8% to ¥472,070 million compared to fiscal 2017. In Japan, new equipment acquisitions decreased 15% in fiscal 2018 compared to fiscal 2017 due to a decreasing trend. In overseas, new equipment acquisitions increased 4% in fiscal 2018 compared to fiscal 2017.

Investment in direct financing leases as of March 31, 2018 decreased 1% to ¥1,194,888 million compared to March 31, 2017 due to decreases in new equipment acquisitions described above.

As of March 31, 2018, no single lessee represented more than 1% of the balance of direct financing leases. As of March 31, 2018, 69% of our direct financing leases were to lessees in Japan, while 31% were to overseas lessees. Approximately 6% of our direct financing leases were to lessees in Hong Kong and Malaysia. No other overseas country represented more than 5% of our total portfolio of direct financing leases.

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investment in direct financing leases by category:</b>				
Transportation equipment	¥ 496,335	¥ 489,687	¥(6,648)	(1)
Industrial equipment	244,606	240,646	(3,960)	(2)
Electronics	158,726	154,522	(4,204)	(3)
Information-related and office equipment	102,078	105,040	2,962	3
Commercial services equipment	54,389	53,065	(1,324)	(2)
Other	147,890	151,928	4,038	3
Total	<u>¥1,204,024</u>	<u>¥1,194,888</u>	<u>¥(9,136)</u>	(1)

For further information, see Note 7 of “Item 18. Financial Statements.”

#### *Installment loans*

	As of and for the year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Installment loans:</b>				
New loans added	¥1,309,488	¥1,397,467	¥ 87,979	7
Japan	972,361	945,436	(26,925)	(3)
Overseas	337,127	452,031	114,904	34
Installment loans	2,815,706	2,823,769	8,063	0

Note: The balance of installment loans related to our life insurance operations is included in installment loans in our consolidated balance sheets; however, income and losses on these loans are recorded in life insurance premiums and related investment income in our consolidated statements of income.

New loans added increased 7% to ¥1,397,467 million compared to fiscal 2017. In Japan, new loans added have shown a downward trend, and decreased 3% to ¥945,436 million in fiscal 2018 compared to fiscal 2017. In overseas, new loans added increased 34% to ¥452,031 million compared to fiscal 2017 due to increased lending activity in the Americas and Asia.

The balance of installment loans as of March 31, 2018 remained flat at ¥2,823,769 million compared to March 31, 2017, primarily due to a decrease in loans for entertainment companies which are included in commercial, industrial and other companies, offsetting an increase of housing loans.

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Installment loans:</b>				
<b>Consumer borrowers in Japan</b>				
Housing loans	¥1,261,571	¥1,375,380	¥113,809	9
Card loans	270,007	264,323	(5,684)	(2)
Other	28,668	34,333	5,665	20
Subtotal	<u>1,560,246</u>	<u>1,674,036</u>	<u>113,790</u>	7
<b>Corporate borrowers in Japan</b>				
Real estate companies	270,965	278,076	7,111	3
Non-recourse loans	12,758	18,318	5,560	44
Commercial, industrial and other companies	340,050	301,083	(38,967)	(11)
Subtotal	<u>623,773</u>	<u>597,477</u>	<u>(26,296)</u>	(4)
<b>Overseas</b>				
Non-recourse loans	75,968	54,987	(20,981)	(28)
Commercial, industrial companies and other	530,924	478,336	(52,588)	(10)
Subtotal	<u>606,892</u>	<u>533,323</u>	<u>(73,569)</u>	(12)
Purchased loans*	<u>24,795</u>	<u>18,933</u>	<u>(5,862)</u>	(24)
Total	<u>¥2,815,706</u>	<u>¥2,823,769</u>	<u>¥ 8,063</u>	0

\* 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.

As of March 31, 2018, ¥7,554 million, or 0.3%, of our portfolio of installment loans to consumer and corporate borrowers in Japan related to our life insurance operations. We reflect income from these loans as life insurance premiums and related investment income in our consolidated statements of income.

As of March 31, 2018, ¥345,977 million, or 12%, of the balance of installment loans were to real estate companies in Japan and overseas. Among these amounts, ¥2,547 million, or 0.1% were loans individually evaluated for impairment. We recognized an allowance of ¥543 million on these impaired loans. As of March 31, 2018, we had installment loans outstanding in the amount of ¥83,314 million, or 3% of the balance of installment loans, to companies in the entertainment industry. Among these amounts, ¥1,588 million, or 0.1% were loans individually evaluated for impairment. We recognized an allowance of ¥576 million on these impaired loans.

The balance of installment loans to consumer borrowers in Japan as of March 31, 2018 increased 7% to ¥1,674,036 million compared to the balance as of March 31, 2017, primarily due to an increase in the balance of housing loans. The balance of installment loans to corporate borrowers in Japan as of March 31, 2018 decreased 4%, to ¥597,477 million, compared to the balance as of March 31, 2017, primarily due to a decrease in loans for entertainment companies which are included in commercial, industrial and other companies. The balance of installment loans overseas, as of March 31, 2018 decreased 12%, to ¥533,323 million, compared to the balance as of March 31, 2017, primarily due to sales of loans in the Americas.

For further information, see Note 9 of “Item 18. Financial Statements.”

*Asset quality*

*Direct financing leases*

	As of March 31,	
	2017	2018
	(Millions of yen, except percentage data)	
<b>90+ days past-due direct financing leases and allowances for direct financing leases:</b>		
90+ days past-due direct financing leases . . . . .	¥11,600	¥12,084
90+ days past-due direct financing leases as a percentage of the balance of investment in direct financing leases . . . . .	0.96%	1.01%
Provision as a percentage of average balance of investment in direct financing leases* . . .	0.12%	0.19%
Allowance for direct financing leases . . . . .	¥10,537	¥10,089
Allowance for direct financing leases as a percentage of the balance of investment in direct financing leases . . . . .	0.88%	0.84%
The ratio of charge-offs as a percentage of the average balance of investment in direct financing leases* . . . . .	0.34%	0.22%

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

The balance of 90+ days past-due direct financing leases increased ¥484 million to ¥12,084 million as of March 31, 2018 compared to March 31, 2017. As a result, the ratio of 90+ days past-due direct financing leases increased 0.05% from March 31, 2017 to 1.01%.

We believe that the ratio of allowance for doubtful receivables to the balance of investment in direct financing leases provides a reasonable indication that our allowance for doubtful receivables was appropriate as of March 31, 2018 for the following reasons:

- lease receivables are generally diversified and the amount of realized loss on any particular contract is likely to be relatively small; and
- all lease contracts are secured by collateral consisting of the underlying leased equipment, and we can expect to recover at least a portion of the outstanding lease receivables by selling the collateral.

*Loans not individually evaluated for impairment*

	As of March 31,	
	2017	2018
	(Millions of yen, except percentage data)	
<b>90+ days past-due loans and allowance for installment loans:</b>		
90+ days past-due loans not individually evaluated for impairment . . . . .	¥ 9,722	¥12,748
90+ days past-due loans not individually evaluated for impairment as a percentage of the balance of installment loans not individually evaluated for impairment . . . . .	0.35%	0.46%
Provision as a percentage of average balance of installment loans not individually evaluated for impairment* . . . . .	0.78%	0.48%
Allowance for probable loan losses on installment loans exclusive of those loans individually evaluated for impairment . . . . .	¥28,622	¥30,239
Allowance for probable loan losses on installment loans exclusive of those loans individually evaluated for impairment as a percentage of the balance of installment loans not individually evaluated for impairment . . . . .	1.04%	1.09%
The ratio of charge-offs as a percentage of the average balance of loans not individually evaluated for impairment* . . . . .	0.54%	0.36%

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

The balance of 90+ days past-due loans not individually evaluated and evaluated as a homogeneous group for impairment due to their individual significance increased ¥3,026 million to ¥12,748 million as of March 31, 2018 compared to March 31, 2017.

	<u>As of March 31,</u>	
	<u>2017</u>	<u>2018</u>
	(Millions of yen)	
<b>90+ days past-due loans not individually evaluated for impairment:</b>		
Consumer borrowers in Japan		
Housing loans	¥ 1,685	¥ 2,077
Card loans	1,346	1,785
Other	<u>6,160</u>	<u>8,464</u>
Subtotal	<u>9,191</u>	<u>12,326</u>
Overseas		
Other	<u>531</u>	<u>422</u>
Total	<u>¥ 9,722</u>	<u>¥12,748</u>

We recognize allowance for housing loans, card loans and other loans in Japan after careful evaluation of the value of collateral underlying the loans, past loss experience and any economic conditions that we believe may affect the default rate. We determine the allowance for our other items on the basis of past loss experience, general economic conditions and the current portfolio composition.

*Loans individually evaluated for impairment*

	<u>As of March 31,</u>	
	<u>2017</u>	<u>2018</u>
	(Millions of yen)	
<b>Loans individually evaluated for impairment:</b>		
Impaired loans	¥59,025	¥47,142
Impaired loans requiring an allowance	52,501	39,329
Allowance for loans individually evaluated for impairment*	20,068	14,344

\* The allowance 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.

New provision for probable loan losses was ¥879 million in fiscal 2017 and ¥1,498 million in fiscal 2018, and charge-off of impaired loans was ¥3,508 million in fiscal 2017 and ¥6,785 million in fiscal 2018. New provision for probable loan losses increased ¥619 million compared to fiscal 2017. Charge-off of impaired loans increased ¥3,277 million compared to fiscal 2017.

The table below sets forth the outstanding balance of impaired loans by region and type of borrower as of the dates indicated. Consumer loans in Japan primarily consist of restructured smaller-balance homogeneous loans individually evaluated for impairment.

	<u>As of March 31,</u>	
	<u>2017</u>	<u>2018</u>
	(Millions of yen)	
<b>Impaired loans:</b>		
Consumer borrowers in Japan		
Housing loans .....	¥ 4,243	¥ 3,544
Card loans .....	4,102	4,060
Other .....	<u>7,903</u>	<u>11,082</u>
Subtotal .....	<u>16,248</u>	<u>18,686</u>
Corporate borrowers in Japan		
Real estate companies .....	7,212	1,598
Non-recourse loans .....	203	254
Commercial, industrial and other companies .....	<u>11,467</u>	<u>9,174</u>
Subtotal .....	<u>18,882</u>	<u>11,026</u>
Overseas		
Non-recourse loans .....	5,829	3,491
Commercial, industrial companies and other .....	<u>10,623</u>	<u>8,838</u>
Subtotal .....	<u>16,452</u>	<u>12,329</u>
Purchased loans .....	<u>7,443</u>	<u>5,101</u>
Total .....	<u>¥59,025</u>	<u>¥47,142</u>

For further information, see Note 10 of “Item 18. Financial Statements.”

### *Provision for doubtful receivables and probable loan losses*

We recognize provision for doubtful receivables and probable loan losses for direct financing leases and installment loans.

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Provision for doubtful receivables on direct financing leases and probable loan losses:</b>				
Beginning balance	¥ 60,071	¥ 59,227	¥ (844)	(1)
Direct financing leases	13,380	10,537	(2,843)	(21)
Loans not individually evaluated for impairment	24,158	28,622	4,464	18
Loans individually evaluated for impairment	22,533	20,068	(2,465)	(11)
Provision (Reversal)	22,667	17,265	(5,402)	(24)
Direct financing leases	1,372	2,241	869	63
Loans not individually evaluated for impairment	20,416	13,526	(6,890)	(34)
Loans individually evaluated for impairment	879	1,498	619	70
Charge-offs (net)	(21,822)	(19,465)	2,357	(11)
Direct financing leases	(4,056)	(2,701)	1,355	(33)
Loans not individually evaluated for impairment	(14,258)	(9,979)	4,279	(30)
Loans individually evaluated for impairment	(3,508)	(6,785)	(3,277)	93
Other *	(1,689)	(2,355)	(666)	39
Direct financing leases	(159)	12	171	—
Loans not individually evaluated for impairment	(1,694)	(1,930)	(236)	14
Loans individually evaluated for impairment	164	(437)	(601)	—
Ending balance	¥ 59,227	¥ 54,672	¥ (4,555)	(8)
Direct financing leases	10,537	10,089	(448)	(4)
Loans not individually evaluated for impairment	28,622	30,239	1,617	6
Loans individually evaluated for impairment	20,068	14,344	(5,724)	(29)

\* Other mainly includes foreign currency translation adjustments and others.

For further information, see Note 10 of “Item 18. Financial Statements.”

### *Investment in Securities*

	As of and for the year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investment in securities:</b>				
New securities added	¥ 489,357	¥ 439,383	¥ (49,974)	(10)
Japan	354,120	300,406	(53,714)	(15)
Overseas	135,237	138,977	3,740	3
Investment in securities	2,026,512	1,729,455	(297,057)	(15)

Note: The balance of investment in securities related to our life insurance operations are included in investment in securities in our consolidated balance sheets; however, income and losses on these investment in securities are recorded in life insurance premiums and related investment income in our consolidated statements of income.

New securities added decreased 10% to ¥439,383 million in fiscal 2018 compared to fiscal 2017. New securities added in Japan decreased 15% in fiscal 2018 compared to fiscal 2017 primarily due to a decrease in investments in corporate debt securities. New securities added overseas increased 3% in fiscal 2018 compared to fiscal 2017.

The balance of our investment in securities as of March 31, 2018 decreased 15% to ¥1,729,455 million compared to March 31, 2017.

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investment in securities by security type:</b>				
Trading securities . . . . .	¥ 569,074	¥ 422,053	¥(147,021)	(26)
Available-for-sale securities . . . . .	1,165,417	1,015,477	(149,940)	(13)
Held-to-maturity securities . . . . .	114,400	113,891	(509)	(0)
Other securities . . . . .	177,621	178,034	413	0
Total . . . . .	<u>¥2,026,512</u>	<u>¥1,729,455</u>	<u>¥(297,057)</u>	(15)

Investments in trading securities as of March 31, 2018 decreased 26% compared to March 31, 2017 primarily due to a decrease in the assets under management of variable annuity and variable life insurance contracts. Investments in available-for-sale securities as of March 31, 2018 decreased 13% compared to March 31, 2017 primarily due to sales of government bond securities and marketable equity securities. Held-to-maturity securities mainly consist of our life insurance business's investment in Japanese government bonds. Other securities consist mainly of non-marketable equity securities and preferred equity securities carried at cost, and investment funds carried at an amount that reflects equity income and loss based on the investor's share.

For further information, see Note 11 of "Item 18. Financial Statements."

***Gains on investment securities and dividends***

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Gains on investment securities and dividends:</b>				
Net gains on investment securities . . . . .	¥ 27,233	¥ 39,139	¥ 11,906	44
Dividends income, other . . . . .	3,095	4,163	1,068	35
Total . . . . .	<u>¥ 30,328</u>	<u>¥ 43,302</u>	<u>¥ 12,974</u>	43

Note: Income and losses on investment in securities related to our life insurance operations are recorded in life insurance premiums and related investment income in our consolidated statements of income.

Gains on investment securities and dividends increased 43% to ¥43,302 million in fiscal 2018 compared to fiscal 2017 due to increases in net gains on investment securities and dividends income. Net gains on investment securities increased 44% to ¥39,139 million in fiscal 2018 compared to fiscal 2017 mainly due to an increase in gains on sales of shares. Dividends income, other increased 35% to ¥4,163 million in fiscal 2018 compared to fiscal 2017.

As of March 31, 2018, gross unrealized gains on available-for-sale securities, including those held in connection with our life insurance operations, were ¥29,220 million, compared to ¥51,905 million as of

March 31, 2017. As of March 31, 2018, gross unrealized losses on available-for-sale securities, including those held in connection with our life insurance operations, were ¥15,856 million, compared to ¥6,244 million as of March 31, 2017.

### *Operating leases*

	As of and for the year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Operating leases:</b>				
Operating lease revenues	¥ 398,655	¥ 379,665	¥(18,990)	(5)
Costs of operating leases	243,537	252,327	8,790	4
New equipment acquisitions	401,913	495,609	93,696	23
Japan	207,759	215,832	8,073	4
Overseas	194,154	279,777	85,623	44
Investment in operating leases	1,313,164	1,344,926	31,762	2

Revenues from operating leases in fiscal 2018 decreased 5% to ¥379,665 million compared to fiscal 2017 primarily due to decreases in gains on sales of automobiles in the automobile leasing business and sales of rental property, partially offset by an increase in gains on sales of aircraft in aircraft-related operations. In fiscal 2017 and 2018, gains from the disposition of operating lease assets were ¥69,265 million and ¥35,291 million, respectively.

Costs of operating leases increased 4% to ¥252,327 million in fiscal 2018 compared to fiscal 2017 primarily due to an increase in depreciation expenses resulting from a year on year increase in the average balance of investment in the automobile leasing business, despite a decrease in costs from rental property.

New equipment acquisitions related to operating leases increased 23% to ¥495,609 million in fiscal 2018 compared to fiscal 2017 primarily due to an increase in purchases of aircraft overseas.

Investment in operating leases as of March 31, 2018 increased 2% to ¥1,344,926 million compared to March 31, 2017.

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investment in operating leases by category:</b>				
Transportation equipment	¥ 788,676	¥ 864,008	¥ 75,332	10
Measuring and information-related equipment	86,682	89,326	2,644	3
Real estate	404,427	348,867	(55,560)	(14)
Other	10,158	12,210	2,052	20
Accrued rental receivables	23,221	30,515	7,294	31
Total	<u>¥1,313,164</u>	<u>¥1,344,926</u>	<u>¥ 31,762</u>	2

Investment in transportation equipment operating leases as of March 31, 2018 increased 10% to ¥864,008 million compared to March 31, 2017 primarily due to an increase in new equipment acquisitions in the automobile leasing business. Investment in real estate operating leases as of March 31, 2018 decreased 14% to ¥348,867 million compared to March 31, 2017, primarily due to sales of real estate in Japan.

For further information, see Note 8 of “Item 18. Financial Statements.”

### Life insurance

We reflect all income and losses (other than provision for doubtful receivables and probable loan losses) that we recognize on securities, installment loans, real estate under operating leases and other investments held in connection with our life insurance operations as life insurance premiums and related investment income in our consolidated statements of income.

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Life insurance premiums and related investment income and life insurance costs:</b>				
Life insurance premiums .....	¥ 247,427	¥ 299,320	¥51,893	21
Life insurance-related investment income .....	48,513	52,270	3,757	8
Total .....	¥ 295,940	¥ 351,590	¥55,650	19
Life insurance costs .....	¥ 200,158	¥ 255,070	¥54,912	27

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Breakdown of life insurance-related investment income (loss):</b>				
Net income on investment securities .....	¥ 57,715	¥ 58,921	¥ 1,206	2
Losses recognized in income on derivative .....	(10,568)	(7,332)	3,236	(31)
Interest on loans, income on real estate under operating leases, and others .....	1,366	681	(685)	(50)
Total .....	¥ 48,513	¥ 52,270	¥ 3,757	8

Life insurance premiums and related investment income increased 19% to ¥351,590 million in fiscal 2018 compared to fiscal 2017.

Life insurance premiums increased 21% to ¥299,320 million in fiscal 2018 compared to fiscal 2017 due to an increase in the number of policies in force.

Life insurance-related investment income increased 8% to ¥52,270 million in fiscal 2018 compared to fiscal 2017. Net income on investment securities increased due primarily to gains on sales of government bonds and a significant increase in investment income from variable annuity and variable life insurance contracts, caused by the significant market improvement in fiscal 2018. Losses from derivative contracts held to economically hedge the minimum guarantee risk relating to these variable annuity and variable life insurance contracts decreased. On the other hand, interest on loans, income on real estate under operating leases, and others decreased.

Life insurance costs increased 27% to ¥255,070 million in fiscal 2018 compared to fiscal 2017 due to increases in the number of policies in force and a provision of liability reserve in line with the aforementioned increase in investment income from variable annuity and variable life insurance contracts.

	As of March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investments by life insurance operations:</b>				
Trading securities . . . . .	¥ 547,850	¥ 403,797	¥(144,053)	(26)
Available-for-sale debt securities . . . . .	567,741	470,634	(97,107)	(17)
Available-for-sale equity securities . . . . .	13,341	8,916	(4,425)	(33)
Held-to-maturity securities . . . . .	114,400	113,891	(509)	(0)
Other securities . . . . .	438	1,617	1,179	269
Total investment in securities . . . . .	<u>1,243,770</u>	<u>998,855</u>	<u>(244,915)</u>	(20)
Installment loans, real estate under operating leases and other investments . . . . .	<u>58,215</u>	<u>52,080</u>	<u>(6,135)</u>	(11)
Total . . . . .	<u>¥1,301,985</u>	<u>¥1,050,935</u>	<u>¥(251,050)</u>	(19)

Investment in securities as of March 31, 2018 decreased 20% to ¥998,855 million compared to March 31, 2017 due to a decrease in trading securities as a result of surrender of variable annuity and variable life insurance contracts, and available-for-sale debt securities decreased due to sales of national government bonds.

For further information, see Note 25 of “Item 18. Financial Statements.”

***Sales of goods and real estate, Inventories***

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Sales of goods and real estate, Inventories:</b>				
Sales of goods and real estate . . . . .	¥1,015,249	¥1,079,052	¥ 63,803	6
Costs of goods and real estate sold . . . . .	928,794	1,003,509	74,715	8
New real estate added . . . . .	93,905	83,120	(10,785)	(11)
Inventories . . . . .	117,863	111,001	(6,862)	(6)

Sales of goods and real estate increased 6% to ¥1,079,052 million compared to fiscal 2017 mainly due to an increase in sales of goods.

Costs of goods and real estate sold increased 8% to ¥1,003,509 million compared to fiscal 2017 mainly due to an increase in costs of goods sold. We recognized ¥916 million and ¥936 million of write-downs for fiscal 2017 and 2018, respectively, which were included in costs of goods and real estate sold. Costs of goods and real estate sold include the upfront costs associated with advertising and creating model rooms.

New real estate added decreased 11% to ¥83,120 million in fiscal 2018 compared to fiscal 2017.

Inventories as of March 31, 2018 decreased 6% to ¥111,001 million compared to March 31, 2017.

For further information, see Note 4 and 5 of “Item 18. Financial Statements.”

### *Services, Property under Facility Operations*

	As of and for the year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Services, Property under Facility Operations</b>				
Services income .....	¥ 726,635	¥ 780,910	¥ 54,275	7
Services expense .....	451,277	482,796	31,519	7
New assets added .....	68,571	82,206	13,635	20
Japan .....	61,275	76,206	14,931	24
Overseas .....	7,296	6,000	(1,296)	(18)
Property under Facility Operations .....	398,936	434,786	35,850	9

Note: Revenues from guarantees in the consolidated statements of income have been reclassified from “Services income” to “Finance revenues” from fiscal 2019. This change aims to reflect revenue structure of the Company and its subsidiaries more appropriately accompanying the adoption of ASC606 (“Revenue from Contracts with Customers”). Corresponding to this change, the presented amounts in the consolidated statements of income for the previous fiscal year have also been reclassified retrospectively to conform to the presentation for fiscal 2019.

Services income increased 7% to ¥780,910 million in fiscal 2018 compared to fiscal 2017 primarily due to service expansion in the asset management business and the environment and energy business.

Services expense increased 7% to ¥482,796 million in fiscal 2018 compared to fiscal 2017 mainly resulted from the recognition of expenses from the environment and energy business.

New assets added for property under facility operations increased 20% to ¥82,206 million in fiscal 2018 compared to fiscal 2017 due to investment in electric power facilities and completion of property under facility operations.

Property under facility operations as of March 31, 2018 increased 9% to ¥434,786 million compared to March 31, 2017 primarily due to investment in electric power facilities.

For further information, see Note 5 of “Item 18. Financial Statements.”

### *Expenses*

#### *Interest expense*

Interest expense increased 5 % to ¥76,815 million in fiscal 2018 compared to ¥72,910 million in fiscal 2017. Our total outstanding short-term debt, long-term debt and deposits as of March 31, 2018 increased 2 % to ¥5,890,720 million compared to ¥5,753,059 million as of March 31, 2017.

The average interest rate on our short-term debt, long-term debt and deposits in domestic currency, calculated on the basis of average monthly balances, decreased to 0.4 % in fiscal 2018, from 0.5 % in fiscal 2017. The average interest rate on our short-term debt, long-term debt and deposits in foreign currency, calculated on the basis of average monthly balances, remained flat in fiscal 2018 at 2.8% compared to 2.8% in fiscal 2017. For more information regarding our interest rate risk, see “Item 3. Key Information—Risk Factors.” For more information regarding our outstanding debt, see “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Short-term and long-term debt and deposits.”

#### *Other (income) and expense, net*

Other (income) and expense, net included a net income of ¥4,396 million during fiscal 2017 and a net expense of ¥429 million during fiscal 2018. Foreign currency transaction losses (gains) included in other

(income) and expense, net included gains of ¥2,764 million in fiscal 2018 compared to losses of ¥1,850 million in fiscal 2017. We recognized impairment losses on goodwill and other intangible assets included in other (income) and expense, net in the amount of ¥194 million in fiscal 2018 compared to ¥3,196 million of impairment losses on goodwill and other intangible assets during fiscal 2017. For further information on our goodwill and other intangible assets, see Note 15 of “Item 18. Financial Statements.”

#### *Selling, general and administrative expenses*

	Year ended March 31,		Change	
	2017	2018	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Selling, general and administrative expenses:</b>				
Personnel expenses .....	¥ 236,818	¥ 241,508	¥ 4,690	2
Selling expenses .....	76,729	82,850	6,121	8
Administrative expenses .....	99,819	102,105	2,286	2
Depreciation of office facilities .....	5,380	5,131	(249)	(5)
Total .....	<u>¥ 418,746</u>	<u>¥ 431,594</u>	<u>¥ 12,848</u>	3

Employee salaries and other personnel expenses accounted for 56% of selling, general and administrative expenses in fiscal 2018, and the remaining portion consists of other expenses, such as rent for office space, communication expenses and travel expenses. Selling, general and administrative expenses in fiscal 2018 increased 3% year on year.

#### *Write-downs of long-lived assets*

As a result of impairment reviews we performed in fiscal 2018 for long-lived assets in Japan and overseas, such as golf courses, office buildings, commercial facilities other than office buildings, condominiums, hotels, and land undeveloped or under construction, write-downs of long-lived assets decreased 40% to ¥5,525 million in fiscal 2018 compared to ¥9,134 million in fiscal 2017. These write-downs, which are reflected as write-downs of long-lived assets, consisted of impairment losses of ¥190 million on two office buildings, ¥1,431 million on five commercial facilities other than office buildings, and ¥3,904 million on other long-lived assets, because the assets were classified as held for sale or the carrying amount exceeded the estimated undiscounted future cash flows. In addition, write-downs of other long-lived assets in fiscal 2018 include write-downs of ¥2,138 million of four hotels. For further information, see Note 26 of “Item 18. Financial Statements.”

#### *Write-downs of securities*

Write-downs of securities in fiscal 2018 were mainly for marketable equity securities and non-marketable equity securities. Write-downs of securities decreased 81% to ¥1,246 million in fiscal 2018 compared to ¥6,608 million in fiscal 2017. For further information, see Note 11 of “Item 18. Financial Statements.”

#### *Equity in net income of affiliates*

Equity in net income of affiliates increased in fiscal 2018 to ¥50,103 million compared to ¥26,520 million in fiscal 2017 primarily due to the recognition of significant gains on sales of investments in real estate joint ventures. For further information, see Note 14 of “Item 18. Financial Statements.”

#### *Gains on sales of subsidiaries and affiliates and liquidation losses, net*

Gains on sales of subsidiaries and affiliates and liquidation losses, net decreased to ¥49,203 million in fiscal 2018 compared to ¥63,419 million in fiscal 2017, due to the favorable profit from sales in the Americas and Japan in fiscal 2017. For further information, see Note 3 of “Item 18. Financial Statements.”

### ***Bargain Purchase Gain***

There was no bargain purchase gain recognized in fiscal 2018 compared to a bargain purchase gain of ¥5,802 million associated with one of the acquisitions in fiscal 2017. For further information, see Note 3 of “Item 18. Financial Statements.”

### ***Provision for income taxes***

Provision for income taxes increased to ¥113,912 million in fiscal 2018 compared to ¥144,039 million in fiscal 2017 primarily due to decreases in the deferred tax assets and liabilities in line with the Tax Cuts and Jobs Act in the United States. For further information, see Note 18 of “Item 18. Financial Statements.”

### ***Net income attributable to the noncontrolling interests***

Net income attributable to the noncontrolling interests was recorded as a result of the noncontrolling interests in earnings of certain of our subsidiaries. Net income attributable to the noncontrolling interests in fiscal 2018 was ¥8,002 million, compared to ¥7,255 million in fiscal 2017.

### ***Net income attributable to the redeemable noncontrolling interests***

Net income attributable to the redeemable noncontrolling interests was recorded as a result of the noncontrolling interests in the earnings of our subsidiaries that issued redeemable stock. Net income attributable to the redeemable noncontrolling interests in fiscal 2018 was ¥452 million, compared to ¥432 million in fiscal 2017. For further information, see Note 20 of “Item 18. Financial Statements.”

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Funding Activities**

We prioritize funding stability, maintaining adequate liquidity, and reducing capital costs. We formulate funding policies that are designed to be resilient to sudden deterioration in financial markets conditions, and then execute our funding activities in accordance with such policies and the actual circumstances of our assets and changes in financial markets. In preparing our management plan, we project funding activities to maintain a balanced capital structure based on projected cash flows, asset liquidity and our liquidity on hand. In implementation, we adjust our funding plan based on changes in the external funding environment and our funding needs in light of our business activities, and endeavor to maintain flexibility in our funding activities.

As part of our funding activities during fiscal 2019, we tried to reinforce our funding structure by diversifying our funding resources, promoting longer maturities, staggering redemption dates and maintaining sufficient liquidity. We also enhanced our use of longer maturities, employed staggered interest and principal repayment dates and endeavored to reduce refinancing risk by leveling out annual redemption amounts both in borrowing from financial institutions and bonds. As of March 31, 2019, our total balance of cash and cash equivalents and unused committed credit facilities was ¥1,507,641 million. We maintain adequate levels of liquidity and monitor liquidity risk to minimize the effect a sudden market deterioration may have on us and to enable us to sustain our operations.

Our ratio of long-term debt to total debt (excluding deposits) reached 93% as of March 31, 2018 and 2019.

For more information regarding our liquidity risk management, see “Risk Management” under this Item 5.

### **Group Liquidity Management**

ORIX is primarily responsible for accessing liquidity for ORIX Group and for managing the allocation of liquidity to subsidiaries. In managing our capital resources and controlling liquidity risk, we employ various

measures, including a cash management system for supplying funds to, and receiving funds from, our major domestic subsidiaries, other than regulated subsidiaries like ORIX Bank and ORIX Life Insurance. Our overseas subsidiaries rely primarily on local funding sources such as borrowings from local financial institutions and issuing bonds in local capital markets, but they may also obtain loans from ORIX. We also support liquidity levels of overseas subsidiaries by establishing local commitment lines and maintaining a multi-currency commitment line available to ORIX and certain of its overseas subsidiaries.

ORIX Bank and ORIX Life Insurance are regulated by Japanese financial authorities. They are our main regulated subsidiaries in terms of liquidity controls, although several other subsidiaries also operate under liquidity control related regulations. Under such regulations, ORIX Bank and ORIX Life Insurance employ prescribed measures to monitor liquidity risk and maintain internal policies to manage their portfolios and capital resources on a standalone basis. Each of these subsidiaries met the relevant regulatory threshold relating to measures for monitoring its liquidity risk as of March 31, 2019.

ORIX Bank obtains most of the funds it needs to operate its business through deposit taking. Although ORIX Bank provides loans to several of our domestic subsidiaries in the ordinary course of its business, such loans are subject to a maximum limit set by the Japanese Banking Act. Under such regulations, ORIX Bank may not make loans to other members of ORIX Group in an aggregate amount exceeding a regulatory limit. ORIX Life Insurance underwrites insurance, receives insurance premiums from policyholders, and conducts financing and investment activities, including lending. Lending from ORIX Life Insurance to other members of ORIX Group is subject to regulation, including under the Japanese Insurance Business Act. For these reasons, ORIX Group manages its liquidity separately from ORIX Bank and ORIX Life Insurance.

## **Ratings**

As of the date of this filing, Standard & Poor's has assigned an "A-" as our counterparty credit rating, Fitch has assigned a "A-" as our long-term issuer rating, Moody's has assigned a "A3" as our long-term issuer rating, and Rating and Investment Information, Inc. (R&I) has assigned an "A+" as our issuer rating.

## **Sources of Liquidity**

### ***Borrowings from Financial Institutions***

ORIX Group borrows from a variety of sources, including major banks, regional banks, foreign banks, life insurance companies, casualty insurance companies and financial institutions associated with agricultural cooperatives. As of March 31, 2019, the number of our lenders exceeded 200. We have promoted regular face-to-face communications and established positive working relationships with financial institutions in Japan and overseas. The majority of our loan balances consists of borrowings from Japanese financial institutions. As of March 31, 2018 and 2019, short-term debt from Japanese and foreign financial institutions were ¥251,860 million and ¥268,488 million, respectively, while long-term debt from financial institutions were ¥2,804,357 million and ¥3,010,880 million, respectively.

### ***Committed Credit Facilities***

We regularly enter into committed credit facilities agreements, including syndicated agreements, with financial institutions to secure liquidity. The maturity dates of these committed credit facilities are staggered to prevent an overlap of contract renewal periods. The total amount of our committed credit facilities as of March 31, 2018 and 2019 were ¥466,164 million and ¥497,882 million, respectively. Of these figures, the unused amount as of March 31, 2018 and 2019 were ¥332,670 million and ¥346,609 million, respectively. A part of the facilities is arranged to be drawn down in foreign currencies by ORIX and certain of our subsidiaries.

The decision to enter into a committed credit facility is made based on factors including our balance of cash and cash equivalents and repayment schedules of short-term debt such as CP.

### ***Debt from the Capital Markets***

Our debt from capital markets is mainly composed of bonds, MTNs, CP, and securitization of leases, loans receivables and other assets.

#### ***Bonds and MTNs***

We regularly issue straight bonds and MTNs domestically and internationally to diversify our funding sources and maintain longer liability maturities.

The total balance of straight bonds and MTNs issued as of March 31, 2018 and 2019 were ¥940,089 million and ¥997,542 million, respectively, of which straight bonds and MTNs amounting to ¥71,524 million and ¥62,699 million, respectively, were issued by foreign subsidiaries.

As of March 31, 2018 and 2019, the balance of straight bonds issued by ORIX for domestic institutional investors were ¥204,517 million and ¥214,510 million, respectively, while the balance of straight bonds issued by ORIX for individual investors were ¥279,221 million and ¥264,320 million, respectively. The balance of straight bonds and MTNs issued outside Japan were ¥382,827 million and ¥453,973 million as of March 31, 2018 and 2019, respectively.

We plan to continue to issue straight bonds and MTNs in a balanced manner to institutional and individual investors both inside and outside Japan in line with our strategy of maintaining longer maturities and diversified funding sources.

#### ***CP***

We offer CP as a direct financing source, and have successfully obtained a diverse range of investors such as financial institutions and investment trusts, as well as private corporations. We consider our liquidity levels and stagger the dates of issuance and maturity over time so as to avoid significant overlap. The balance of outstanding CP as of March 31, 2018 and 2019 were ¥54,894 million and ¥41,061 million, respectively.

#### ***Securitization***

We securitize leases and loan receivables and other assets in Japan and securitize loan receivables outside Japan. We recognize liabilities consolidated with such investments as our liabilities when required under applicable accounting standards. The total amount of payables under securitized lease and loan receivables and other assets as of March 31, 2018 and 2019 were ¥82,058 million and ¥177,800 million, respectively.

### ***Deposits***

ORIX Bank and ORIX Asia Limited each accept deposits from customers. These deposits taking subsidiaries are regulated institutions, and loans from these subsidiaries to ORIX Group entities are subject to maximum regulatory limits.

The majority of deposits are attributable to ORIX Bank, which attracts both corporate and retail deposits, and which has seen sustained growth in deposits outstanding. Deposit balances of ORIX Bank as of March 31, 2018 and 2019 were ¥1,747,485 million and ¥1,916,253 million, respectively.

## Short-term and long-term debt and deposits

### Short-term Debt

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Short-term debt :</b>				
Borrowings from financial institutions .....	¥ 251,860	¥ 268,488	¥ 16,628	7
Commercial paper .....	54,894	41,061	(13,833)	(25)
Total short-term debt .....	¥ 306,754	¥ 309,549	¥ 2,795	1

Note: The total amount includes liabilities of consolidated VIEs, for which creditors (or beneficial interest holders) do not have recourse to the general credit of the Company and subsidiaries. Such liabilities as of March 31, 2019 were ¥580 million compared to no liabilities as of March 31, 2018.

Short-term debt as of March 31, 2019 was ¥309,549 million. The ratio was 7% of total debt (excluding deposits) as of March 31, 2018 and 2019. As of March 31, 2019, 87% of short-term debt was borrowings from financial institutions.

### Long-term debt

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Long-term debt :</b>				
Borrowings from financial institutions .....	¥2,804,357	¥3,010,880	¥ 206,523	7
Bonds .....	756,865	807,460	50,595	7
Medium-term notes .....	183,224	190,082	6,858	4
Payable under securitized lease, loan receivables and investment in securities .....	82,058	177,800	95,742	117
Total long-term debt .....	¥3,826,504	¥4,186,222	¥ 359,718	9

Note: The total amount includes liabilities of consolidated VIEs, for which creditors (or beneficial interest holders) do not have recourse to the general credit of the Company and subsidiaries. Such liabilities as of March 31, 2018 and 2019 were ¥263,973 million and ¥418,631 million, respectively.

Long-term debt as of March 31, 2019 was ¥4,186,222 million. The ratio was 93% of total debt (excluding deposits) as of March 31, 2018 and 2019. Borrowings from financial institutions comprised 72% of the long-term debt as of March 31, 2019.

Approximately 44% of interest paid on long-term debt in fiscal 2019 was fixed rate interest, with the remainder being floating rate interest based mainly on TIBOR or LIBOR.

For information regarding the repayment schedule of our long-term debt and interest rates for long and short-term debt, see Note 16 of “Item 18. Financial Statements.”

We have entered into interest rate swaps and other derivative contracts to manage risk associated with fluctuations in interest rates. For information with respect to derivative financial instruments and hedging, see Note 28 of “Item 18. Financial Statements.”

## Deposits

	As of March 31,		Change	
	2018	2019	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Deposits .....	¥1,757,462	¥1,927,741	¥ 170,279	10

Note: VIEs did not have any deposits as of March 31, 2018 and 2019.

For further information with respect to deposits, see Note 17 of “Item 18. Financial Statements.”

## CASH FLOWS

Our cash flows are primarily generated from the followings:

- cash outflows and inflows which are generated primarily from costs of inventories, sales of inventories, services income and services expense classified as cash flows from operating activities;
- cash outflows and inflows which are generated primarily from purchases of lease equipment, principal payments received under direct financing leases, execution of installment loans to customers and principal payments received under installment loans classified as cash flows from investing activities; and
- cash outflows and inflows which are generated primarily from proceeds from short-term and long-term debt, repayment of short-term and long-term debt and deposits due to customers classified as cash flows from financing activities.

The use of cash is heavily dependent on the volume of operating assets for new business. As new business volumes for assets such as leases and loans increase, we require more cash to meet the needs, while a decrease in new business volumes results in a less use of cash and an increase in debt repayment.

For cash flow information regarding interest and income tax payments, see Note 4 of “Item 18. Financial Statements.”

### Year Ended March 31, 2019 Compared to Year Ended March 31, 2018

Cash, cash equivalents and restricted cash decreased by ¥121,537 million to ¥1,283,580 million compared to March 31, 2018.

Cash flows provided by operating activities were ¥587,678 million during fiscal 2019, up from ¥568,791 million during fiscal 2018. This change resulted primarily from a change from a decrease to an increase in policy liabilities and policy account balances, but partially offset by a decrease in proceeds from decrease in trading securities.

Cash flows used in investing activities were ¥873,951 million during fiscal 2019, up from ¥439,120 million during fiscal 2018. This change resulted primarily from an increase in investment in affiliates, net, an increase in payments for purchases of available-for-sale debt securities and a decrease in proceeds from sales of available-for-sale debt securities, but partially offset by an increase in proceeds from sales of operating lease assets.

Cash flows provided by financing activities were ¥166,647 million during fiscal 2019, up from ¥141,010 million during fiscal 2018. This change resulted primarily from a decrease in repayment of debt with maturities longer than three months, but partially offset by an increase in purchases of shares of subsidiaries from noncontrolling interests due to the acquisition of common shares of DAIKYO through a tender offer and a decrease in proceeds from debt with maturities longer than three months.

## Year Ended March 31, 2018 Compared to Year Ended March 31, 2017

Cash, cash equivalents and restricted cash increased by ¥271,905 million to ¥1,405,117 million compared to March 31, 2017.

Cash flows provided by operating activities were ¥568,791 million during fiscal 2018, down from ¥583,800 million during fiscal 2017. This change resulted primarily from an increase in payment of income taxes.

Cash flows used in investing activities were ¥439,120 million during fiscal 2018, up from ¥225,263 million during fiscal 2017. This change resulted primarily from increases in purchases of lease equipment and investment in affiliates.

Cash flows provided by financing activities were ¥141,010 million during fiscal 2018, compared to the outflow of ¥33,730 million during fiscal 2017. This change resulted primarily from an increase in proceeds from debt with maturities longer than three months and a decrease in repayment of debt with maturities longer than three months.

## COMMITMENTS FOR CAPITAL EXPENDITURES

As of March 31, 2019, we had commitments for the purchase of equipment to be leased in the amount of ¥210 million. For information on commitments, guarantees and contingent liabilities, see Note 32 of “Item 18. Financial Statements.”

## OFF—BALANCE SHEET ARRANGEMENTS

### USE OF SPECIAL PURPOSE ENTITIES

We periodically securitize various financial assets such as lease receivables and loan receivables. These securitizations allow us to access the capital markets, provide us with alternative sources of funding and diversify our investor base and help us to mitigate, to some extent, credit risk associated with our customers and risk associated with fluctuations in interest rates.

In the securitization process, the assets for securitization are sold to special purpose entities (hereinafter, “SPEs”), which issue asset-backed securities to investors.

We expect to continue to utilize special purpose entity (hereinafter, “SPE”) structures for securitization of assets. For further information on our transfer of financial assets, see Note 12 of “Item 18. Financial Statements.”

### Investment Products

We provide investment products to our customers that employ a contractual mechanism known in Japan as a *kumiai*, which is in effect a type of SPE. We arrange and market *kumiai* products to investors as a means to finance the purchase of aircraft, ships or other large-ticket items to be leased to third parties. A portion of the funds necessary to purchase the item is contributed by such investors, while the remainder is borrowed by the *kumiai* from one or more financial institutions in the form of a non-recourse loan. The *kumiai* investors (and any lenders to the *kumiai*) retain all of the economic risks and rewards in connection with the purchase and leasing activities of the *kumiai*, and all related gains or losses are recorded on the financial statements of investors in the *kumiai*. We are responsible for the arrangement and marketing of these products, and may act as servicer or administrator in *kumiai* transactions. Fee income for arranging and administering these transactions is recognized in our consolidated financial statements. In most *kumiai* transactions, excluding some *kumiai* and SPE, we do not guarantee or otherwise have any financial commitments or exposure with respect to the *kumiai* or its related SPE and, accordingly, their assets are not reflected on our consolidated balance sheet.

## Other Financial Transactions

We occasionally enter into loans, equity or other investments in SPEs in connection with finance transactions related to aircraft, ships and real estate, as well as transactions involving investment funds, in addition to real estate purchases and development projects. All transactions involving use of SPE structures are evaluated to determine whether we hold a variable interest that would result in our being defined as the primary beneficiary of the SPE. When we are considered to own the primary beneficial interest in the SPEs, the SPEs are fully consolidated into our consolidated financial statements. In all other circumstances our loan, equity or other investments are recorded on our consolidated balance sheets as appropriate.

See Note 13 of “Item 18. Financial Statements” for further information concerning our SPEs.

## RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

Not applicable.

## TREND INFORMATION

See the discussion under “—Results of Operations” and “—Liquidity and Capital Resources.”

## COMMITMENTS

The table below sets forth the maturities of guarantees and other commitments as of March 31, 2019.

	Amount of commitment expiration per period				
	Total	Within 1 year	1-3 years	3-5 years	After 5 years
			(Millions of yen)		
<b>Commitments:</b>					
Guarantees . . . . .	¥ 713,168	¥ 115,866	¥ 198,405	¥ 238,882	¥ 160,015
Committed credit lines and other . . . . .	496,885	170,717	113,513	45,605	167,050
Total commercial commitments . . . . .	<u>¥1,210,053</u>	<u>¥ 286,583</u>	<u>¥ 311,918</u>	<u>¥ 284,487</u>	<u>¥ 327,065</u>

One of our U.S. subsidiaries is authorized to underwrite, originate, fund and service multi-family and senior 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 this delegated authority, the subsidiary guarantees the performance of certain housing loans transferred to Fannie Mae and has the payment or performance risks of the guarantees to absorb some of the losses when losses arise from the transferred loans. The amount attributable to the guarantee included in the table above is ¥175,623 million as of March 31, 2019.

The subsidiary makes certain representations and warranties in connection with the sale of loans through Fannie Mae, including among others, that: the mortgage meets Fannie Mae requirements; there is a valid lien on the property; the relevant transaction documents are valid and enforceable; and title insurance is maintained on the property. If it is determined that a representation and warranty has been breached, the subsidiary may be required to repurchase the related loans or indemnify Fannie Mae for any related losses incurred. The subsidiary had no such repurchase claims during fiscal 2019.

For a discussion of commitments, guarantee and contingent liabilities, see Note 32 of “Item 18. Financial Statements.”

## TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The table below sets forth the maturities of contractual cash obligations as of March 31, 2019.

	Payments due by period				
	Total	Within 1 year	1-3 years	3-5 years	After 5 years
	(Millions of yen)				
<b>Contractual cash obligations:</b>					
Deposits . . . . .	¥1,927,741	¥1,273,408	¥ 523,064	¥ 131,269	—
Long-term debt . . . . .	4,186,222	582,711	1,091,653	989,341	1,522,517
Operating leases . . . . .	64,985	7,694	12,570	10,236	34,485
Unconditional purchase obligations of lease equipment . . . . .	210	126	84	—	—
Unconditional noncancelable contracts for computer systems . . . . .	7,508	4,323	2,747	438	—
<b>Interest rate swaps:</b>					
Notional amount (floating to fixed) . . . . .	504,036	32,304	87,973	68,112	315,647
Notional amount (floating to floating) . . . . .	55,495	55,495	—	—	—
Total contractual cash obligations . . . . .	<u>¥6,746,197</u>	<u>¥1,956,061</u>	<u>¥1,718,091</u>	<u>¥1,199,396</u>	<u>¥1,872,649</u>

Items excluded from the above table include short-term debt of ¥309,549 million, trade notes, accounts and other payable of ¥293,480 million and policy liabilities and policy account balances of ¥1,521,355 million as of March 31, 2019. For information on pension plans and derivatives, see Notes 19 and 28 of “Item 18. Financial Statements.” We expect to fund commitments and contractual obligations from one, some or all of our diversified funding sources depending on the amount to be funded, the time to maturity and other characteristics of the commitments and contractual obligations.

For a discussion of debt and deposit-related obligations, see Notes 16 and 17 of “Item 18. Financial Statements.”

## RECENT DEVELOPMENTS

### NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In February 2016, Accounting Standards Update 2016-02 (ASC 842 (“Leases”)) (hereinafter, “new lease standard”) was issued, and related amendments were issued thereafter. These Updates require a lessee to recognize most leases on the balance sheet. Lessor accounting remains substantially similar to current U.S. GAAP but with some changes. These Updates require an entity to disclose more information about leases than under the current disclosure requirements.

In July 2018, Accounting Standards Update 2018-11 (“Targeted Improvements”—ASC 842 (“Leases”)) was issued. This Update provides entities with an additional (and optional) transition method of which an entity initially applies new lease standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the fiscal year of adoption. Consequently, an entity’s reporting for the comparative periods presented in the financial statements in which it adopts ASC 840 will continue to be in accordance with ASC 840. This Update also provides lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component, where the timing and pattern of transfer of the nonlease component(s) and associated lease component are the same, and the lease component, if accounting for separately, would be classified as an operating lease.

In December 2018, Accounting Standards Update 2018-20 (“Narrow-Scope Improvements for Lessors”—ASC 842 (“Leases”)) was issued as amendments of the new lease standard. The amendments in this

Update (1) provide an entity with an accounting policy election to account for the payment for all sales (and other similar) taxes as a lessor cost; (2) require lessors to exclude from variable payments lessor costs paid by lessees directly to third parties, and also require lessors to account for costs excluded from consideration of a contract that are paid by the lessor and reimbursed by the lessee as variable payments; and (3) require lessors to allocate (rather than recognize as currently required) certain variable payments to the lease and nonlease components when the changes in facts and circumstances on which the variable payment is based occur and recognize the amount of variable payments allocated to nonlease components as income in profit or loss in accordance with other Accounting Standards, such as ASC 606.

In March 2019, Accounting Standards Update 2019-01 (“Codification Improvements”—ASC 842 (“Leases”)) was issued as amendments of the new lease standard. This Update reinstates the exception in the new lease standard for lessors that are not manufacturers or dealers to use their costs, reflecting discounts, as the fair value of the underlying asset; and this Update clarifies the board’s original intent by explicitly providing an exception to ASC 250-10-50-3 (“Accounting Changes and Error Corrections—General”) interim disclosure requirements in the new lease standard transition disclosure requirements.

These Updates, excluding Accounting Standards Update 2019-01, are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. A modified retrospective transition approach is required, applying the new lease standard to all leases existing at the date of initial adoption. An entity may choose to use either (1) the beginning of the fiscal year of adoption or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial adoption. Accounting Standards Update 2019-01 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early application is permitted. Accounting Standards Update 2019-01 is applied retrospectively as of the date that the new lease standard is first applied. The Company and its subsidiaries will adopt these Updates, including Accounting Standards Update 2019-01, on April 1, 2019 and use the beginning of the fiscal year of adoption as the date of initial adoption. Consequently, financial information of comparative period will not be updated and the disclosures required under the new lease standard will not be provided for periods before April 1, 2019.

The new lease standard provides a number of optional practical expedients in transition. The Company and its subsidiaries will elect the “package of practical expedients”, which permits the Company and its subsidiaries to not reassess under the new lease standard the prior conclusions about lease identification, lease classification and initial direct costs. The Company and its subsidiaries will elect the new lease standard’s available transition practical expedients. The new lease standard also provides practical expedients for an entity’s ongoing accounting. The Company and its subsidiaries will elect the short-term lease recognition exemption mainly for vehicle and office equipment leases. Consequently, for those leases that meet the requirements, the Company and its subsidiaries will not recognize right-of-use (hereinafter, “ROU”) assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company and its subsidiaries also will elect the practical expedient to not separate lease and non-lease components for part of leases as lessors. The Company and its subsidiaries will expand their disclosures regarding lessee and lessor.

Based on the Company and its subsidiaries’ assessment and best estimates to date, the impact of the adoption of these Updates will likely result in gross up of ROU assets and corresponding lease liabilities principally for operating leases where it is the lessee, such as land leases and office and equipment leases. The effect of the adoption of these Updates on the Company and its subsidiaries’ financial position at the adoption date will be increases of approximately ¥286,000 million of ROU assets and almost same amount of lease liabilities in the consolidated balance sheets as of April 1, 2019.

In June 2016, Accounting Standards Update 2016-13 (“Measurement of Credit Losses on Financial Instruments”—ASC 326 (“Financial Instruments—Credit Losses”)) was issued, and related amendments were issued thereafter. These Updates significantly change 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 these Updates. These Updates also make targeted amendments to the current impairment model for available-for-sale debt securities. These Updates are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in these Updates 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 will adopt these Updates on April 1, 2020. Although the allowance for credit losses is expected to increase by adopting these Updates, 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.

In January 2017, Accounting Standards Update 2017-04 ("Simplifying the Test for Goodwill Impairment"—ASC 350 ("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 on or after January 1, 2017. The Company and its subsidiaries will adopt this Update on April 1, 2020. 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.

In August 2017, Accounting Standards Update 2017-12 ("Targeted Improvements to Accounting for Hedging Activities"—ASC 815 ("Derivatives and Hedging")) was issued, and related amendments were issued thereafter. These Updates change the recognition and presentation requirements of hedge accounting including eliminating the requirements to separately measure and report hedge ineffectiveness and presenting the entire change in the fair value of the hedging instrument that affects earnings in the same income statement line as the hedged item. These Updates are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including in an interim period. For cash flow hedges and net investment hedges existing at the date of adoption, an entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of fiscal year that an entity adopts the amendments in these Updates. The amended presentation and disclosure guidance is required only prospectively. The Company and its subsidiaries will adopt these Updates on April 1, 2019. The adoption of this Update will not have a material effect on the Company and its subsidiaries' results of operations or financial position.

In August 2018, Accounting Standards Update 2018-12 ("Targeted Improvements to the Accounting for Long-Duration Contracts"—ASC 944 ("Financial Services—Insurance")) was issued. This Update changes the recognition, measurement, presentation and disclosure requirements for long duration contracts issued by an insurance entity. This Update requires an insurance entity to review and, if there is a change, update cash flow assumptions at least annually and to update discount rate used for liability for future policy benefits at each reporting date for nonparticipating traditional long-duration and limited-payment contracts. The effect of updating the discount rate is recognized in other comprehensive income (loss). This Update also requires market risk benefits to be measured at fair value, and simplifies amortization of deferred acquisition costs. Furthermore, this Update requires additional disclosures for long-duration contracts. This Update is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application is permitted. For the liability for future policy benefits and deferred acquisition costs, this Update is applied to contracts in force as of beginning of the earliest period presented (hereinafter, "the transition date" of this Update) on a

modified retrospective basis, and an insurance entity may elect to apply retrospectively. For the market risk benefits, this Update is applied retrospectively at the transition date, and the difference between fair value and carrying value requires an adjustment to retained earnings at the transition date. The cumulative effect of changes in the instrument-specific credit risk between contract inception date and the transition date should be recognized in accumulated other comprehensive income at the transition date. The Company and its subsidiaries will adopt this Update on April 1, 2021. 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, as well as changes in disclosures required by this Update.

In August 2018, Accounting Standards Update 2018-13 (“Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”—ASC 820 (“Fair Value Measurement”)) was issued. This Update modifies and adds the disclosure requirements for Fair Value Measurements. This Update also removes disclosure requirements of the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. This Update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 and early adoption is permitted. An entity is also permitted to early adopt any removed or modified disclosure requirements and delay adoption of the additional disclosure requirements until their effective date. Removals and modifications of disclosure requirements should be mainly applied retrospectively to all periods presented upon their effective date, while the additional disclosure requirements should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. The Company and its subsidiaries early adopted the removals of disclosure requirements from the three months ended September 30, 2018. The Company and its subsidiaries will adopt the modifications and additions of disclosure requirements from fiscal 2021. Since this Update relates to disclosure requirements, the adoption will not have an effect on the Company and its subsidiaries' results of operations or financial position.

In August 2018, Accounting Standards Update 2018-14 (“Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans”—ASC 715-20 (“Compensation—Retirement Benefits—Defined Benefit Plans—General”)) was issued. This Update adds and clarifies the disclosure requirements for Pension Plans, and removes certain disclosure requirements such as the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. This Update is effective for fiscal years ending after December 15, 2020. The amendments in this Update should be applied on a retrospective basis to all periods presented. Early adoption is permitted. The Company and its subsidiaries will adopt this Update from fiscal 2021. Since this Update relates to disclosure requirements, the adoption will not have an effect on the Company and its subsidiaries' results of operations or financial position.

## **RISK MANAGEMENT**

### **Group-Wide Risk Management System**

#### ***Risk Management System***

We believe effective risk management is vital to the success of our business activities and manage risks relating to Group businesses through our risk management system. To adequately assess risk on a global basis, we have established an Enterprise Risk Management Headquarters to control and manage risk throughout the ORIX Group and facilitate centralized risk management.

In addition to the credit department, which primarily monitors risks related to individual transactions, and the Enterprise Risk Management Headquarters, which centrally manages risks, each business unit has designated staff responsible for managing risks at the business unit level. The results are reported to the Investment and Credit Committee, Audit Committee and board of directors at meetings held on a regular basis for evaluation, and the relevant executive officers take measures deemed appropriate to address identified risks. For descriptions of our board of directors, Audit Committee, Investment and Credit Committee and other internal committees, see “Item 6. Directors, Senior Management and Employees—Corporate Governance System.”

Internal control-related functions, such as the President's Office, Credit and Investment Management Headquarters, Treasury and Accounting Headquarters, Enterprise Risk Management Headquarters and Information Security Control Department, also assess risks in conjunction with each business unit and control such risks through monitoring and testing of relevant rules and regulations.

### ***Risk Control***

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

ORIX Group, in addition to monitoring by business unit, monitors risks on an individual transaction and total portfolio basis.

For individual transactions relating to business transactions, the credit department evaluates the operating environment, strategies, and potential risks and profitability of each transaction prior to execution, and reports on such individual transactions to the Investment and Credit Committee for review. Changes to the operating environment and cash flow are monitored after transaction execution, and transactions for which there has been a major change in circumstances or strategy are then reported to the appropriate executive officers. In addition, individual business units conduct their own risk analysis by analyzing trends in relevant industries to control risks for individual transactions.

In analyzing a portfolio, the credit department monitors the following characteristics from a Group-wide perspective: business type, region, transaction type, risk type, asset quality status and concentration status of major debtors. The corporate planning department monitors risks at the corporate level, including market risk and liquidity risk in cooperation with the treasury department and the credit department.

### **Management of Principal Risks**

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

#### ***Credit Risk Management***

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

To analyze credit risk, we evaluate the adequacy of collateral and guarantees, the securitization of receivables and the diversification of debtors and their business types. A typical practice is to conduct a comprehensive customer credit evaluation based on the customer's financial position, cash flow, underlying security interests, profitability and other factors of individual credit transactions. Moreover, an analysis of our portfolio and measures to establish appropriate credit limits allow us to control exposure to potentially higher risk markets.

We recognize that certain assets that require extra monitoring, including credit extended to debtors who have petitioned for bankruptcy, civil rehabilitation or other insolvency proceedings, or whose bank transactions have been suspended, bills have been dishonored, or debts have not been collected for three months or more. The relevant business units, in cooperation with the credit department, take steps to secure collateral or other guarantees and to begin the collection process. The accumulated collection knowhow ranging from sending an initial reminder to actively seizing collateral is consolidated in the credit department and is reflected in our evaluation criteria for individual credit transactions and portfolio analysis.

### ***Business Risk Management***

We define *business risk* as uncertainties related to new business areas, potential obsolescence of the products or services we offer or a decline in their quality, and variability in market prices for the types of products or services we offer.

To address uncertainties related to new business areas, we monitor business plans and operations using scenario analyses and stress tests. We also evaluate and verify the cost of withdrawal from a business or business area.

For products and services we offer, in addition to monitoring quality, we regularly review the content of our product and services line up in response to changes in the business environment and evolving customer needs and endeavor to maintain or improve their quality.

A principal risk relating to operating leases is fluctuation in the residual value of leased properties. To control this risk, we monitor our leased properties inventory, the relevant market environments and the overall business environment. We limit our operating leases to leased properties and other assets with high versatility that are comparatively easy to re-lease, and evaluate the sale of such properties and other assets depending on changes in market conditions.

We endeavor to reduce the risk related to fluctuation in market prices for real estate by strengthening our cash flow through careful management of our rental income, vacancy rates and expenses related to capital expenditures.

### ***Market Risk Management***

We define *market risk* as the risk of changes in the fair value of assets and liabilities caused by changes in market variables, such as interest rates, exchange rates and stock prices.

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

Interest rate risk is comprehensively evaluated based on factors such as the expected impact of interest rate changes on periodic profit and loss and/or the balance sheet, the assets and liabilities positions and the funding environment. The analysis methods we use are modified, as required, depending on the situation.

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

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

For assets under management in our banking business, our life insurance business and our overseas operations, we regularly monitor monetary policies, macroeconomic indicators and securities and financial market trends and country risk, and we manage our asset portfolios by analyzing individual security price movements (both gains and losses). Market volatility is managed according to guidelines that include fixed loss amounts and decreases in position. Our credit department monitors our compliance with the guidelines.

For quantitative and qualitative analysis information on market risk, please see “Item 11. Quantitative and Qualitative Disclosures about Market Risk.”

### ***Liquidity Risk Management (Risk Management Relating to Funding)***

We define *liquidity risk* as the risk that we will be unable to obtain required funds or that we will be forced to procure funds at an unusually high rate of interest due to market turmoil, a sharp deterioration in the financial condition of the ORIX Group or other reasons.

To reduce liquidity risk, we diversify fund procurement methods and sources and constantly monitor liquidity on hand. To manage liquidity on hand, we project future cash flows and analyze liquidity risk using hypothetical stress scenarios. We take necessary measures so that our businesses may withstand adverse market changes.

The effect on the business of each subsidiary is monitored by ascertaining liquidity risk in each subsidiary and in every country in which ORIX operates. We take appropriate measures to mitigate liquidity risk, including through such action as parent-to-subsidiary lending.

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

ORIX Bank maintains liquidity levels required by Japanese financial regulations by holding highly liquid assets such as cash and government and corporate bonds and by setting an upper limit for capital markets-based funding. In addition, ORIX Bank regularly monitors the status of its liquidity, estimates the tightness of cash flows under different scenarios and conducts stage-by-stage management of liquidity risk accordingly.

ORIX Life Insurance conducts stress tests on insured events and manages its liquidity requirements by holding highly liquid assets such as cash and cash equivalents and securities above a certain ratio against the balance of a liability reserve and by setting maximum limits for holding held-to-maturity securities.

### ***Compliance Risk Management***

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

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

In order to lower the levels of risks that we deem significant at the Group level, the compliance department requires each department of the ORIX Group to formulate an annual compliance plan and monitors compliance risks within the ORIX Group in order to reduce such risks. By implementing programs that sustain a culture of compliance, the compliance department seeks to mitigate compliance risk and to prevent the occurrence of serious incidents, and thereby contribute to the sound business and management of the ORIX Group.

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

### ***Legal Risk Management***

We define *legal risk* as the failure to comply with laws and regulations applicable to ORIX Group's business and corporate management and the resulting legal liability as well as business disadvantages that may arise therefrom.

To avoid, reduce and prevent transactional legal risk in Japan, we generally require that the credit department, the legal department and the compliance department each be involved in evaluating and/or executing transactions. In addition to establishing and maintaining internal rules designed to facilitate compliance with applicable laws that are currently in effect, we take steps to ensure that we are in compliance with new laws and revisions to existing laws.

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

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

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

### ***Information Asset Risk Management***

We define *information asset risk* as the risk of loss caused by loss, damage or leakage of information or failure of our information systems.

ORIX Group has established policies regarding the use of information systems and information management systems for the proper handling of information and information about officers and employees.

The IT planning department and ORIX Computer Systems Corporation endeavor to reduce the risk of system failure within the ORIX Group, including from cyber-attack and damage to information security, through the maintenance operation and management of internal systems. We have also created a system for responding to information security incidents.

We have also established internal regulations concerning our information security management system, basic policy, management standards, education and audits.

### ***Operational Risk Management***

We define *operational risk* as the risk of loss resulting from damages, losses, adverse effects or harm to our reputation caused by inadequate or failed internal processes for business execution or prevention of human error or by a failure in operations due to external events such as natural disasters. We also include risk of failure in our fiduciary responsibility to exercise properly our discretionary rights for those customers and clients for whom we are acting as a fiduciary as such risk may lead to reputational and other damage.

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

The internal audit department conducts monitoring activities based on an annual internal audit plan that includes monitoring of material operational risks. The department endeavors to prevent the occurrence of events that could negatively affect Group management and seeks to strengthen the risk management function through monitoring activities.

### ***Individual Business Risk Management***

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

#### *Corporate Financial Services Segment*

Credit risk is the main risk of Corporate Financial Services segment.

After individual transactions have been executed, Corporate Financial Services segment regularly monitors the transaction's performance and related collateral, as well as collection from customers whose balances exceed specified levels. The credit department regularly evaluates customers with large credit balances.

Within this segment, we analyze current conditions and the outlook for specific business types and industries, including the potential impact on customers while making decisions about future transactions in that specific business type or industry.

For assets requiring extra monitoring, particularly in transactions secured by real estate, we take various measures such as capitalizing on our network of real estate-related departments to sell properties or introduce tenants.

#### *Maintenance Leasing Segment*

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

To manage the risk of changes in the market value of property under operating leases, we continuously monitor market conditions and fluctuations in the resale value of leased property and adjust residual value estimates of leased property in new transactions accordingly.

Cost fluctuation is a risk when providing various services such as outsourcing. In response to this, we analyze initial cost planning and performance, monitor future forecasts and control costs at an appropriate level.

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

We also conduct credit examinations of individual transactions to manage credit risk.

#### *Real Estate Segment*

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

With respect to our real estate investment, before making an investment decision we evaluate the actual cash flow performance of the target as against the initial plan and forecasts, and monitor investment strategies and

schedules after execution. Upon a major divergence from the initial forecast, we reevaluate our strategy. In addition, when we invest in large scale or long-term projects, we consider diversifying risk by making joint investments with our partners.

For development and leasing properties, we monitor development and retention schedules and net operating income yield. We capitalize on the Group's network to improve occupancy rates and promote sales.

In our facility operation business, we monitor performance indicators such as occupancy and utilization rates and profitability. We conduct market analysis and take initiatives to improve the desirability of our facilities, such as through renovations. To improve the quality of our services and facilities, we take into consideration customers' feedback and also implement training programs for our employees.

#### *Investment and Operation Segment*

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

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

When making investment decisions in the private equity business, we conduct a credit evaluation, analyzing the investee's credit risk and assessing its cash flow, as is done for credit examinations. In addition, we perform a multi-faceted evaluation of the characteristics of the business operation and investment scheme, in which administrative departments such as accounting and legal are also involved. After the initial investment, individual transactions are monitored for divergence from the initial scenario.

We emphasize credit risk when increasing the corporate value of a company since cash flow is a key-factor during such period. We also monitor market risk as the time for collection nears, measuring corporate value by referencing the corporate value of similar business types. The frequency of monitoring may increase based on changes in the business environment, and we simultaneously verify the adequacy of investment scenarios and take any necessary action. Furthermore, for investments that have a significant impact on the profitability of the ORIX Group, we work to strengthen management through measures such as seconding of management personnel.

We conduct our concession business in public facilities such as airports, together with business partners. The main risks of such business are business and operational risks. The long-term nature of this business adds uncertainty and, therefore, we conduct stress tests in advance to evaluate the effect of disaster recovery or business withdrawal costs on operating revenue and cash flow based on demand forecasts and regularly monitor business plans and operations. We also strive to train staff with expertise on the management of public facilities and reduce operational risk by establishing a management system with business partners and strengthening governance.

In the loan servicing business, we seek to reduce credit and operational risk by conducting periodic internal auditing and monitoring and by implementing business operations based on work procedures in accordance with the applicable supervision and guidance from regulatory authorities. In addition, OAMLS has appointed a lawyer as a director, has streamlined its organization to place legal and compliance-related affairs under the legal and compliance department. This approach allows OAMLS to employ expert advice and other perspectives in addressing stakeholder related legal issues.

#### *Retail Segment*

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

ORIX Life Insurance has implemented strict assessment standards based on documents such as statements of health condition and medical examination reports in underwriting insurance contracts, and also relies on its staff of trained underwriting employees to check the status of insurance solicitation and to take rigorous measures to prevent the underwriting of fraudulent contracts. In addition, ORIX Life Insurance educates and instructs its representative branch staff and agents to enhance compliance with applicable laws and regulations regarding the privacy of personal information, as well as insurance sales practices, and regularly checks whether these measures are carried out.

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

Regarding each housing loan we extend for the purchase of condominiums and apartments for investment purposes, we conduct screenings through individual interviews, which consist of a comprehensive evaluation including not only the client's real estate investment appetite, supporting documentation, and ability to repay but also the cash flows that can be derived from the property and its collateral value. Throughout this process, we carefully select partner realtors and utilize the real estate market information, industry know-how and network we have built over many years.

Decision making for corporate loans is based on an investigation of the client's performance, business plan, purpose of the loan, expected source of repayment and industry trends. We also reduce risk by avoiding overconcentration in any particular business type and product in our portfolio.

The card loan business uses a proprietary scoring system incorporating a credit model. We set interest rates and credit limits in line with each customer's credit risk profile, after evaluating their creditworthiness based on an analysis of certain customer attributes or payment history, as well as other factors that might affect their ability to repay. Also, we undertake subsequent credit evaluations at regular intervals to monitor changes in the customer's financial condition.

#### *Overseas Business Segment*

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

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

Risk management in the private equity business and the automobile-related business is conducted in a similar manner to that in the domestic business segments.

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

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

Regarding credit risk, at the time an investment or loan is made, we assign an internal credit rating to such investment or loan taking into consideration credit and collateral status and continuously monitor credit status. For any investments and/or loans of which the rating has reached or exceeded the cautionary level, our policy requires management to determine the necessity of a provision for doubtful receivables and probable loan losses or an impairment.

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

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

Business risk and operational risk, in particular, the risk associated with fiduciary responsibility, are the main risks for the asset management business and the advisory business.

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

Regarding operational risk in the asset management business, regarding risk arising from acting as a trustee for customer and client property, we promote the standardization of business processes, regulations and manuals and seek to prevent omissions and mistakes in conducting business operations and to improve efficiency generally. In addition, we ensure proper risk management by clarifying operating procedures and the authority and the responsibilities of administrators and supervisors in business operations.

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

## **GOVERNMENTAL AND POLITICAL POLICIES AND FACTORS**

Other than as outlined below, in our opinion, no current governmental economic, fiscal, monetary or political policies or factors have materially affected, or threaten to materially affect, directly or indirectly, our operations or the investments in our Shares by our U.S. shareholders.

In January 2014, the Financial Stability Board (“FSB”)—an international standard-setting authority—proposed a methodology for assessing and designating non-bank non-insurer global systemically important financial institutions (“NBNI G-SIFIs”). In March 2015, the FSB and the International Organization of Securities Commissions, jointly published a revised proposal for public comment; and in July 2015, the FSB announced its decision to wait to finalize the assessment methodologies until it completes its assessment of financial stability risks from asset management activities. While the FSB released final policy recommendations to address structural vulnerabilities from asset management activities in January 2017, it is unclear if or when the assessment methodologies framework will be finalized, what form a final framework may take, what policy measures will be recommended to apply to NBNI G-SIFIs, and whether ORIX or any of its affiliates ultimately would be designated as a NBNI G-SIFI.

### **Item 6. Directors, Senior Management and Employees**

#### **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

##### **CORPORATE GOVERNANCE SYSTEM**

We believe that a robust corporate governance system is a vital element of effective and enhanced management and have established sound and transparent corporate governance to carry out appropriate business activities in line with our core policies and to ensure objective management.

ORIX's corporate governance system is characterized by:

- separation of operation and oversight through a "Company with Nominating Committee, etc." board model;
- a majority of the members of the Nomination Committee are outside directors and all members of the Audit and Compensation Committees are outside directors; The chairperson for each committee is appointed from among the outside directors;
- all outside directors satisfying strict conditions for independence; and
- all outside directors being highly qualified in their respective fields.

### **Rationale behind adopting ORIX's Corporate Governance System and history of the system**

We believe that swift execution of operations is vital to effectively responding to changes in the business environment. Furthermore, we believe that ORIX promotes improved management transparency through a corporate governance system in which outside directors, who are experts in their respective fields monitor and advise on legal compliance and the appropriate execution of operations.

Based on these principles, our board of directors possesses oversight function and, under the "Company with Nominating Committee, etc." board model delegates certain responsibilities to the three committees (Nominating, Audit and Compensation Committees) to carry out the role of effective governance.

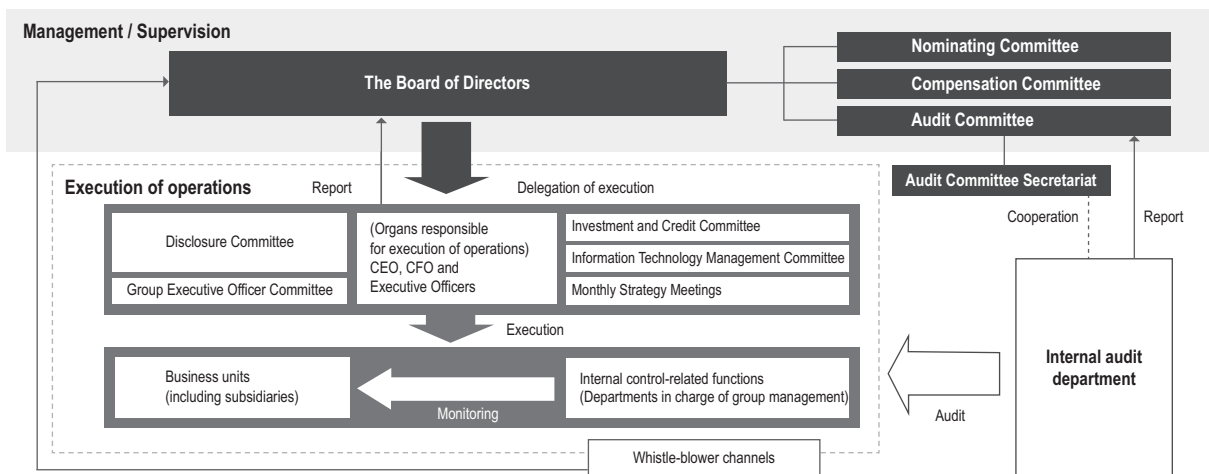
Oversight by directors is separate from the execution of operations within the three committees that form the heart of the board of directors. A majority of the members of the Nomination Committee are outside directors and all members of the Audit and Compensation Committees are outside directors, and the chairperson for each committee is appointed from among the outside directors to help avoid conflicts of interest with our shareholders.

In addition, all outside directors must meet the conditions for director independence set forth by the Nominating Committee (described below under "Nominating Committee").

Below is a summary of the history of ORIX's corporate governance system;

June 1997	Established Advisory Board
June 1998	Introduced Corporate Executive Officer System
June 1999	Introduced Outside Directors
June 2003	Adopted the "Company with Committees" board model
May 2006	Adopted the new "Company with Committees" board model in line with the enactment of the Companies Act of Japan
May 2015	Adopted the new "Company with Nominating Committee, etc." board model in line with the amendment of the Companies Act of Japan

The "Company with Nominating Committee, etc." board model, as stipulated under the Companies Act of Japan, requires the establishment of three board of director committees: the Nominating, Audit and Compensation Committees. Each committee is required to consist of three or more directors, a majority of whom must be outside directors. Directors may serve on more than one committee. The term of office of committee members is not stipulated under the Companies Act of Japan. However, as a committee member must be a director of the Company, the term expires at the close of the first annual general meeting of shareholders after his or her election. Under the Companies Act of Japan, an outside director is defined as a director who does not have a role in executing the Company's business, meaning an individual who has not assumed in the past ten years the position of a representative director or a director with the role of executing the business, executive officer (*shikkou-yaku*), manager or any other employee of the Company or any of its subsidiaries, and who does not currently assume such position of the Company or any of its subsidiaries. (See Item 16G "Corporate Governance".)



※ CEO undertakes the role of CFO.

## Board of Directors

The board of directors has ultimate decision-making authority for our important affairs. It also monitors the performance of the directors and executive officers and receives performance reports from the executive officers and others. Our Articles of Incorporation provide for no fewer than three directors. Directors are elected at general meetings of shareholders. The term of office for any director, as stipulated under the Companies Act of Japan, for companies that adopt a “Company with Nominating Committee, etc.” board model, expires at the close of the first annual general meeting of shareholders after his or her election.

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

With the exception of the aforementioned items, the board of directors may delegate substantial management authority to representative executive officers. Representative executive officers make decisions on management issues as delegated by the board of directors and execute the business of the Company. For example, the board may delegate to representative executive officers the authority to approve issuances of shares of capital stock and bonds. In addition, the Companies Act of Japan permits an individual to simultaneously be a director and a representative executive officer of the Company.

From April 1, 2018 through March 31, 2019, the board of directors met eight times. The attendance rate of directors for these meetings was 97%.

The board of directors as of June 25, 2019 included 12 members, six of whom are outside directors.

### *Composition and size of Board of Directors*

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

## Structure and Activities of the Three Committees

As of June 25, 2019, a majority of the members of the Nomination Committee are outside directors and all members of the Audit and Compensation Committees are outside directors. The chairperson for each committee is appointed from among the outside directors. The members of each committee along with the number of committee meetings and attendance rates are shown below.

	<u>Nominating Committee</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>
Members as of June 25, 2019	4 Members (Outside Directors: 3) Nobuaki Usui (Chairperson) Ryuji Yasuda Sakie Akiyama Makoto Inoue	3 Members (Outside Directors: 3) Eiko Tsujiyama (Chairperson) Nobuaki Usui Heizo Takenaka	3 Members (Outside Directors: 3) Ryuji Yasuda (Chairperson) Eiko Tsujiyama Michael Cusumano
Number of meetings held during fiscal 2019 (Attendance rate)	Three (3) meetings (94%)	Eight (8) meetings (100%)	Four (4) meetings (100%)

### *Nominating Committee*

The Nominating Committee is authorized to propose the slate of director appointments or dismissals to be submitted to the annual general meeting of shareholders. Directors are appointed and dismissed by a resolution of the annual general meeting of shareholders. In addition, the Nominating Committee deliberates on the agenda concerning the appointment or dismissal of our executive officers to be resolved at the board of directors meeting, although this is not required under the Companies Act of Japan.

Furthermore, the Nominating Committee ensures that the board of directors possesses the appropriate levels of and diversity in knowledge, experience, and expertise, through an established decision-making process for directors' appointments. The Nominating Committee also nominates executive officer candidates to the board of directors following an assessment of candidates' past experience, knowledge, and suitability for the position to execute business decisions in the Company's existing and new businesses.

Nomination criteria for director candidates:

(Internal Director)

- An individual with a high degree of expertise in ORIX Group's business and excellent business judgment and business administration skills

(Outside Director)

- An individual with a wealth of experience as a business administrator
- An individual with professional knowledge in fields such as economics, business administration, law and accounting, as such relate to corporate management
- An individual with extensive knowledge in areas such as politics, society, culture and academics, as such relate to corporate management

The Nominating Committee determines whether the conditions for director independence have been met in accordance with nomination criteria for outside directors, which are:

- (1) No individual may be a principal trading partner\*, or an executive officer (including operating officer, hereinafter the same) or employee of a principal trading partner of ORIX Group. If such circumstances

existed in the past, one year must have passed since that person's departure from such office or employment.

\* A "principal trading partner" refers to an entity with a business connection to ORIX Group with a transaction amount equivalent to more than the greater of 2% of such entities consolidated total sales (or consolidated total revenues) or one million U.S. dollars in any fiscal year of the preceding four fiscal years.

- (2) No individual may receive directly a large amount of compensation (10 million yen or higher in a fiscal year), excluding compensation as a director from ORIX Group in any fiscal year during the preceding four fiscal years. Further, any corporation or other entity in which such individual serves as a consultant, account specialist or legal expert may not receive a large amount of compensation (equivalent to more than the greater of 2% of such entities consolidated total sales (or consolidated total revenues of ORIX Group) or one million U.S. dollars) from ORIX Group. If such circumstances existed in the past, one year must have passed since that corporation or other entity received such compensation.
- (3) No individual may be a major shareholder of ORIX (10% or higher of issued shares) or a representative of the interests of a major shareholder.
- (4) No individual may have served as an executive officer of a company having a relationship of concurrent directorship\* with ORIX in any fiscal year of the preceding four fiscal years.

\* "Concurrent directorship" refers to a relationship in which an executive officer of ORIX or its subsidiaries also serves as a director of a company in which the individual has been an executive officer and an outside director of ORIX.

- (5) No individual may be a member of the executive board (limited to those who execute business) or be a person executing the business (including an officer, corporate member or employee who executes business of the organization) of any organization (including public interest incorporated associations, public interest incorporated foundations and non-profit corporations) that have received a large amount of donation or financial assistance (annual average of 10 million yen or higher over the past three fiscal years) from the ORIX Group.
- (6) No individual may have served as an accounting auditor or an accounting advisor (*kaikei san-yo*), a certified public accountant (or a tax accountant) or a corporate member, a partner or an employee of an audit firm (or a tax accounting firm) who personally performed the audit work (excluding engagement as a supporting role) for ORIX Group in any fiscal year of the preceding four fiscal years.
- (7) None of an individual's family members\* may fall under any of the following:
  - i) A person who was an executive officer or an important employee of the ORIX Group during the past three years.
  - ii) A person who falls under one of the criteria specified in (1) through (3), (5) and (6) above; provided, however, that criterion (1) is limited to an executive officer, criterion (2) is limited to a corporate member or a partner of the corporation or other entity and criterion (6) is limited to an executive officer or an employee who performs the audit on the ORIX Group in person.

\* Family members include a spouse, those related within the second degree by consanguinity or affinity, or other kin living with the outside director.

- (8) There must be no material conflict of interest or any possible conflict of interest that might influence the individual's judgment in performing their duties as an outside director.

#### ***Audit Committee***

The Audit Committee monitors the operational execution of the directors and executive officers and prepares audit reports. In addition, the Audit Committee proposes the appointment or dismissal of, or the passage

of resolutions refusing the reappointment of the Company's independent certified public accountants to the annual general meeting of shareholders.

Under the "Company with Nominating Committee, etc." board model, the directors who compose the Audit Committee are not permitted to be executive officers, executive directors of the Company or its subsidiaries, or managers, employees or accounting advisors (*kaikei san-yo*) of the Company's subsidiaries. Under the "Company with Nominating Committee, etc." board model, the Audit Committee generally has powers and duties to monitor the performance of the directors and executive officers in the performance of their responsibilities, as well as the right to propose the appointment or dismissal of, or to pass resolutions for refusing reappointment of the Company's independent certified public accountants at the annual general meeting of shareholders. Any proposal for appointment or dismissal of a certified public accountant needs to be submitted to a general meeting of shareholders for approval. In furtherance of its responsibilities, the Audit Committee also has the power to request a report of business operations from any director, executive officer, manager or other employee at any time, and to inspect for itself the details of the Company's business operations and financial condition.

### ***Compensation Committee***

The Compensation Committee has the authority to set the policy for determining compensation for directors and executive officers in accordance with the Companies Act of Japan and to set the specific compensation for each individual director and executive officer. Director and executive officer compensation information is disclosed in accordance with the Companies Act and the Financial Instruments and Exchange Act.

### **Executive Officers**

Under the "Company with Nominating Committee, etc." board model, and within the scope of laws and ordinances, corporate decisions made at board of directors meetings are delegated to the executive officers to accelerate and achieve efficiency in business operations. The representative executive officer makes important business execution decisions after deliberations by the Investment and Credit Committee ("ICC") in accordance with the Company's internal policies. The business execution duties of executive officers are decided by the board of directors and the representative executive officer and these duties are carried out based upon the Company's internal policies. Group executives are appointed by the board of directors from among directors and executive officers of Group companies.

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

### ***Investment and Credit Committee***

The ICC, which includes members of top management and the executive officers involved with a given transaction, discusses for the representative executive officer's decisions regarding credit transactions and investments that exceed certain specified investment or credit amounts, important matters related to the management of the Company and matters that have been entrusted to the representative executive officer by the board of directors. Matters considered crucial to our operations are deliberated in the ICC and reported to the board of directors as appropriate.

### ***Group Executive Officer Committee***

The Group Executive Officer Committee, in which executive officers and group executives of the Company participate, discusses important matters relating to the business execution of ORIX Group.

### ***Monthly Strategy Meetings***

Monthly Strategy Meetings include meetings between top management and the management in charge of individual departments and business units to discuss matters such as the status for achieving strategic targets and changes in the business environment. Matters of key importance discussed at Monthly Strategy Meetings are then deliberated by the ICC and reported to the board of directors as necessary.

### ***Information Technology Management Committee***

The Information Technology Management Committee includes members of top management and the president of ORIX Computer Systems Corporation. It meets to deliberate important matters concerning fundamental policies for IT operations and IT systems. The committee discusses the needs of and priorities for IT investment based on ORIX Group's fundamental IT strategies. This method enables ORIX to ensure that IT decisions are consistent with its business strategies and to make IT investments that contribute to business growth and help reduce risk.

### ***Disclosure Committee***

The Disclosure Committee, which plays a key role in our disclosure control, is chaired by the CFO and consists of the executive officers in charge of various departments, including: Treasury and Accounting Headquarters, Credit and Investment Management Headquarters, Enterprise Risk Management Headquarters, Group Human Resources and Corporate Administration Headquarters, Global General Counsel Office and Group Internal Audit Department. Upon receiving material information from an executive officer of ORIX Group or the person in charge of an ORIX Group company department, the committee discusses whether or not any timely disclosure is necessary, and takes steps to appropriately disclose such information.

### **Policies on Auditing and Auditing System**

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

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

Based on these fundamental policies, the Audit Committee verifies the status of the performance of duties and the formulation and status of operations of internal control systems with the representative executive officer and the heads of internal control-related and accounting departments, and shares information with the executive officers responsible for the Group Internal Audit Department, the independent certified public accountants, and others as necessary.

The Auditing functions of the Company are as follows.

#### ***Audit Committee***

The Audit Committee which consists of three outside directors evaluates the Company's internal control systems from an independent standpoint and may appoint outside experts to conduct its duties if necessary. Eiko Tsujiyama, chairperson of the Audit Committee, is qualified as a certified public accountant and has extensive knowledge in finance and accounting as a professional accountant.

#### ***Audit Committee Secretariat***

The Audit Committee Secretariat which includes three staff members, supports the work of the Audit Committee under the Audit Committee's instructions. The appointment and evaluation of, changes to, and disciplinary action toward the staff of the Audit Committee Secretariat are carried out by the executive officer responsible for the Group Internal Audit Department with the approval of the Audit Committee.

#### ***Operating Officer Responsible for Group Internal Audit Department***

The Operating Officer Responsible for the Group Internal Audit Department supports the Audit Committee in collecting information. Such person is entrusted by the Audit Committee with attending important meetings within the ORIX Group and accurately reporting information essential to auditing activities to the Audit Committee in a timely manner.

#### ***Reporting System to the Audit Committee***

The following reporting system is in place to ensure that the information required by the Audit Committee is reported in a timely and accurate manner.

- The directors, executive officers and employees of ORIX Group shall report information requested by the Appointed Audit Member to the Audit Committee of the Company (i.e., the member responsible for the collection of information regarding the performance of duties and investigation of operating assets, hereinafter the "Appointed Audit Member") periodically or as appropriate.
- The directors, executive officers and employees of ORIX Group shall report to the Audit Committee upon knowledge of any business activity by a group company that may constitute a serious breach of laws or regulations or a serious breach of the Articles of Incorporation of the relevant group company or serious misconduct, or any fact that could cause significant damage to such group company (hereinafter referred to as an incident of "corruption or scandal").
- Upon becoming aware that an incident of corruption or scandal is occurring, the directors, executive officers or employees of ORIX Group shall report to, consult with and provide the basis for such knowledge or suspicion to, the internal or external whistle-blower channels. If the head of whistleblower channels judges that such report or consultation is serious in nature, he / she shall report such information to the Audit Committee of the Company. In addition, the directors, executive officers and employees of ORIX may report concerns regarding accounting, internal controls or auditing matters to the Audit Committee or the Appointed Audit Member within the Audit Committee.
- ORIX internal rules stipulate that any director, executive officer or employee of ORIX Group who has reported to or consulted with the whistle-blower channels and/or the Audit Committee shall not be treated adversely by reason of said report or consultation. ORIX has established and maintains a system in which persons who have so reported or consulted will not be subject to adverse treatment as a result of their reporting or consulting, including internal rules that stipulate that any person who engages in adverse treatment of an individual who so reports or consults shall be disciplined pursuant to the internal rules.

### ***Group Internal Audit Department and Group Corporate Auditors***

The Group Internal Audit Department, which includes 33 staff (as of the end of May 2019), performs internal audits on the effectiveness of internal control systems, and the efficiency and effectiveness of operations, compliance, and other factors pertaining to the management of the ORIX Group through a risk-based approach. It also jointly monitors critical risk through cooperation with corporate auditors and internal audit functions at group companies and works to maintain and enhance the ORIX Group's internal auditing system.

### ***Interactions among the Audit Committee, the Independent Certified Public Accountants and Others***

In order to ensure the effectiveness of audits, the Audit Committee, the Audit Committee Secretariat, the internal audit department and the internal control-related functions (departments in charge of Group management), and the independent certified public accountants work together through the following procedures.

- The Audit Committee reviews and approves the annual audit plan prepared by the internal audit department. In addition, the Audit Committee confirms the audit plan of the independent certified public accountants.
- The Audit Committee receives reports on the results of internal audit department audits and the improvement status of the issues pointed out, and confirms problems in business execution.
- The internal audit department always cooperates with the Audit Committee and fully cooperates with the Audit Committee's request for investigation.
- The Audit Committee receives and discusses the status of internal control evaluation related to financial reporting by the internal audit department and reports on the evaluation results.
- The Audit Committee hears and examines the audit opinion and recommendations of the independent certified public accountants for quarterly and year-end closing.
- The Audit Committee receives and discusses important information on accounting audits and internal control audits conducted by the independent certified public accountants.
- The Audit Committee exchanges views with the independent certified public accountants as necessary on important audit matters.
- The internal audit department exchanges views with the independent certified public accountants on risk recognition regarding financial reporting as necessary, and works to strengthen collaboration in order to enhance the effectiveness and efficiency of the supervisory function.
- The internal control-related functions regularly reports on the operation status of the internal control system to the Audit Committee.

### **AUDITOR INDEPENDENCE**

Presently, our independent certified public accountants are KPMG AZSA LLC. The independence of KPMG AZSA LLC has been evaluated by our Audit Committee.

ORIX Group prepares consolidated financial statements in accordance with U.S. GAAP. U.S. GAAP consolidated financial information is used by management for evaluating our performance and forms the basis for presentation of financial information to our shareholders. The consolidated financial statements prepared in accordance with U.S. GAAP that are included in this annual report filed with the SEC have been audited by KPMG AZSA LLC, which is registered with the PCAOB in the United States.

We select the independent certified public accountants to conduct the Company's audit or determine the reappointment thereof based on the external auditor basic appointment policy ("basic appointment policy") defined by the Audit Committee, which takes into consideration their independence from the Company, as well as their expert knowledge, comprehensive ability to conduct audits, audit quality and the number of continuous audit years in the Company.

With regard to the independent certified public accountants, based on the basic appointment policy described above, if we deem that the independent certified public accountants do not demonstrate adequate expert knowledge, comprehensive ability to conduct audits, audit quality, or if they are in violation of laws or regulations, including the Companies Act and the Certified Public Accountants Act, if they are offensive to public order and morals, or if there are other suitable reasons, the Company's Audit Committee shall submit a proposal to the General Meeting of Shareholders concerning the dismissal or non-reappointment of the independent certified public accountants.

In addition, if the Company's Audit Committee deems that the independent certified public accountants' circumstances qualify as a reason for dismissal provided for in Article 340, Paragraph 1 of the Companies Act, the Audit Committee shall dismiss the independent certified public accountants.

The independent certified public accountants are to be evaluated each year based on the basic appointment policy, and in the fiscal year under review, we performed a comprehensive evaluation based on audit performance, audit quality, and audit fees.

In the opinion of management, the provision of non-audit services did not impair the independence of KPMG AZSA LLC.

## DIRECTORS

The Member of the Board of Directors of ORIX as of June 25, 2019 are as follows:

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>		Business experience	Shareholdings as of June 25, 2019
Makoto Inoue (Oct. 2, 1952)	Member of the Board of Directors, Representative Executive Officer, President and Chief Executive Officer, Responsible for Group Strategy Business Unit	Apr. 1975	Joined the Company	80,165
		Jan. 2003	Deputy Head of Investment Banking Headquarters	
		Feb. 2005	Assumed office of Executive Officer, the Company	
		Jan. 2006	Assumed office of Managing Executive Officer, the Company	
		Jun. 2009	Assumed office of Senior Managing Executive Officer, the Company	
		Jun. 2010	Assumed office of Member of the Board of Directors, Deputy President, the Company	
		Jan. 2011	Assumed office of Representative Executive Officer, President, the Company	
			Chief Operating Officer	
		Jan. 2014	Co-Chief Executive Officer	
		Jun. 2014	Chief Executive Officer	
		Jan. 2017	Responsible for Group IoT Business Department, Responsible for New Business Development Department I and II	
		Apr. 2017	Responsible for New Business Development	
		May 2017	Responsible for Open Innovation Business Department	
Jan. 2018	Responsible for Group Strategy Business Unit			
Yuichi Nishigori (Jan. 28, 1957)	Member of the Board of Directors, Senior Managing Executive Officer, Head of Energy and Eco Services Business Headquarters, Member of the Board of Directors, Ubiteq, INC.	Apr. 1980	Joined The Industrial Bank of Japan, Limited (currently, Mizuho Bank, Ltd.)	17,131
		Apr. 2003	Joined the Company	
		Jan. 2007	Deputy Head of Alternative Investment and Development Headquarters	
		Jan. 2009	Assumed office of Executive Officer, the Company	
		Jan. 2014	Assumed office of Managing Executive Officer, the Company, Head of Energy and Eco Services Business Headquarters	

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience	Shareholdings as of June 25, 2019
		Jun. 2015 Assumed office of Member of the Board of Directors, Managing Executive Officer, the Company	
		Sep. 2015 Assumed office of Member of the Board of Directors, Ubiteq, INC.	
		Jan. 2016 Assumed office of Member of the Board of Directors, Senior Managing Executive Officer, the Company	
Stan Koyanagi (Dec. 25, 1960)	Member of the Board of Directors, Managing Executive Officer Global General Counsel Chairman, ORIX Corporation Europe N.V.	Oct. 1985 Joined SHEPPARD, MULLIN, RICHTER & HAMPTON LLP Jan. 1993 Partner, GRAHAM & JAMES LLP (currently Squire Patton Boggs LLP) Mar. 1997 Vice President, ORIX USA Corporation (currently ORIX Corporation USA) Mar. 1999 General Counsel, Vice President and Manager, ORIX USA Corporation (currently ORIX Corporation USA) Jan. 2004 Vice President and Associate General Counsel, KB HOME Jul. 2013 Joined the Company Global General Counsel, Global Business Headquarters Jun. 2017 Assumed office of Member of the Board of Directors, Managing Executive Officer, the Company Responsible for Enterprise Risk Management Global General Counsel Aug. 2017 Assumed office of Chairman and Chief Executive Officer, Robeco Groep N.V. (currently ORIX Corporation Europe N.V.) Jun. 2018 Head of Enterprise Risk Management Headquarters Jan. 2019 Responsible for Enterprise Risk Management Headquarters	0

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience		Shareholdings as of June 25, 2019
Shuji Irie (Mar. 14, 1963)	Member of the Board of Directors, Managing Executive Officer Head of Investment and Operation Headquarters	May 2001	Joined Mizuho Securities CO., Ltd.	2,465
		Apr. 2011	Joined the Company	
		Sep. 2011	Deputy Head of Investment and Operation Headquarters	
		Jan. 2013	Assumed office of Executive Officer, the Company	
		Jan. 2014	Head of Investment and Operation Headquarters	
		Jan. 2016	Assumed office of Managing Executive Officer, the Company Responsible for Concession Business Development	
		Jun. 2018	Assumed office of Member of the Board of Directors, Managing Executive Officer, the Company	
Shoji Taniguchi (Jan. 11, 1964)	Member of the Board of Directors, Managing Executive Officer Responsible for Treasury and Accounting Headquarters Assistant to CEO	Apr. 1987	Joined the Company	15,000
		Apr. 1993	Joined Morgan Stanley & Co. LLC	
		Jul. 2005	Co-head of Sales, Morgan Stanley Japan Ltd.	
		Feb. 2010	President, RBS Securities Japan Ltd.	
		Nov. 2015	Head of APAC, The Royal Bank of Scotland plc. (currently NatWest Markets Plc)	
		Oct. 2018	Rejoined the Company Assumed office of Senior Advisor, the Company Assistant to CEO	
		Jan. 2019	Assumed office of Managing Executive Officer, the Company Responsible for Treasury and Accounting Headquarters	
		Jun. 2018	Assumed office of Member of the Board of Directors, Managing Executive Office, the Company	

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience		Shareholdings as of June 25, 2019
Satoru Matsuzaki (Apr. 12, 1966)	Member of the Board of Directors, Managing Executive Officer Head of Corporate Business Headquarters	Apr. 1989	Joined Crown Leasing Corporation	8,065
		Aug. 1997	Joined the Company	
		May 2012	Special Advisor to Responsible for Corporate Communications Department	
		Jan. 2013	Assumed office of Executive Officer, the Company	
		Jun. 2015	Responsible for New Business Development Department I and II	
		Jan. 2017	Head of Tokyo Sales Headquarters Head of Eastern Japan Sales Headquarters	
		Jan. 2018	Assumed office of Managing Executive Officer, the Company Head of Domestic Sale Headquarters	
		Jan. 2019	Head of Corporate Business Headquarters	
		Jun. 2019	Assumed office of Member of the Board of Directors, Managing Executive Office, the Company	
		Eiko Tsujiyama (Dec. 11, 1947)	Member of the Board of Directors (Outside Director) Emeritus Professor, Waseda University Corporate Auditor, Lawson, Inc. Audit & Supervisory Board Member, NTT DOCOMO, Inc. Audit & Supervisory Board Member, Shiseido Company, Limited	
Aug. 1980	Assistant Professor, College of Humanities at Ibaraki University			
Apr. 1985	Assistant Professor, School of Economics at Musashi University			
Apr. 1991	Professor, School of Economics at Musashi University			
Apr. 1996	Assumed office of Dean, School of Economics at Musashi University			
Apr. 2003	Professor, School of Commerce and the Graduate School of Commerce at Waseda University			
Sep. 2004	Professor, Faculty of Commerce at Waseda University			
Jun. 2010	Assumed office of Member of the Board of Directors (Outside Director), the Company			
Sep. 2010	Assumed office of Dean, Graduate School of Commerce at Waseda University			
May 2011	Assumed office of Corporate Auditor, Lawson, Inc.			

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience		Shareholdings as of June 25, 2019
		Jun. 2011	Assumed office of Audit & Supervisory Board Member, NTT DOCOMO, Inc.	
		Jun. 2012	Assumed office of Audit & Supervisory Board Member, Shiseido Company, Limited	
		Apr. 2018	Emeritus Professor, Waseda University	
Nobuaki Usui (Jan. 1, 1941)	Member of the Board of Directors (Outside Director) Audit & Supervisory Board Member, KONAMI HOLDINGS CORPORATION Outside Auditor, Miroku Jyoho Service Co., Ltd.	Apr. 1965 May 1995 Jan. 1998 Jul. 1999 Jan. 2003 Dec. 2008 Jun. 2011 Jun. 2012 Jun. 2016	Entered Ministry of Finance Director-General of the Tax Bureau, Ministry of Finance Commissioner, National Tax Agency Administrative Vice Minister, Ministry of Finance Governor and Chief Executive Officer, National Life Finance Corporation (currently Japan Finance Corporation) Assumed office of Chairman, The Japan Research Institute, Limited Assumed office of Audit & Supervisory Board Member, KONAMI CORPORATION (currently KONAMI HOLDINGS CORPORATION) Assumed office of Member of the Board of Directors (Outside Director), the Company Assumed office of Outside Auditor of Miroku Jyoho Service Co., Ltd.	0

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience		Shareholdings as of June 25, 2019
Ryuji Yasuda (Apr. 28, 1946)	Member of the Board of Directors (Outside Director) Outside Director, Yakult Honsha Co., Ltd. Outside Director, Benesse Holdings, Inc. Adjunct Professor, Graduate School of Business Administration, Hitotsubashi University Department of International Corporate Strategy Outside Director, Kansai Mirai Financial Group, Inc.	Jun. 1991	Director, McKinsey & Company	0
		Jun. 1996	Chairman, A.T. Kearney, Asia	
		Jun. 2003	Assumed office of Chairman, J-Will Partners, Co., Ltd.	
		Apr. 2004	Professor, Graduate School of International Corporate Strategy at Hitotsubashi University	
		Jun. 2009	Assumed office of Outside Director, Yakult Honsha Co., Ltd.	
		Jun. 2013	Assumed office of Member of the Board of Directors (Outside Director), the Company	
		Jun. 2015	Assumed office of Outside Director, Benesse Holdings, Inc.	
		Mar. 2017	Adjunct Professor, Graduate School of International Corporate Strategy at Hitotsubashi University	
		Apr. 2018	Adjunct Professor, Graduate School of Business Administration, Hitotsubashi University Department of International Corporate Strategy Assumed office of Outside Director, Kansai Mirai Financial Group, Inc.	
		Heizo Takenaka (Mar. 3, 1951)	Member of the Board of Directors (Outside Director) Professor, Faculty of Global and Regional Studies at Toyo University Chairman and Director, PASONA Group Inc. Director, Academyhills Director, Center for Global Innovation Studies at Toyo University Board of Directors (Outside Director), SBI Holdings, Inc.	
Apr. 1996	Professor, Faculty of Policy Management at Keio University			
Apr. 2001	Minister of State for Financial Services and for Economics and Fiscal Policy			
Jul. 2004	Elected to House of Councilors			
Sep. 2004	Minister of State for Economics and Fiscal Policy and Communications and Privatization of Postal Services			
Oct. 2005	Minister for Internal Affairs and Communications and Privatization of Postal Services			
Dec. 2006	Assumed office of Director, Academyhills			
Aug. 2009	Assumed office of Chairman and Director, PASONA Group Inc.			

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience	Shareholdings as of June 25, 2019
		Apr. 2010 Professor, Faculty of Policy Management at Keio University	
		Jun. 2015 Assumed office of Member of the Board of Directors (Outside Director), the Company	
		Apr. 2016 Professor, Faculty of Regional Development Studies at Toyo University (currently Faculty of Global and Regional Studies at Toyo University)	
		Assumed office of Director, Center for Global Innovation Studies at Toyo University	
		Jun. 2016 Assumed office of Board of Directors (Outside Director), SBI Holdings, Inc.	
Michael Cusumano (Sep. 5, 1954)	Member of the Board of Directors (Outside Director)	Jul. 1986 Assistant Professor, Sloan School of Management at Massachusetts Institute of Technology	0
	Professor, Faculty of Management, Sloan School of Management at Massachusetts Institute of Technology	Jul. 1996 Professor, Faculty of Management, Sloan School of Management at Massachusetts Institute of Technology	
	Member of the Board of Directors (Outside Director), Ferratum Plc	Jul. 2007 Professor, Faculty of Engineering Systems, School of Engineering at Massachusetts Institute of Technology	
		Apr. 2016 Special Vice President and Dean, Tokyo University of Science	
		Apr. 2019 Assumed office of Member of the Board of Directors (Outside Director), Ferratum Plc	
		Jun. 2019 Assumed office of Member of the Board of Directors (Outside Director), the Company	

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>		Business experience	Shareholdings as of June 25, 2019
Sakie Akiyama (Dec. 1, 1962)	Member of the Board of Directors (Outside Director)	Apr. 1987	Joined Arthur Andersen & Co.	0
		Apr. 1994	Founded Saki Corporation	
	Founder, Saki Corporation		Assumed office of Representative Director and Chief Executive Officer, Saki Corporation	
		Oct. 2018	Assumed office of Founder, Saki Corporation	
		Jun. 2019	Assumed office of Member of the Board of Directors (Outside Director), the Company	
Member of the Board of Directors (Outside Director), Sony Corporation		Assumed office of Member of the Board of Directors (Outside Director), Sony Corporation		
Board of Directors (Outside Director), JAPAN POST HOLDINGS Co., Ltd.		Assumed office of Board of Directors (Outside Director), JAPAN POST HOLDINGS Co., Ltd.		

Notes: 1. All ORIX Member of the Board of Directors are engaged full-time except Eiko Tsujiyama, Nobuaki Usui, Ryuji Yasuda, Heizo Takenaka, Michael Cusumano and Sakie Akiyama.

## EXECUTIVE OFFICERS

The executive officers of the ORIX Group as of June 25, 2019, excluding those who are also directors as listed above are as follows:

Name	Title	Areas of duties	Shareholdings as of June 25, 2019
Kiyoshi Fushitani . . . . .	Senior Managing Executive Officer	Global Business Headquarters East Asia Business Headquarters Global Transportations Services Headquarters	1,500
Kazutaka Shimoura . . . . .	Managing Executive Officer	Credit and Investment Management Headquarters	10,902
Hideto Nishitani . . . . .	Managing Executive Officer	Chairman and President, ORIX Corporation USA	37,991
Yoshiteru Suzuki . . . . .	Managing Executive Officer	Deputy President, ORIX Corporation USA	0
Harukazu Yamaguchi . . . . .	Executive Officer	Global Business Headquarters	4,184
Hitomaro Yano . . . . .	Executive Officer	Treasury and Accounting Headquarters	5,100
Toshinari Fukaya . . . . .	Executive Officer	Real Estate Headquarters Finance and Investment Department	4,200
Yasuaki Mikami . . . . .	Executive Officer	Group Human Resources and Corporate Administration Headquarters Secretariat of The Board of Directors Work Style Reform Project	1,377
Yoshiko Fujii . . . . .	Executive Officer	Global General Counsel Office	6,000
Takayuki Okamoto . . . . .	Executive Officer	Enterprise Risk Management Headquarters	495
Yasuhiro Tsuboi . . . . .	Executive Officer	Credit and Investment Management Headquarters	1,123
Katsunobu Kamei . . . . .	Group Senior Managing Executive	Chairman, ORIX Auto Corporation	27,404
Hiroko Yamashina . . . . .	Group Executive	President, ORIX Credit Corporation	32,700
Shinichi Obara . . . . .	Group Executive	President, ORIX Rentec Corporation	10,806
Toyonori Takahashi . . . . .	Group Executive	President, ORIX Real Estate Corporation Group Kansai Representative	6,805
Michio Minato . . . . .	Group Executive	President, ORIX Baseball Club Co., Ltd.	400
Yuji Kamiyauchi . . . . .	Group Executive	President, ORIX Auto Corporation	3,823
Takaaki Nitani . . . . .	Group Executive	Deputy President, ORIX Real Estate Corporation	0

- Notes: 1. Name on the family register of Yoshiko Fujii is Yoshiko Hirano.  
2. Name on the family register of Hiroko Yamashina is Hiroko Arai.

## **EMPLOYEES**

As of March 31, 2019, we had 32,411 full-time employees, compared to 31,890 as of March 31, 2018 and 34,835 as of March 31, 2017. We employ 2,356 staff in Corporate Financial Services segment, 2,923 staff in Maintenance Leasing segment, 9,969 staff in Real Estate segment, 4,012 staff in Investment and Operation segment, 3,402 staff in Retail segment, 7,776 staff in Overseas Business segment and 1,973 staff as part of our headquarters function as of March 31, 2019. With the exception of Overseas Business segment, all other staff are located in Japan. As of March 31, 2019, we had 19,946 temporary employees. From fiscal 2019, ORIX changed the segment classification of DAIKYO from Investment and Operation segment to Real Estate segment. Some of our employees are represented by a union. We consider our labor relations to be excellent.

The mandatory retirement age for our employees is 65, but for our subsidiaries and affiliates the retirement age varies. ORIX and major domestic subsidiaries introduced a system for retirement at age 65 from April 2014. By implementing the system alongside the current re-employment system at retirement age, the system will allow employees to choose how they will work from age 60 according to their lifestyles. In April 2010, ORIX introduced an early voluntary retirement program that is available to ORIX employees who are at least 45 years old. Employees who take advantage of this program receive their accrued retirement package plus an incentive premium.

ORIX and some of its subsidiaries have established contributory and noncontributory funded pension plans covering substantially all of their employees. The contributory funded pension plans include defined benefit pension plans and defined contribution pension plans. Under the plans, employees are entitled to lump sum payments at the time of termination of their employment or, if enrollment period requirements have been met, to pension payments. Defined benefit pension plans consist of a cash balance plan and a plan in which the amount of the payments are determined on the basis of length of service and remuneration at the time of termination. Our funding policy in respect of these plans is to contribute annually the amounts actuarially determined to be required. Assets of the plans are invested primarily in interest-bearing securities and marketable equity securities. In July 2004, ORIX introduced a defined contribution pension program. In November 2004, we received permission from the Japanese Ministry of Health, Labor and Welfare to transfer the substitutional portion of benefit obligation from our employer pension fund to the government and these assets were transferred back to the government in March 2005. Total costs (termination or pension plans for both employees and directors and corporate auditors) charged to income for all benefit plans (including defined benefit plans) were ¥9,136 million, ¥8,738 million and ¥8,733 million in fiscal 2017, 2018 and 2019, respectively.

## **SHARE OWNERSHIP**

As of June 25, 2019, the directors, executive officers and group executives of the Company directly held an aggregate of 277,636 Shares, representing 0.02% of the total Shares issued as of such date.

## **COMPENSATION**

To promote greater management transparency in our governance, we had established the Executive Nomination and Compensation Committee in June 1999. Its functions included recommending executive remuneration. In June 2003, we adopted a “Company with Committees” board model and replaced the Executive Nominating and Compensation Committee with separate Nominating and Compensation Committees. For discussion of these committees, see “Item 6.—Directors, Senior Management and Employees—Nominating Committee” and “—Compensation Committee.”

Compensation for directors, executive officers and group executives in fiscal 2019 was as follows (in millions of yen);

	<b>Fixed compensation (Number of people)</b>	<b>Performance- linked compensation (Number of people)</b>	<b>share-based compensation (Number of people)</b>	<b>Total compensation</b>
Non-Executive Director and Outside Director . . . . .	¥100	—	¥ 14	¥ 115
	(7)	—	(7)	(7)
Executive Officer and Group Executive . . . . .	¥577	¥289	¥416	¥1,282
	(28)	(28)	(28)	(28)
Total . . . . .	¥677	¥289	¥430	¥1,398
	(35)	(28)	(35)	(35)

The amount paid listed in the table above with regard to the share-based compensation is calculated by multiplying the number of points confirmed to be provided as the portion for the fiscal year ended in March 2019 by the stock market price paid by the trust when ORIX's shares were acquired (¥1,594 per share).

The targets and results with regard to the KPIs of the performance-linked compensation listed in the table above are as follows:

- Company-wide performance indicator

We targeted the milestone rate with regard to the consolidated net income growth set by the compensation committee towards the achievement of the Company's mid-term strategic directions, and achieved 99%.

- Division performance indicator

We set the performance target for each division based on the company-wide performance target, and achieved 50% to 150% (median: 100%) by 18 Executive Officers and 8 group executives (based on the total evaluation including qualitative assessment).

Compensation for Makoto Inoue, Representative Executive Officer, President and Chief Executive Officer of ORIX, for fiscal 2019 was ¥90 million in fixed compensation, ¥89 million in performance-linked compensation and ¥89 million in share-based compensation.

Compensation for Stan Koyanagi, currently Director, Managing Executive Officer of ORIX, for fiscal 2019 was ¥56 million (¥12 million from the Company and ¥44 million from ORIX Corporation USA) in fixed compensation and ¥44 million (¥44 million from ORIX Corporation USA) in performance-linked compensation.

The actual total amount of the share-based compensation paid in fiscal 2019 was ¥358 million paid to one director and two executive officers (including those serving concurrently as directors and Executive Officers) who retired during fiscal 2019. The following individuals retired during fiscal year 2019 and were paid share-based compensation totaling over ¥100 million. Compensation for Kazuo Kojima, currently Director, Representative Executive Officer and President of DAIKYO, as Director, Representative Executive Officer and Deputy President and Chief Financial Officer of ORIX, for fiscal 2019 was ¥12 million in fixed compensation, ¥5 million in performance-linked compensation and ¥219 million in share-based compensation.

The Compensation Committee sets the following "Policy of Determining Compensation of Directors and Executive Officers."

*Policy of Determining Compensation of Directors and Executive Officers*

ORIX's business objective is to increase shareholder value over the medium- to long-term. ORIX believes in the importance of each director and Executive Officer responsibly performing his or her duties, and

cooperation among different business units in order to achieve continued growth of the ORIX Group. The Compensation Committee believes that in order to accomplish such business objectives, directors and Executive Officers should place emphasis not only on performance during the current fiscal year, but also on medium- to long-term results. Accordingly, under the basic policy that compensation should provide effective incentives, ORIX takes such factors into account when making decisions regarding the compensation system and compensation levels for directors and Executive Officers. Taking this basic policy into consideration, we have established separate policies for the compensation of directors and Executive Officers in accordance with their respective roles based on a decision of the compensation committee held on June 21, 2019.

#### *Compensation Policy for Directors*

The compensation policy for directors who are not also Executive Officers aims for compensation composed in a way that is effective in maintaining the supervisory and oversight functions of Executive Officers' performance in business operations, which is the main duty of directors. Specifically, ORIX's compensation structure for directors consists of fixed compensation and share-based compensation \*. In addition, the Company strives to maintain a competitive level of compensation with director compensation according to the role fulfilled, and receives third-party research reports on director compensation for this purpose.

Fixed compensation is, in principal, a certain amount that is added to the compensation of the chairperson and member of each committee. For share-based compensation reflecting medium- to long-term performance, directors are granted a fixed amount of points on an annual basis for their period of service, and they are paid in ORIX shares corresponding to the amount of points they have accumulated at the time of retirement.

#### *Compensation Policy for Executive Officers*

The compensation policy for executive officers, including those who are also directors, aims for a level of compensation that is effective in maintaining business operation functions, while also incorporating a component that is linked to current period business performance. Specifically, ORIX's compensation structure for executive officers consists of fixed compensation, performance-linked compensation, and share-based compensation \*\*. In addition, based on the outcome of a third-party compensation research agency investigation, the Company strives to maintain a competitive level of compensation with executive officer compensation functioning as an effective incentive.

Fixed compensation is decided for each individual based on a standard amount for each position. Compensation linked to business performance for the fiscal year ended March 2019 uses the level of achievement of the consolidated net income growth target as a company-wide performance indicator, adjusting 50% of the position-based standard amount within the range of 0% to 200% while, at the same time, using the level of achievement of the target of the division for which the relevant executive officer was responsible \*\*\* as a division performance indicator, adjusting 50% of the position-based standard amount within the range of 0% to 300%. In the case of the representative executive officers, the consolidated net income growth target is used as a sole performance indicator, adjusting the standard amount within the range of 0% to 200%. These performance indicators are selected based on the Company's mid-term strategic directions. For share-based compensation reflecting medium- to long-term performance, executive officers are granted a fixed amount of points based on their position, and they are paid in ORIX shares corresponding to the amount of points they have accumulated at the time of retirement.

\* Share-based compensation is the Board Incentive Plan Trust in which directors and Executive Officers are granted a fixed amount of points on an annual basis for their period of service, and at the time of retirement, ORIX's shares are delivered through a trust to them in accordance with the number of points they have accumulated. The amount of points to be granted is determined in accordance with the guidelines adopted by the compensation committee. The compensation committee does not set a minimum ownership period for the shares delivered under the plan. The compensation committee can forfeit the share-based compensation from a recipient director or executive officer, if it finds he/she engaged in serious misconduct that could cause damage to the Company during his/her period of service.

- \*\* In principle, the compensation mix for executive officers is fixed compensation 50%, performance-linked compensation 20%, and share-based compensation 30% (fixed portion 50% and variable portion 50%). The compensation mix for chief executive officers consists of an equal proportion of these 3 types of compensation, reflecting the CEO's liability. Compensation for executive officers based on foreign branches or executive officers with special expertise is determined based on individual deliberation about foreign local compensation practices/levels or their special expertise, as the case may be.
- \*\*\* The level of achievement of each division performance with regard to the performance-based compensation is measured based on a total evaluation focusing on the annual growth rate of each division and taking into account qualitative factors (such as target levels, details of achievement, future growth potential, etc.)

In addition, in June 2005, we established guidelines for ownership of our shares for Directors, Executive Officers and Group Executives.

In June 2005, we introduced the share-based compensation, which is a program in which points are annually allocated to directors and executive officers based upon prescribed standards while in office, and the actual number of ORIX's shares calculated based on the number of accumulated points is provided at the time of retirement. In July 2014, we started to provide these shares through a trust established by the Board Incentive Plan Trust. The Company entrusts money to the "Board Incentive Plan Trust", which acquires ORIX's shares from the stock market for directors and executive officers at the end of his or her tenure using money contributed in advance. The total number of points of the share-based compensation granted to directors, executive officers and group executives for fiscal 2019 is equivalent to 289,750 points. Under this system, ¥358 million, which is equivalent to 225,076 points accumulated up to the end of tenure, was paid to executive officers who left their positions during fiscal 2019. As a result, the balance to directors, executive officers and group executives as of March 31, 2019 was 1,516,158 points.

There are no service contracts between any of our directors, executive officers or group executives and the Company or any of its subsidiaries providing for benefits upon termination of employment.

No stock options were granted in any year since 2009. Each unit of the Shares has one vote. We have not issued any preferred shares.

## **STOCK OPTION PLAN**

We have adopted various incentive plans including a stock option plan. The purpose of our stock option plan is to enhance the link between management, corporate performance and stock price, and, in this way, improve our business results. These plans are administered by ORIX's Human Resources Department. For further discussion of stock-based compensation, see Note 19 of "Item 18. Financial Statements."

At the annual general meetings of shareholders in the years from 1997 to 2000 inclusive, our shareholders approved stock option plans under which ORIX purchased shares from the open market and held them for transfer to ORIX's directors and executive officers and some employees upon the exercise of their options. Shareholders also approved a stock subscription rights plan in 2001 and stock acquisition rights plans from 2002 to 2005. From 2006 to 2008, the Compensation Committee approved stock acquisition rights plans for our directors and executive officers, and shareholders approved similar plans for certain ORIX employees, as well as directors, executive officers and certain employees of our subsidiaries and affiliates. From 2009 to 2019, no stock option plans were adopted for our directors, executive officers, employees, or those of our subsidiaries and affiliates.

Options granted under stock option plans generally expire one year after the termination of the option holder's service with ORIX Group.

## Item 7. Major Shareholders and Related Party Transactions

### MAJOR SHAREHOLDERS

The following table shows our major shareholders registered on our Register of Shareholders as of March 31, 2019.

Each unit of Shares (1 unit = 100 Shares) has one vote, and none of our major shareholders have different voting rights. We do not issue preferred shares.

Name	Number of Shares held	Percentage of issued Shares
	(Thousands)	(%)
Japan Trustee Services Bank, Ltd. (Trust Account) . . . . .	118,029	9.20
The Master Trust Bank of Japan, Ltd. (Trust Account) . . . . .	90,960	7.09
Japan Trustee Services Bank, Ltd. (Trust Account 9) . . . . .	35,562	2.77
SSBTC CLIENT OMNIBUS ACCOUNT . . . . .	30,674	2.39
Japan Trustee Services Bank, Ltd. (Trust Account 5) . . . . .	25,819	2.01
JPMorgan Securities Japan Co., Ltd. . . . .	22,481	1.75
Japan Trustee Services Bank, Ltd. (Trust Account 7) . . . . .	21,606	1.68
CITIBANK, N.A. -N.Y, AS DEPOSITARY BANK FOR DEPOSITARY SHARE HOLDERS . . . . .	21,462	1.67
THE CHASE MANHATTAN BANK 385036 . . . . .	21,233	1.65
STATE STREET BANK WEST CLIENT-TREATY 505234 . . . . .	20,258	1.58

ORIX is not directly or indirectly owned or controlled by any corporations, by any foreign government or by any natural or legal persons severally or jointly. As of March 31, 2019, the percentage of issued Shares held by overseas corporations and individuals was 47.83%. As of March 31, 2019, approximately 4,284,255 ADSs were outstanding (equivalent to 21,421,275 or approximately 1.62% of ORIX's issued Shares as of that date). As of March 31, 2019, all our ADSs were held by one record holder in the United States.

On May 7, 2019, Mitsubishi UFJ Financial Group, Inc. submitted a filing to the Kanto Local Finance Bureau indicating that Mitsubishi UFJ Financial Group, Inc. held 54,938,711 Shares, representing 4.15% of ORIX's outstanding Shares, as part of Mitsubishi UFJ Financial Group, Inc.'s assets under management.

On April 18, 2019, Fidelity Group submitted a filing to the Kanto Local Finance Bureau indicating that FMR LLC held 51,932,782 Shares, representing 3.92% of ORIX's outstanding Shares, as part of Fidelity Group's assets under management.

On February 6, 2019, BlackRock Group submitted a filing to the Securities and Exchange Commission indicating that BlackRock Inc., primarily through BlackRock Japan Co., Ltd, held 81,310,029 Shares, representing 6.1% of ORIX's outstanding Shares, as part of BlackRock Group's assets under management.

On October 19, 2018, Sumitomo Mitsui Trust Holdings, Inc. submitted a filing to the Kanto Local Finance Bureau indicating that Sumitomo Mitsui Trust Holdings, Inc. held 58,425,200 Shares, representing 4.41% of ORIX's outstanding Shares, as part of Sumitomo Mitsui Trust Holdings, Inc.'s assets under management.

### RELATED PARTY TRANSACTIONS

To our knowledge, no individual beneficially owns 5% or more of any class of the Shares that might give that individual significant influence over us. In addition, we are not directly or indirectly owned or controlled by, or under common control with, any enterprise.

We may enter into transactions with shareholders or potential large investors in the ordinary course of our business. We may also enter into transactions in the ordinary course of our business with certain key management personnel or with certain companies over which we, or our key management personnel, may have a significant influence. Our business relationships with these companies and individuals cover many of the financial services we provide our clients generally. We believe that we conduct our business with these companies and individuals in the normal course and on terms equivalent to those that would exist if they did not have equity holdings in us, if they were not our key management personnel, or if we or our key management personnel did not have significant influence over them, as the case may be. None of these transactions is or was material to us or, to our knowledge, to the other party.

Other than as outlined below, since the beginning of our last full fiscal year, there have been no transactions or outstanding loans, including guarantees of any kind, and there are none currently proposed, that are material to us, or to our knowledge, to the other party, between us and any (i) enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, us; (ii) associates; (iii) individuals owning, directly or indirectly, an interest in the voting power of us that gives them significant influence over us, and close members of any such individual's family; (iv) key management personnel, including directors and senior management of companies and close members of such individuals' families; or (v) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (iii) or (iv) or over which such a person is able to exercise significant influence.

There are no outstanding loans (including guarantees of any kind) made by us or any of our subsidiaries to or for the benefit of any of the persons listed in clauses (i) through (v) in the foregoing paragraph other than those listed in the table below. Certain of our affiliates may fall within the meaning of a related party under clauses (i) or (ii) of the foregoing paragraph. The amount of outstanding loans (including guarantees of any kind) made by us to or for the benefit of all our affiliates, including those which may fall within the meaning of a related party, totaled ¥41,935 million as of March 31, 2019 and did not exceed ¥55,000 million at any time during fiscal 2019.

Each of these loans was made in the ordinary course of business. The following table describes, for each related party borrower, the applicable interest rate (or range of interest rates), the largest aggregate amount outstanding during fiscal 2019 and the aggregate amount outstanding as of March 31, 2019.

<u>Related Party</u>	<u>The largest aggregate amount outstanding during fiscal 2019</u>	<u>Aggregate amount outstanding as of March 31, 2019</u>	<u>Interest rate</u>
	(Millions of yen)		(%)
Kansai Airports	¥12,331	¥12,006	6.5
SORA Airlease Limited	9,618	8,746	6.0 – 9.5
Meritix Airlease Limited	3,530	3,264	6.0 – 9.5
Meritix Airlease Dara Limited	4,329	2,694	6.0 – 9.5
California Proton Therapy Center, LLC	3,544	2,423	7.5 – 10.0
IOS II, LLC	2,289	2,289	6.3
Utsunomiya Central Clinic Medical Corporation DIC	1,960	1,960	5.0
H&O MEDICAL INC.	1,980	1,870	5.0
TAS Environmental Services L.P.,	1,275	1,247	12.0
Plaza Sunroute Co.	955	864	3.5
RAM INDUSTRIES INC.	815	683	13.0
Timber Parent, LLC	620	615	16.0
Women's Marketing Inc.	776	493	7.6 – 8.0
LCR Contractor, LLC	441	441	12.0
ALLIANCE ENVIRONMENTAL GROUP, LLC	459	440	12.0
YM Leasing Corporation	406	389	0.9 – 1.0
Sazanka Marine S.A.	383	383	1.0

<u>Related Party</u>	<u>The largest aggregate amount outstanding during fiscal 2019</u>	<u>Aggregate amount outstanding as of March 31, 2019</u>	<u>Interest rate</u>
	(Millions of yen)		(%)
Fluorescent Supply Co., Inc . . . . .	282	276	14.0
Tsubaki Marine S.A. . . . .	257	257	1.0
Magix Airlease Limited . . . . .	1,096	252	9.0
Andersen Commercial Plumbing, LLC . . . . .	229	220	13.0
Pacific League Marketing Corporation . . . . .	122	85	2.9
Medical Corporation NIDC . . . . .	20	20	5.0
Torigin Leasing Corporation . . . . .	49	15	0.8
Kada Greenfarm Co., Ltd. . . . .	2	2	3.1
Flexible Energy Service Co., Ltd. . . . .	2	1	3.2
Dalian Financial & Industrial Investment Group Co., Ltd. . . .	8,883	0	1.6
Shipston Equity Holdings, LLC . . . . .	2,897	0	13.0
Mode Apartments Unit Trust . . . . .	221	0	3.2

A certain subsidiary invests in convertible bonds issued by our affiliates. Although these transactions were made in the ordinary course of business and are not material to us, they may be material to the affiliates. The aggregate principal amount of convertible bonds issued by our affiliates to the subsidiary totaled ¥11,711 million as of March 31, 2019.

**Item 8. Financial Information**

All relevant financial statements are attached hereto. See “Item 18. Financial Statements.”

**LEGAL PROCEEDINGS**

See “Item 4. Information on the Company—Legal Proceedings.”

**DIVIDEND POLICY AND DIVIDENDS**

See “Item 10. Additional Information—Dividend Policy and Dividends.”

## **SIGNIFICANT CHANGES**

None.

### **Item 9. The Offer and Listing**

#### **TOKYO STOCK EXCHANGE**

The primary market for the Shares is the Tokyo Stock Exchange. The Shares have been traded on the First Section of the Tokyo Stock Exchange since 1973.

#### **NEW YORK STOCK EXCHANGE**

The ADS are listed on the New York Stock Exchange under the symbol "IX."

One ADSs represents five Shares. On March 31, 2019, approximately 4,284,255 ADSs were outstanding. This is equivalent to 21,421,275 or approximately 1.67% of the total number of Shares outstanding on that date. On that date, all our ADSs were held by one record holder in the United States.

### **Item 10. Additional Information**

#### **MEMORANDUM AND ARTICLES OF INCORPORATION**

##### **Purposes**

Our corporate purposes, as provided in Article 2 of our Articles of Incorporation, are to engage in the following businesses: (i) lease, purchase and sale (including purchase and sale on an installment basis), maintenance and management of movable property of all types; (ii) moneylending business, purchase and sale of claims of all types, payment on behalf of third parties, guarantee and assumption of obligations, agent for collection of money and other financial business; (iii) holding, investment in, management, purchase and sale of financial instruments such as securities and other investment business; (iv) advice, brokerage and agency relating to the merger, capital participation, business alliance and business succession and reorganization, etc.; (v) financial instruments and exchange business, financial instruments broker business, banking, trust and insurance business, advisory service business relating to investment in commodities, trust agreement agency business and credit management and collection business; (vi) non-life insurance agency business, insurance agency business under the Automobile Accident Compensation Security Law, and service related to soliciting life insurance; (vii) lease, purchase and sale, ground preparation, development, maintenance and management of real property and warehousing; (viii) contracting for construction, civil engineering, building utility and interior and exterior furnishing, and design and supervision thereof; (ix) management of various facilities for sports, lodging, restaurant, medical treatment, welfare and training and education, and conducting sports, etc.; (x) facility planning, development, maintenance, management and operation of airports, roads, other public facilities and similar kinds of aforementioned facilities and the assumption or undertaking of public works; (xi) production, processing, sale, purchase, research and development of agricultural products, food products and agriculture-related products and facilities; (xii) waste-disposal business; (xiii) trading of emission rights for greenhouse gases and other various subjects; (xiv) supply of various energy resources and the products in relation thereto; (xv) planning, developing, contracting for, lease and sale of, intangible property rights; (xvi) information processing and providing services, telecommunications business; (xvii) business of dispatching workers to enterprise and employment agency business; (xviii) purchase and sale of antiques; (xix) transport business; (xx) mining of various minerals, and the manufacture and sale of the products in relation thereto; (xxi) business support and consulting; (xxii) brokerage, agency, investigation, manufacturing, processing, research and

development for business relating to any of the preceding items, and other business; (xxiii) as a result of holding shares in a subsidiary company engaged in those activities, engaging in business relating to any of the preceding items and managing such company's business activities; and (xxiv) any and all businesses incidental or related to any of the preceding items.

### **Directors and Board of Directors, and Committees**

There shall be no less than three directors of the Company (Article 16). The term of office of a director is for one (1) year and expires upon conclusion of the annual General Meeting of Shareholders relating to the last fiscal year ending within one year after election of director (Article 18). Resolutions of the Board of Directors are adopted by a majority vote of the directors present at a meeting attended by a majority of the directors who may participate in making resolutions (Article 21).

There is no provision in our Articles of Incorporation as to a director's power to vote on a proposal or arrangement in which the director is materially interested, but, under the Companies Act or Regulations of the board of directors, the director must refrain from voting on such matters at meetings of the board of directors. Under the Companies Act, the board of directors may, by resolution, delegate to the executive officers its authority to make decisions with regard to certain important matters, including the incurrence by ORIX of a significant amount of loan, prescribed by law.

We are required to maintain a Nominating Committee, an Audit Committee and a Compensation Committee (Article 10). The Compensation Committee sets the specific compensation for each individual director and executive officer based on the policy for determining compensation for directors and executive officers (see Item 6). No member of the Compensation Committee may vote on a resolution with respect to his or her own compensation as a director.

Neither the Companies Act nor our Articles of Incorporation includes special provisions as to the retirement age of directors, or a requirement to hold any shares of capital stock of ORIX to qualify him or her as a director of ORIX.

### **Stock**

Our authorized share capital is 2,590,000,000 shares. Currently our Articles of Incorporation provide only for the issuance of shares of common stock. All shares of capital stock of us have no par value. All issued shares are fully-paid and non-assessable.

Unless shareholders' approval is required as described in "Voting Rights," the shares will be issued under a resolution approved by the board of directors and a decision made by the executive officer under delegation by the board of directors.

For changes in the number of shares issued for the past three fiscal years, see Note 21 of "Item 18. Financial Statements."

Under the Act on Book-Entry Transfer of Corporate Bonds, Shares, Etc. of Japan and regulations thereunder, or the Book-Entry Law, in Japan, every share which is listed on any of the stock exchanges in Japan shall be transferred and settled only by the central clearing system provided by Japan Securities Depository Center, Inc. ("JASDEC") and all Japanese companies listed on any Japanese stock exchange no longer issue share certificates. Shareholders of listed shares must have accounts at account management institutions to hold their shares unless such shareholder has an account at JASDEC, and any transfer of shares is effected through book entry, and title to the shares passes to the transferee at the time when the transferred number of the shares is recorded in the transferee's account at an account managing institution under the Book-Entry Law. The holder of an account at an account managing institution is presumed to be the legal owner of the shares recorded in such

account. Under the Companies Act and the Book-Entry Law, in order to assert shareholders' rights against us, the transferee must have his or her name and address registered on our Register of Shareholders, except in limited circumstances. Foreign shareholders may file specimen signatures in lieu of seals. Nonresident shareholders are required to appoint a standing proxy in Japan or designate a mailing address in Japan. The registration of transfer and the application for reduced withholding tax on dividends can usually be handled by a standing proxy. See "Taxation—Japanese Taxation." Japanese securities companies and commercial banks customarily will act as standing proxies and provide related services for standard fees.

Our transfer agent is Mitsubishi UFJ Trust and Banking Corporation, located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan.

In general, there are no limitations on the right to own shares of our common stock, including the rights of nonresidents or foreign shareholders to hold or exercise voting rights on the securities imposed under Japanese law or by our Articles of Incorporation.

Settlement of transactions for shares listed on any of the stock exchanges in Japan will normally be effected on the fourth trading day from and including the transaction date. Settlement in Japan shall be made through JASDEC as described above.

### **Distributions of Surplus**

Ordinary Dividends and Interim Dividends may be distributed by us in cash to shareholders or pledgees of record as of March 31 (in the case of Ordinary Dividends) or September 30 (in the case of Interim Dividends) of each year in proportion to the number of shares held by each shareholder or registered pledgee, as the case may be.

We may make distributions of surplus to the shareholders any number of times per fiscal year, subject to certain limitations as described below. Under our Articles of Incorporation, distributions of cash dividends need to be declared by a resolution of the board of directors. Distributions of surplus may be made in cash or in kind in proportion to the number of shares held by respective shareholders. A resolution of the board of directors authorizing a distribution of surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of surplus is to be made in kind, we may, pursuant to a resolution of a general meeting of shareholders or the board of directors, as the case may be, grant a right to the shareholders to require us to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of surplus must be approved by a special resolution of a general meeting of shareholders.

Under our Articles of Incorporation, if Ordinary Dividends are distributed for common shares, we treat the shareholders or share pledgees registered or recorded on the Register of Shareholders as of March 31 of each year as the people having rights to receive such dividends. In case of the distribution of Interim Dividends, we distribute these to the shareholders or share pledgees registered or recorded on the Register of Shareholders as of September 30 each year. Dividends or other distributable assets shall not incur interest thereon. If the relevant distributed assets are not received within a full three years from the date on which the distribution of relevant distributed assets became effective, we may be released from its obligation to distribute such assets.

Under the Companies Act, when we make distributions of surplus, if the sum of our capital reserve (*shihonjunbikin*) and earned surplus reserve (*riekijunbikin*) is less than one-quarter of our stated capital, we must, until such sum reaches one-quarter of the stated capital, set aside in our capital reserve and/or earned surplus reserve an amount equal to one-tenth of the amount of surplus so distributed as required by ordinances of the Ministry of Justice.

The amount of surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

- “A” = the total amount of other capital surplus and other earnings surplus, each such amount being that appearing on our nonconsolidated balance sheet as of the end of the last fiscal year;
- “B” = (if we have disposed of our treasury stock after the end of the last fiscal year) the amount of the consideration for such treasury stock received by us less the book value thereof;
- “C” = (if we have reduced our stated capital after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to capital reserve or earned surplus reserve (if any);
- “D” = (if we have reduced our capital reserve or earned surplus reserve after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any);
- “E” = (if we have cancelled our treasury stock after the end of the last fiscal year) the book value of such treasury stock;
- “F” = (if we have distributed surplus to our shareholders after the end of the last fiscal year) the amount of the assets distributed to shareholders by way of such distribution of surplus;
- “G” = certain other amounts set forth in an ordinance of the Ministry of Justice, including (if we have reduced surplus and increased stated capital, capital reserve or earned surplus reserve after the end of the last fiscal year) the amount of such reduction and (if we have distributed surplus to our shareholders after the end of the last fiscal year) the amount set aside in capital reserve or earned surplus reserve (if any) as required by ordinances of the Ministry of Justice.

Under the Companies Act, the aggregate book value of surplus distributed by us may not exceed a prescribed distributable amount, as calculated on the effective date of such distribution. Our distributable amount at any given time shall be the amount of surplus less the aggregate of: (a) the book value of our treasury stock; (b) the amount of consideration for any of our treasury stock disposed of by us after the end of the last fiscal year; and (c) certain other amounts set forth in an ordinance of the Ministry of Justice, including (if the total of the one-half of goodwill and the deferred assets exceeds the total of stated capital, capital reserve and earned surplus reserve, each such amount being that appearing on our nonconsolidated balance sheet as of the end of the last fiscal year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice. If we have opted to become a company that applies the restriction on distributable amounts on a consolidated basis (*renketsu haito kisei tekiyo kaisha*), we will further deduct from the amount of surplus a certain amount which is calculated based on our nonconsolidated and consolidated balance sheets as of the end of the last fiscal year as provided in ordinances of the Ministry of Justice.

If we have prepared interim financial statements as described below after the end of the last fiscal year, and if such interim financial statements have been approved by our board of directors or (if so required) by a general meeting of our shareholders, then the distributable amount must be adjusted to take into account the amount of profit or loss as set forth in ordinances of the Ministry of Justice, and the amount of consideration for any of our treasury stock disposed of by us, during the period in respect of which such interim financial statements have been prepared. Under the Companies Act, we are permitted to prepare nonconsolidated interim financial statements consisting of a balance sheet as of any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. Interim financial statements prepared by us must be reviewed by our accounting auditor, as required by an ordinance of the Ministry of Justice.

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividend to be paid. The price of the shares generally goes ex-dividend on the second business day prior to the record date.

### **Capital and Reserves**

When we issue new shares, the amount of the cash or assets paid or contributed by subscribers for the new shares (with some exceptions) is required to be accounted for as stated capital, although we may account for an amount not exceeding one-half of the cash or assets as capital reserve by resolutions of the board of directors.

We may at any time transfer the whole or any part of our additional paid-in capital and legal reserve to stated capital by a resolution of a general meeting of shareholders. The whole or any part of surplus which may be distributed as Ordinary Dividends or Interim Dividends may also be transferred to stated capital by a resolution of a general meeting of shareholders. We may, by a resolution of a general meeting of shareholders (in the case of the reduction of stated capital, a special resolution of a general meeting of shareholders, see “Voting Rights”) reduce stated capital, additional paid-in capital and/or legal reserve.

### **Stock Splits**

We may at any time split the shares into a greater number of shares by resolution of the board of directors. When the board of directors resolves on the split of shares, it may also amend the Articles of Incorporation to increase the number of authorized shares to be issued in proportion to the relevant stock split. We must give public notice of the stock split, specifying the record date therefore, not less than two weeks prior to such record date.

On October 26, 2012, the board of directors adopted a resolution on a ten-for-one stock split, effective as of April 1, 2013. The record date for the stock was one day prior to the effective date of the stock split. Our Articles of Incorporation were amended to increase the authorized share capital to cover the number of shares increased by the stock split, which amendment became effective simultaneously with the effectiveness of the stock split.

### **Unit Share System**

Our Articles of Incorporation provides that one hundred shares constitute one “unit” of shares. The number of shares constituting a unit may be altered by amending our Articles of Incorporation. The number of shares constituting a unit is not permitted to exceed 1,000 shares.

A shareholder may not exercise shareholders’ rights in relation to any shares that it holds that are less than one unit other than the rights set forth below under the Companies Act and the Articles of Incorporation.

- (i) The right to receive the distribution of money, etc., when the Company distributes the money, etc. in exchange for acquiring one class of shares subject to terms under which the Company shall acquire all of such class shares;
- (ii) The right to receive the distribution of money, etc., in exchange for acquisition of shares subject to terms under which the Company shall acquire such shares;
- (iii) The right to receive allocation of shares when the Company allocates its shares without having a shareholder make new payment;
- (iv) The right to demand that the Company purchase shares that are less than one Unit held by the shareholder;
- (v) The right to receive distribution of remaining assets;
- (vi) The right to demand review of the Articles of Incorporation and the Register of Shareholders and delivery of their copies or a document describing registered matters, etc.;

- (vii) The right to demand registration or recordation of matters to be registered or recorded on the Register of Shareholders when the shareholder acquired the shares;
- (viii) The right to receive the distribution of money, etc. pursuant to reverse stock split, stock split, allocation of stock acquisition right for free (which means that the Company allocates its stock acquisition right without having a shareholder make new payment), distribution of dividends from retained earnings or change of corporate organization;
- (ix) The right to receive the distribution of money, etc. to be distributed pursuant to merger, share exchange or share-transfer effected by the Company;
- (x) The right to subscribe to Offering Shares and Offering Stock Acquisition Rights on a pro rata basis based upon the number of shares held by the shareholder; and
- (xi) The right to demand that the Company sell to the shareholder the number of additional shares necessary to make the number of shares of less than one Unit held by the shareholder, equal to one Unit.

Under the book-entry transfer system operated by JASDEC, shares constituting less than one unit are generally transferable. Under the rules of the Japanese stock exchanges, however, shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges.

A holder of shares constituting less than one unit may require us to purchase such shares at their market value in accordance with the provisions of our Share Handling Regulations. In addition, our Articles of Incorporation provide that a holder of shares constituting less than one unit may request us to sell to such holder such amount of shares which will, when added together with the shares constituting less than one unit held by such holder, constitute one unit of shares, in accordance with the provisions of the Share Handling Regulations.

### **General Meetings of Shareholders**

The ordinary general meeting of our shareholders is usually held in Tokyo in June of each year. In addition, we may hold an extraordinary general meeting of shareholders whenever necessary. Notice of a shareholders' meeting stating the place, time and purpose thereof must be dispatched to each shareholder (or, in the case of a nonresident shareholder, to its resident proxy or mailing address in Japan) having voting rights at least two weeks prior to the date of such meeting. The record date for an ordinary general meeting of shareholders is March 31 of each year. General meetings of shareholders can be called by a director pursuant to a resolution of the board of directors.

Any shareholder or group of shareholders with at least 3.0% of the total number of voting rights for a period of six months or longer may require the convocation of a general meeting of shareholders for a particular purpose by showing such a purpose and reason for convocation to one of our directors. Unless such shareholders' meeting is convened promptly or a convocation notice of a meeting which is to be held not later than eight weeks from the day of such demand is dispatched, the requiring shareholder may, upon obtaining a court approval, convene such shareholders' meeting.

Any shareholder or group of shareholders holding at least 300 voting rights or 1.0% of the total number of voting rights for six months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a written request to one of our directors at least eight weeks prior to the date of such meeting.

Under the Companies Act, any of minimum percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened if the articles of incorporation of a joint stock corporation so provide.

## **Voting Rights**

A holder of shares constituting one or more units is entitled to one vote for each unit. However, we do not have voting rights with respect to our own shares and if we directly or indirectly own 25% or more of voting rights of a corporate or other entity which is a shareholder, such corporate shareholder cannot exercise its voting rights. Except as otherwise provided by law or in our Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by a majority of the number of voting rights represented at the meeting. The quorum for election of directors is one-third of the total number of voting rights. Our shareholders are not entitled to cumulative voting in the election of directors. Our shareholders may exercise their voting rights through proxies, provided that the proxies are also shareholders having voting rights.

Under the Companies Act and our Articles of Incorporation, any amendment to our Articles of Incorporation (except for certain amendments, see “Stock Splits”) and certain other instances require approval by a “special resolution” of shareholders, where the quorum is one-third of the total number of voting rights and the approval by at least two-thirds of the number of voting rights represented at the meeting is required. Other instances requiring such a “special resolution” include (i) the reduction of its stated capital, (ii) the removal of a director, (iii) the dissolution, liquidation, merger or consolidation, merger and corporate split or (iv) the formation of a parent company by way of share exchange or share transfer, (v) the transfer of the whole or a substantial part of its business, (vi) the acquisition of the whole business of another company, (vii) the issue to persons other than the shareholders of new shares at a “specially favorable” price or the issue or transfer to persons other than the shareholders of stock acquisition rights (including those incorporated in bonds with stock acquisition rights) under “specially favorable” conditions, (viii) consolidation of shares and (ix) acquisition of its own shares from a specific party other than its subsidiaries.

## **Subscription Right**

Holders of the shares have no pre-emptive rights. The board of directors may, however, determine that shareholders be given subscription rights to new shares, in which case such rights must be given on uniform terms to all shareholders as of a record date of which not less than two weeks’ prior public notice must be given. The issue price of such new shares must be paid in full.

## **Stock Acquisition Rights**

We may issue stock acquisition rights (*shinkabu yoyakuken*) and bonds with stock acquisition rights (*shinkabu yoyakuken-tsuki shasai*). Except where the issue would be on “specially favorable” conditions, the issue of stock acquisition rights or bonds with stock acquisition rights may be authorized by a resolution of the board of directors. Upon exercise of the stock acquisition rights, the holder of such rights may acquire shares by way of payment of the applicable exercise price or, if so determined by a resolution of the board of directors, by way of substitute payments in lieu of redemption of the bonds. If our Articles of Incorporation prohibit us from delivering shares, it will pay a cash payment equal to the market value of the shares.

## **Liquidation Rights**

In the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among shareholders in proportion to the respective number of shares which they hold.

## **Reports to Shareholders**

We currently furnish to our shareholders notices of shareholders’ meetings, annual business reports, including financial statements, and notices of resolutions adopted at the shareholders’ meetings, all of which are in Japanese. Public notice shall be electronic public notice, provided, however, that if the Company is unable to give an electronic public notice due to an accident or any other unavoidable reason, public notices of the Company shall be given in the “Nihon Keizai Shinbun.”

### **Record Date of Register of Shareholders**

As stated above, March 31 is the record date for the payment of Ordinary Dividends and the determination of shareholders entitled to vote at the ordinary general meeting of shareholders. In addition, we may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks' prior public notice. Under the Book-Entry Law, JASDEC is required to give us a notice of the names and addresses of the shareholders, the number of shares held by them and other relevant information as of each such record date, and the register of our shareholders shall be updated accordingly.

### **Repurchase of Own Shares**

We may acquire our shares, including shares of our common stock: (i) by way of purchase on any Japanese stock exchange or by way of tender offer (pursuant to a resolution of the board of directors); (ii) from a specific shareholder other than any of our subsidiaries (pursuant to a special resolution of a general meeting of shareholders); or (iii) from any of our subsidiaries (pursuant to a resolution of the board of directors).

In the case of (ii) above, any other shareholder of such class may make a request to a director, at least five days prior to the relevant shareholders' meeting, to include such shareholder as a seller in the proposed purchase. However, no such right will be available if the relevant class of shares is listed on any Japanese stock exchange and the purchase price or any other consideration to be received by the relevant specific shareholder does not exceed the then market price of the shares calculated in a manner set forth in ordinances of the Ministry of Justice.

Any such acquisition of our shares must satisfy certain requirements that the total amount of the purchase price may not exceed the distributable amount, as described in “—Distributions of Surplus.” We may hold our shares acquired in compliance with the provisions of the Companies Act, and may generally cancel such shares by a resolution of the board of directors, although the disposal of such shares is subject to the same proceedings for the issuance of new shares, in general.

### **Stock Options**

Under the Companies Act, a stock option plan is available by issuing stock acquisition rights.

Generally, a stock option plan may be adopted by a resolution of the board directors. However, if the conditions of such stock acquisition rights are “specially favorable,” a special resolution at a general meeting of shareholders is required. The special resolution must set forth the class and number of shares to be issued or transferred on exercise of the options, the exercise price, the exercise period and other terms of the options.

## **MATERIAL CONTRACTS**

Not applicable.

## **FOREIGN EXCHANGE AND OTHER REGULATIONS**

### **Foreign Exchange**

The Foreign Exchange and Foreign Trade Law of Japan, as amended, and the cabinet orders and ministerial ordinances thereunder (the “Foreign Exchange Regulations”) govern the acquisition and holding of shares of capital stock of ORIX by “exchange nonresidents” and by “foreign investors” (as defined below). The Foreign Exchange Regulations currently in effect do not, however, regulate transactions between exchange nonresidents who purchase or sell shares outside Japan for non-Japanese currencies.

“Exchange nonresidents” are defined as individuals who are not resident in Japan and corporations whose principal offices are located outside Japan. Generally, the branch and other offices of nonresident corporations located within Japan are regarded as residents of Japan and branch and other offices of Japanese corporations located outside Japan are regarded as exchange nonresidents. “Foreign investors” are defined to be (i) individuals who are exchange nonresidents, (ii) corporations which are organized under the laws of foreign countries or whose principal offices are located outside Japan, and (iii) corporations (1) of which 50% or more of their voting rights are held, directly or indirectly, by (i) and/or (ii) or (2) a majority of the officers (or officers having the power of representation) of which are nonresident individuals.

In general, the acquisition of a Japanese company’s stock shares (such as the shares of capital stock of ORIX) by an exchange nonresident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, prior notification or report to the Minister of Finance and any other competent Ministers for an acquisition of this type may be required. While prior notification, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of capital stock of ORIX) for consideration exceeding ¥100 million to an exchange nonresident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial future trader licensed under the Japanese laws.

If a foreign investor acquires shares of a Japanese company listed on a Japanese stock exchange (such as the shares of capital stock of ORIX) or that are traded on an over-the-counter market in Japan and as a result of the acquisition the foreign investor in combination with any existing holdings directly or indirectly holds 10% or more of the issued shares of the relevant company, the foreign investor is, in general, required to report such acquisition to the Minister of Finance and any other competent Ministers by the 15th day of the calendar month following the date of such acquisition. In certain exceptional cases, prior notification is required with respect to such an acquisition.

The acquisition of shares by exchange nonresidents by way of stock split is not subject to the foregoing notification requirements.

Under the Foreign Exchange Regulations, dividends paid on, and the proceeds of sales in Japan of, Shares held by nonresidents of Japan may in general be converted into any foreign currency and repatriated abroad.

### **Large Shareholdings Report**

The Financial Instruments and Exchange Act requires any person who has become, beneficially and solely or jointly, a holder of more than 5% of the total issued shares of capital stock of a company listed on any Japanese financial instruments exchange (such as the shares of capital stock of ORIX) or whose shares are traded on the over-the-counter markets in Japan, to file with the Prime Minister within five business days a report concerning such shareholdings. An alteration report must also be made in respect of any subsequent change of 1% or more in any such holding or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, shares issuable to such person upon exchange of exchangeable securities or exercise of stock acquisition rights are taken into account in determining both the size of such person’s holding and the issuer’s total issued share capital.

### **Filing of Share Acquisition Plan**

The Act on Prohibition of Private Monopolization and Maintenance of Fair Trade requires any company (including a foreign company) which crosses certain domestic sales thresholds and newly acquires a holder of more than 20% or 50% of the total issued voting shares of capital stock (such as the shares of capital stock of ORIX) or the shares of a company (including a foreign company) which meets certain conditions, to file a share acquisition plan concerning such shares with the Fair Trade Commission at least 30 days prior to the closing or the acquisition.

## DIVIDEND POLICY AND DIVIDENDS

ORIX has paid dividends on the Shares on an annual basis in each year since 1967. With the adoption of a “Company with Committees” board model in June 2003, the board of directors has been responsible for setting the annual dividend per common share since the fiscal year ended March 31, 2004. The board of directors approves annual dividends at the board of directors’ meeting customarily held in May of each year. Following such approval, dividends are paid to holders of record as of the preceding March 31. We have implemented an interim dividend starting from the fiscal year ended March 31, 2016 (dividend calculation based on the retained earnings recorded on September 30, 2015).

The following table shows the amount of dividends applicable to fiscal year per share for each of the fiscal years indicated, which amounts are translated into dollars per ADS at the noon buying rate for Japanese yen in New York City for cable transfers in foreign currencies on the relevant dividend payment date as published by the Federal Reserve Bank.

Year ended	Dividends applicable to fiscal year per Share	Translated into dollar per ADS
March 31, 2015 .....	36.00	1.45
March 31, 2016 .....	45.75	2.09
March 31, 2017 .....	52.25	2.39
March 31, 2018 .....	66.00	3.01
March 31, 2019 .....	76.00	3.45

ORIX aims to increase shareholder value by utilizing profits earned from business activities that were secured primarily as retained earnings, to strengthen its business foundation and make investments for future growth. At the same time, ORIX strives to make stable and sustainable distribution of dividends at a level in line with its business performance. In addition, with regards to the decision of whether to buy back shares, ORIX aims to act with flexibility and swiftness while considering various factors such as the adequate level of the Company’s retained earnings, the soundness of its financial condition and external factors such as changes in the business environment, share price and its trend and target performance indicators.

Based on this fundamental policy, the dividend payout ratio for the fiscal year ended March 31, 2019 has been decided at 30%, up 3% from the fiscal year ended March 31, 2018, and the annual dividend is 76.00 yen per share (interim dividend paid was 30.00 yen per share and year-end dividend has been decided at 46.00 yen per share) from 66.00 yen per share in the previous fiscal year.

For the next fiscal year ending March 31, 2020, we expect the dividend payout ratio will be maintained at 30% with a focus on the optimal balance of securing of capital for investment in future profit growth and the making of stable and sustainable distribution of dividends to shareholders. The interim dividend for the next fiscal year is forecasted at 35.00 yen per share. The year-end dividend for the next fiscal year is to be determined.

Pursuant to the amendment to the Act on Special Measures Concerning Taxation, dividends paid to U.S. Holders of Shares or ADSs are generally subject to a Japanese withholding tax. The tax rate can be found in “Item 10 TAXATION, JAPANESE TAXATION—*Shares*.”

## TAXATION

### JAPANESE TAXATION

The following is a summary of the principal Japanese tax consequences for owners of the Shares or ADSs who are nonresident individuals of Japan or non-Japanese corporations without a permanent establishment in

Japan (“nonresident Holders”). The statements regarding Japanese tax laws set forth below are based on the laws in force and as interpreted by the Japanese taxation authorities as of the date hereof and are subject to changes in the applicable Japanese laws or conventions for the avoidance of double taxation occurring after that date. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor and potential investors are advised to consult with their own tax advisors to satisfy themselves as to:

- the overall tax consequences of the acquisition, ownership and disposition of Shares or ADSs, including specifically the tax consequences under Japanese law;
- the laws of the jurisdiction of which they are resident; and
- any tax treaty between Japan and their country of residence.

### *Shares*

Generally, a nonresident Holder is subject to Japanese withholding tax on dividends on Shares or ADSs paid by us. Stock splits are not subject to Japanese income or corporation tax.

Pursuant to the Act on Special Measures Concerning Taxation and the Act on Special Measures Concerning the Securing of Financial Resources for Reconstruction Measures Involving the Great East Japan Earthquake, the Japanese withholding tax rate applicable to dividends on Shares or ADSs paid to nonresident Holders by us is 15.315% for dividends. However, where an individual nonresident Holder who holds 3% or more of the total number of shares issued by us, the withholding tax rate applicable will be 20.42% for dividends. Japan has entered into income tax treaties, conventions and agreements where this withholding tax rate is, in some cases, reduced to a lower percentage for portfolio investors. Nonresident Holders who are entitled under an applicable treaty, convention, or agreement to this reduced Japanese withholding tax rate are required to submit an Application Form for the Income Tax Convention regarding Relief from Japanese Income Tax on Dividends in advance through us to the relevant Japanese tax authority before the payment of dividends. A standing proxy for a nonresident Holder may provide such application service. Nonresident Holders who do not submit an application in advance will be entitled to claim the refund from the relevant Japanese tax authority of those withholding taxes withheld in excess of the rate of an applicable tax treaty.

The Convention between the United States and Japan for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the “Tax Convention”) provides for a maximum rate of Japanese withholding tax which may be imposed on dividends paid to an eligible United States resident not having a permanent establishment in Japan. Under the Tax Convention, the maximum withholding rate is generally limited to 10% of the relevant dividends.

Gains derived from the sale outside Japan of Shares or ADSs by a nonresident Holder, are, in general, not subject to Japanese income or corporation taxes.

Japanese inheritance and gift taxes, at progressive rates, may be payable by an individual who has acquired Shares or ADSs as a legatee, heir or donee.

## **UNITED STATES TAXATION**

The following discussion describes the material U.S. federal income tax consequences of ownership and disposition of Shares or ADSs held as capital assets by U.S. Holders (described below).

This discussion does not describe all of the tax consequences that may be relevant to a U.S. holder in light of the holder’s particular circumstances (including the application of the provisions of the code known as the Medicare contribution tax) or to holders subject to special rules, such as:

- certain financial institutions;
- insurance companies;

- dealers and traders in securities who use a mark-to-market method of tax accounting;
- persons holding Shares or ADSs as part of a hedging transaction, straddle, conversion transaction or other integrated transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- persons subject to the alternative minimum tax;
- tax-exempt entities, including “individual retirement accounts” and “Roth IRAs”;
- regulated investment companies;
- persons that own or are deemed to own 10% or more of the stock of the Company, by vote or value;
- persons holding the shares or ADSs in connection with a trade or business carried on outside the United States; or
- persons who acquired Shares or ADSs pursuant to the exercise of any employee stock option or otherwise as compensation.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding Shares or ADSs and partners in such partnerships should consult their tax advisors as to the particular U.S. federal income tax consequences of holding and disposing of Shares or ADSs.

This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the Tax Convention, changes to any of which subsequent to the date of this annual report may affect the tax consequences described herein. It is also based in part on representations by the depository and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms.

As used herein, the term “U.S. Holder” means a beneficial owner of Shares or ADSs that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

We believe we may have been a passive foreign investment company (a “PFIC”) for the year to which this annual report relates. However, because of uncertainties in the manner of application of the PFIC rules, including uncertainties as to the valuation and proper characterization of certain of our assets as passive or active, our PFIC status is uncertain. In addition, we may be a PFIC in the foreseeable future.

Persons considering the purchase of Shares or ADSs should consult their tax advisors with regard to the PFIC rules described below as well as the application of other U.S. federal income tax laws relevant to their particular situations and any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

In general, a U.S. Holder of ADSs will be treated as the owner of the underlying shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if the U.S. Holder exchanges ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American depository shares are released prior to delivery of shares to the depository (“pre-release”), or intermediaries in the chain of ownership between U.S. Holders and the issuer of the security underlying the American depository shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of American depository shares. Accordingly, the creditability of Japanese taxes, described below, could be affected by actions taken by such parties or intermediaries.

### ***Taxation of Distributions***

Subject to the PFIC rules described below, distributions paid on Shares or ADSs, other than certain pro rata distributions of common shares, will generally be treated as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Assuming that we are a PFIC, dividends paid by us will not be eligible for the preferential dividend tax rate otherwise available to certain non-corporate U.S. Holders. The amount of a dividend will include any amounts withheld by us or our paying agent in respect of Japanese taxes, as discussed above under “Taxation—Japanese Taxation—Shares” The amount of the dividend will be treated as foreign source dividend income to U.S. Holders and will not be eligible for the dividends received deduction generally allowed to U.S. corporations under the Code.

Dividends paid in yen will be included in the income of a U.S. Holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of the U.S. Holder’s (or, in the case of ADSs, the depository’s) receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize a foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have a foreign currency gain or loss if such holder does not convert the amount of such dividend into U.S. dollars on the date of its receipt. Any foreign currency gain or loss resulting from the conversion of the yen will generally be treated as U.S. source ordinary income or loss.

Subject to the PFIC rules described below and to applicable limitations that may vary depending upon the U.S. Holder’s circumstances, and subject to the discussion above regarding concerns expressed by the U.S. Treasury, Japanese taxes withheld from dividends on Shares or ADSs at a rate not exceeding the applicable rate provided for by the Tax Convention will be creditable against the U.S. Holder’s U.S. federal income tax liability. The maximum rate of withholding tax on dividends paid to a U.S. Holder pursuant to the Tax Convention is 10%. As discussed under “Taxation—Japanese Taxation—Shares” above, under current Japanese law, the statutory rate is higher than the maximum Tax Convention rate. Japanese taxes withheld in excess of the rate applicable under the Tax Convention will not be eligible for credit against a U.S. Holder’s federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. The rules governing foreign tax credits are complex and, therefore, U.S. Holders should consult their own tax advisors regarding the availability of foreign tax credits in their particular circumstances. Instead of claiming a credit, U.S. Holders may, upon election, deduct such otherwise creditable Japanese taxes in computing taxable income, subject to generally applicable limitations under U.S. law.

### ***Passive Foreign Investment Company Rules***

If we are a PFIC for any year during a U.S. Holder’s holding period of the Shares or ADSs, and the U.S. Holder has not made a mark-to-market election for the Shares or ADSs, as described below, the holder will be subject to special rules generally intended to eliminate any benefits from the deferral of U.S. federal income tax that a holder could derive from investing in a foreign corporation that does not distribute all of its earnings on a current basis. Upon a disposition of Shares or ADSs (including under certain circumstances, a pledge, and under proposed Treasury regulations, a disposition pursuant to certain otherwise tax-free reorganizations) gain recognized by a U.S. Holder would be allocated ratably over its holding period for the Shares or ADSs. The amounts allocated to the taxable year of the sale or other exchange and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to

tax at the highest rate in effect for individuals or corporations for such year, as appropriate, and an interest charge would be imposed on the resulting tax liability. Similar rules would apply to any distribution in respect of Shares or ADSs to the extent it exceeds 125 percent of the average of the annual distributions on Shares or ADSs received during the preceding three years or the U.S. Holder's holding period, whichever is shorter (any such distribution, an "excess distribution"). Any loss realized on a disposition of Shares or ADSs will be capital loss, and will be long-term capital loss if the U.S. Holder held the Shares or ADSs for more than one year. The amount of the loss will equal the difference between the U.S. Holder's tax basis in the Shares or ADSs disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. Such loss will generally be U.S.-source loss for foreign tax credit purposes.

If we are a PFIC for any year during which a U.S. Holder holds Shares or ADSs, we generally will continue to be treated as a PFIC with respect to the U.S. Holder for all succeeding years during which the U.S. Holder holds Shares or ADSs, even if we cease to meet the threshold requirements for PFIC status. U.S. Holders should consult their tax advisers regarding the potential availability of a "deemed sale" election that would allow them to eliminate this continuing PFIC status.

If we are a PFIC, U.S. Holders will be deemed to own their proportionate shares of our subsidiaries that are PFICs and will be subject to U.S. federal income tax according to the rules described above on (i) certain distributions by subsidiary PFICs and (ii) a disposition of shares of a subsidiary PFIC, even though holders have not received the proceeds of those distributions or dispositions directly.

If the Shares or ADSs are "regularly traded" on a "qualified exchange," a U.S. Holder of Shares or ADSs would be eligible to make a mark-to-market election that would result in tax treatment different from the general tax treatment for PFICs described above. The Shares or ADSs will be treated as "regularly traded" in any calendar year in which more than a *de minimis* quantity of the Shares or ADSs are traded on a qualified exchange for at least 15 days during each calendar quarter. A "qualified exchange" includes the NYSE, on which our ADSs are traded, and a foreign exchange that is regulated by a governmental authority in which the exchange is located and with respect to which certain other requirements are met. The Internal Revenue Service ("IRS") has not yet identified specific foreign exchanges that are "qualified" for this purpose. Under current law, the mark-to-market election may be available to holders of ADSs because the ADSs will be listed on the NYSE, although there can be no assurance that the ADSs will be "regularly traded" for purposes of the mark-to-market election. However, even if a U.S. Holder makes a mark-to-market election with respect to our Shares or ADSs, a U.S. Holder will not be able to make a mark-to-market election with respect to any of our subsidiaries that are PFICs. U.S. Holders should consult their tax advisers regarding the availability and advisability of making a mark-to-market election in their particular circumstances. In particular, U.S. Holders should consider carefully the impact of a mark-to-market election with respect to their ADSs given that we may have subsidiary PFICs for which a mark-to-market election may not be available.

If a U.S. Holder is eligible and makes the mark-to-market election, the U.S. Holder will include each year, as ordinary income, the excess, if any, of the fair market value of the Shares or ADSs at the end of the taxable year over their adjusted basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted basis of the Shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). If a U.S. Holder validly makes the election, the holder's basis in the Shares or ADSs will be adjusted to reflect any such income or loss amounts. Any gain recognized on the sale or other disposition of Shares or ADSs in a year when the Company is a PFIC will be treated as ordinary income and any loss will be treated as an ordinary loss (but only to the extent of the net amount of income previously included as a result of the mark-to-market election).

We do not intend to comply with the requirements necessary for a U.S. Holder to make a "qualified electing fund" election, which is sometimes available to shareholders of a PFIC.

Special rules apply to determine the foreign tax credit with respect to withholding taxes imposed on excess distributions on shares of a PFIC. These rules could limit the amount of the foreign tax credit that would otherwise have been available.

If a U.S. Holder owns Shares or ADSs during any year in which we are a PFIC, the U.S. Holder will generally be required to file IRS Form 8621 with its federal income tax return with respect to us and with respect to each of our subsidiaries that is a PFIC, subject to certain exceptions.

We urge U.S. Holders to consult their tax advisors concerning our status as a PFIC and the tax considerations relevant to an investment in a PFIC, including the availability and consequences of making the mark-to-market election discussed above.

### ***Backup Withholding and Information Reporting***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders who are individuals (and certain entities closely held by individuals) may be required to report information relating to their ownership of an interest in certain foreign financial assets, including stock of a non-U.S. person, generally on Form 8938, subject to exceptions (including an exception for financial assets held through a U.S. financial institution). U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to the Shares or ADSs.

## **DOCUMENTS ON DISPLAY**

We are subject to the reporting requirements of the Act. In accordance with these requirements, we file annual reports on Form 20-F and furnish periodic reports on Form 6-K with the Commission.

These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's Public Reference Room at Room 1580, 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a website at <http://www.sec.gov> that contains reports and proxy information regarding issuers that file electronically with the Commission via EDGAR.

We are currently exempt from the rules under the Act that prescribe the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Act. We are not required under the Act to publish financial statements as frequently or as promptly as are U.S. companies subject to the Act. We will, however, continue to furnish our shareholders with annual reports containing audited financial statements and will issue press releases containing unaudited interim financial information as well as such other reports as may from time to time be authorized by our board of directors or as may be otherwise required.

## Item 11. Quantitative and Qualitative Disclosures about Market Risk

### MARKET RISKS

Our primary market risk exposures are interest rate risk, exchange rate risk and risk of market prices in stocks. We enter into derivative transactions to hedge interest rate risk and exchange rate risk. Our risk management for market risk exposure and derivative transactions are described under “Item 5. Operating and Financial Review and Prospects—Risk Management.”

The following quantitative information about the market risk of our financial instruments does not include information about financial instruments to which the requirements under ASC 825 (“Financial Instruments”) do not apply, such as investment in direct financing leases, investment in operating leases, and insurance contracts. As a result, the following information does not present all the risks of our financial instruments. We omitted the disclosure of financial instruments for trading purposes because the amount is immaterial.

#### *Interest Rate Risk*

Many of our assets and liabilities are composed of floating and fixed rate assets and liabilities. Movements in market interest rates affect gains and losses in those assets and liabilities. Accordingly, we endeavor to reduce interest rate risk through techniques such as funding interest rate bearing assets through liabilities with similar interest rate characteristics, e.g., financing floating-rate assets with floating-rate liabilities and financing fixed-rate assets with fixed-rate liabilities.

We manage assets and liabilities through various methods including conducting gains and losses impact analysis and balance sheet fair value analysis when market interest rates fluctuate, constructing balance sheets for fixed rate assets and liabilities, and those for floating rate, testing interest rate sensitivities.

The table below of interest rate sensitivity for financial instruments summarizes installment loans, investment in securities (floating and fixed rate) and long- and short-term debt. These instruments are further classified under fixed or floating rates. For such items, the principal collection and repayment schedules and the weighted average interest rates for collected and repaid portions are disclosed. Concerning interest rate swaps, under derivative instruments, the estimated notional principal amount for each contractual period and the weighted average of swap rates are disclosed. The average interest rates of financial instruments as of March 31, 2019 were: 4.1% for installment loans, 2.0% for investment in securities (floating and fixed rate), 1.7% for long- and short-term debt and 0.2% for deposits. As of March 31, 2019, the average payment rate of interest rate swaps was 1.8% and the average receipt rate was (0.1%). The average interest rates of financial instruments as of March 31, 2018 were: 3.9% for installment loans, 2.1% for investment in securities (floating and fixed rate), 1.5% for long- and short-term debt and 0.2% for deposits. As of March 31, 2018, the average payment rate of interest rate swaps was 1.2% and the average receipt rate was 0.2%. As of March 31, 2019, there was no material change in the balance or in the average interest rate of financial instruments from March 31, 2018. The table below shows our interest rate risk exposure and the results of our interest rate sensitivity analysis.

**INTEREST RATE SENSITIVITY  
NONTRADING FINANCIAL INSTRUMENTS**

	Expected Maturity Date						Total	March 31, 2019 Estimated Fair Value
	Years ending March 31,					Thereafter		
	2020	2021	2022	2023	2024			
	(Millions of yen)							
<b>Assets:</b>								
Installment loans (fixed rate) . . . .	¥ 247,902	¥115,104	¥ 98,544	¥ 68,512	¥ 51,666	¥ 406,438	¥ 988,166	¥ 977,308
Average interest rate . . . . .	4.9%	7.6%	7.3%	6.9%	6.9%	4.5%	5.5%	—
Installment loans (floating rate) . .	¥ 235,159	¥230,217	¥189,737	¥159,930	¥193,941	¥1,264,104	¥2,273,088	¥ 2,238,212
Average interest rate . . . . .	3.7%	4.4%	5.4%	5.5%	4.5%	2.5%	3.4%	—
Investment in securities (fixed rate) . . . . .	¥ 58,534	¥ 56,950	¥ 33,652	¥ 38,652	¥ 54,229	¥1,027,631	¥1,269,648	¥ 1,323,113
Average interest rate . . . . .	0.8%	0.8%	1.2%	1.8%	1.3%	1.9%	1.7%	—
Investment in securities (floating rate) . . . . .	¥ 5,586	¥ 6,037	¥ 3,010	¥ 6,979	¥ 5,868	¥ 56,673	¥ 84,153	¥ 85,457
Average interest rate . . . . .	7.0%	5.8%	3.8%	5.4%	6.5%	5.8%	5.8%	—
<b>Liabilities:</b>								
Short-term debt . . . . .	¥ 309,549	¥ 0	¥ 0	¥ 0	¥ 0	¥ 0	¥ 309,549	¥ 309,549
Average interest rate . . . . .	2.5%	—	—	—	—	—	2.5%	—
Deposits . . . . .	¥1,273,408	¥414,053	¥109,011	¥ 63,274	¥ 67,995	¥ 0	¥1,927,741	¥ 1,928,296
Average interest rate . . . . .	0.2%	0.3%	0.2%	0.3%	0.3%	—	0.2%	—
Long-term debt (fixed rate) . . . . .	¥ 233,441	¥321,240	¥300,778	¥264,155	¥215,248	¥ 525,261	¥1,860,123	¥ 1,796,774
Average interest rate . . . . .	1.6%	1.5%	1.7%	1.3%	1.6%	1.5%	1.5%	—
Long-term debt (floating rate) . . . .	¥ 349,270	¥268,859	¥200,776	¥248,406	¥261,532	¥ 997,256	¥2,326,099	¥ 2,402,567
Average interest rate . . . . .	2.2%	1.9%	2.2%	1.7%	1.8%	1.5%	1.8%	—

**NONTRADING DERIVATIVE FINANCIAL INSTRUMENTS**

	Expected Maturity Date						Total	March 31, 2019 Estimated Fair Value
	Years ending March 31,					Thereafter		
	2020	2021	2022	2023	2024			
	(Millions of yen)							
<b>Interest rate swaps:</b>								
Notional amount (floating to fixed) . . . . .	¥ 32,304	¥ 41,429	¥ 46,544	¥ 52,914	¥ 15,198	¥ 315,647	¥ 504,036	¥ (17,427)
Average pay rate . . . . .	0.8%	2.9%	2.4%	2.0%	2.8%	1.9%	2.0%	—
Average receive rate . . . . .	0.4%	0.5%	0.3%	0.1%	0.2%	(0.3%)	(0.1%)	—
Notional amount (floating to floating) . . . . .	¥ 55,495	¥ 0	¥ 0	¥ 0	¥ 0	¥ 0	¥ 55,495	¥ 127
Average pay rate . . . . .	0.1%	—	—	—	—	—	0.1%	—
Average receive rate . . . . .	(0.1%)	—	—	—	—	—	(0.1%)	—

The above table excludes purchased loans, which are exposed to interest rate risk, because it is difficult to estimate the timing and extent of collection of such loans. Purchased loans are deteriorated credit loans which we acquire at a discount and for which full collection of all contractually required payments from the debtors is unlikely. The total book value of our purchased loans as of March 31, 2019 was ¥16,416 million.

Long-term debt (floating rate) in the table above includes the amount of the ¥94,000 million subordinated syndicated loan (hybrid loan, whose maturity date is year 2076) conducted in fiscal 2017, of which ¥60,000 million and ¥34,000 million can be repaid after 5 years and 7 years, respectively.

We are also exposed to interest rate risks in our life insurance businesses, because revenues from life insurance related investment income fluctuates based on changes in market interest rates, while life insurance premiums and costs do not.

### ***Exchange Rate Risk***

We hold foreign currency-denominated assets and liabilities and deal in foreign currencies. It is our policy to match balances of foreign currency-denominated assets and liabilities as a means of hedging exchange rate risk. There are, however, cases where a certain part of our foreign currency-denominated investments are not hedged for such risk.

We have identified all positions including retained earnings accumulated in foreign currencies in our overseas subsidiaries, which is translated to Japanese yen upon consolidation, that are subject to exchange rate risk. ORIX shareholders' equity is subject to exchange rate risk arising from such translations. Other positions, such as potential losses in future earnings, are calculated using several hypothetical scenarios based on 10% changes in the relevant currencies. Based on these scenarios, exchange losses in future earnings were estimated to be ¥570 million as of March 31, 2018. The largest of such losses were estimated in scenarios where the euro appreciated 10% against the U.S. dollar from the rate in effect on March 31, 2018. There were no exchange losses in future earnings as of March 31, 2019.

### ***Risk of Market Prices in Stocks***

We have marketable stocks that are subject to price risk arising from changes in their market prices. Our shareholders' equity and net income bear risks due to changes in the market prices of these securities. To manage these risk of market price fluctuations, we assume a scenario of a 10% uniform downward movement in stock prices compared with stock prices as of March 31, 2018 and 2019, respectively, and under such circumstances estimate ¥5,360 million and ¥4,018 million decrease in the fair value of our equity securities as of March 31, 2018 and 2019.

## **Item 12. Description of Securities Other than Equity Securities**

### **FEES AND PAYMENTS RELATING TO OUR AMERICAN DEPOSITARY SHARES**

#### **SCHEDULE OF FEES AND CHARGES**

Citibank N.A., or the Depositary, serves as the depositary for our ADSs. As an ADS holder, you will be required to pay the following service fees to the Depositary:

<b>Service</b>	<b>Fee</b>
Issuance of ADSs upon deposit of Shares . . . . .	Up to 5¢ per ADS issued
Cancellation of ADSs and delivery of deposited securities . . . . .	Up to 5¢ per ADS canceled
Exercise of rights to purchase additional ADSs . . . . .	Up to 5¢ per ADS issued
Distribution of cash proceeds upon sale of rights and other entitlements . . .	Up to 2¢ per ADS held

As an ADS holder you will also be responsible to pay various fees and expenses incurred by the Depositary and various taxes and governmental charges such as:

- Taxes, including applicable interest and penalties, and other governmental charges;
- Fees for the transfer and registration of Shares charged by the registrar and transfer agent for the Shares in Japan (i.e., upon deposit and withdrawal of Shares);
- Expenses incurred for converting foreign currency into U.S. dollars;
- Expenses for cable, telex and fax transmissions and for delivery of securities;
- Fees and expenses of the Depositary incurred in connection with compliance with exchange control regulations and regulatory requirements applicable to the Shares or ADSs; and
- Fees and expenses of the Depositary in delivering deposited securities.

We have agreed to pay some other charges and expenses of the depositary bank. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary bank. You will receive prior notice of these changes.

#### **PAYMENTS TO ORIX FROM THE DEPOSITARY**

The Depositary has agreed to reimburse us for certain expenses we incur in connection with our ADR program. These reimbursable expenses include investor relations expenses, and proxy voting and related expenses. In fiscal 2019, this amount was \$80,000.

## PART II

### Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

### Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

In order to improve the convenience and liquidity of our securities on exchanges where our shares are listed, in accordance with “Action Plan for Consolidating Trading Units” issued in November 2007 by the securities exchanges in Japan, the Company implemented a 10-for-1 stock split of shares of its common stock on March 31, 2013, pursuant to which one hundred shares constitutes one unit as of April 1, 2013. The change resulted in no substantive change in trading unit price levels. As a result of the stock split, the ratio of ADSs to underlying shares changed from 0.5 underlying shares per one ADS to five underlying shares per one ADS. The change has not affected ADS unit price levels or other material ADS terms.

### Item 15. Controls and Procedures

As of March 31, 2019, the ORIX Group, under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and the principal financial officer, performed an evaluation of the effectiveness of the ORIX Group’s disclosure controls and procedures (as defined in Rule 13a-15 (e) under the Securities Exchange Act of 1934, as amended). The Company’s management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which by their nature can provide only reasonable assurance regarding the achievement of management’s control objectives. Based on this evaluation, the Company’s Chief Executive Officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level for gathering, analyzing and disclosing the information the Company is required to disclose in the reports it files under the Act, within the time periods specified in the SEC’s rules and forms. There has been no change in the ORIX Group’s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### Management’s report on internal control over financial reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). The internal control over financial reporting process of the ORIX Group was designed by, or under the supervision of, the Company’s Chief Executive Officer and principal financial officer and effected by the Company’s board of directors, management and other personnel, to provide reasonable assurance to the Company’s management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the ORIX Group;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States, and that receipts and expenditures of the ORIX Group are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the ORIX Group’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.

The Company's management assessed the effectiveness of our internal control over financial reporting as of March 31, 2019 by using the criteria set forth in "Internal Control-Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company's management concluded that our internal control over financial reporting was effective as of March 31, 2019.

The effectiveness of our internal control over financial reporting has been audited by KPMG AZSA LLC, an independent registered public accounting firm, who also audited our consolidated financial statements as of and for each of the years in the three-year period ended March 31, 2019, as stated in their attestation report which is included in Item 18 (page F-3).

#### **Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that Eiko Tsujiyama is an "audit committee financial expert," within the meaning of the current rules of the U.S. Securities and Exchange Commission. Eiko Tsujiyama is "independent" as required by Section 303A.06 of the New York Stock Exchange Listed Company Manual.

#### **Item 16B. Code of Ethics**

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. Pursuant to our Code of Ethics, last amended in April 2014, officers of ORIX covered by ORIX's Code of Ethics are required to promptly bring to the attention of the Company's Executive Officer of the Group Compliance Department any information concerning any violations of the Code of Ethics.

#### **Item 16C. Principal Accountant Fees and Services**

##### **FEES PAID TO PRINCIPAL ACCOUNTANT**

##### **AUDIT FEES**

In fiscal 2018 and 2019, KPMG (including Japanese and overseas affiliates of KPMG AZSA LLC) billed us ¥2,976 million and ¥3,106 million, respectively, for direct audit fees.

##### **AUDIT-RELATED FEES**

In fiscal 2018 and 2019, KPMG billed us ¥119 million and ¥175 million, respectively, for audit-related services, including attestation, assurance and related services that are not reported under audit fees.

##### **TAX FEES**

In fiscal 2018 and 2019, KPMG billed us ¥155 million and ¥301 million, respectively, for tax-related services, including tax compliance and tax advice.

##### **ALL OTHER FEES**

In fiscal 2018, there were no other fees which KPMG billed us. In fiscal 2019, KPMG billed us ¥10 million for other products and services, which primarily consisted of advisory services.

## AUDIT COMMITTEE'S PRE-APPROVAL POLICIES AND PROCEDURES

In terms of audit services, every year the independent registered public accounting firm draws up its annual audit plan and annual budget, which is evaluated by ORIX's Accounting Department. Subsequently, pre-approval is obtained from the Audit Committee.

Non-audit services are generally not obtained from the independent registered public accounting firm or its affiliates. In situations where ORIX must engage the non-audit services of the independent registered public accounting firm, preapproval is obtained from the Audit Committee on a case-by-case basis only after the reason has been specified.

### Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

### Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Year ended March 31, 2019	(a) Total number of Shares Purchased	(b) Average Price Paid per Share	(c) Total number of Shares Purchased as Part of Publicly Announced Plans or Programs*	(d) Maximum number (or Approximate Yen Value) of Shares that May Yet be Purchased Under the Plans or Programs*
April 2018	30	¥1,892	0	0
May 2018	10	1,925	0	0
June 2018	50	1,819	0	0
July 2018	100	1,822	0	0
August 2018	20	1,897	0	0
September 2018	60	1,781	0	0
October 2018	100	1,833	0	0
November 2018	0	0	0	0
December 2018	40	1,726	0	0
January 2019	20	1,688	0	0
February 2019	110	1,638	0	0
March 2019	30	1,572	0	0
<b>Total</b>	<u>570</u>	<u>¥1,767</u>	<u>0</u>	<u>0</u>

\* There is no plan or program to purchase Shares announced in fiscal 2019 and up until the filing of this annual report.

### Item 16F. Change in Registrant's Certifying Accountant.

Not applicable.

### Item 16G. Corporate Governance

Our ADSs have been listed on the New York Stock Exchange, or NYSE, since 1998. As an NYSE-listed company, we are required to comply with certain corporate governance standards under Section 303A of the NYSE Listed Company Manual. However, as a foreign private issuer, we are permitted to follow home country practice in lieu of certain provisions of Section 303A.

Our corporate governance practices differ in certain significant respects from those that U.S. companies must adopt in order to maintain a NYSE listing and, in accordance with Section 303A.11 of the NYSE's Listed Company Manual, we provide a brief, general summary of such differences.

The composition of our board of directors and its committees differs significantly in terms of independence from the composition requirements for boards and committees that U.S. companies must satisfy in order to maintain a NYSE listing. We are not required to meet the NYSE's independence requirements for individuals on our board of directors or our Nominating, Audit, and Compensation Committees. Under Japanese law, a majority of the membership on the committees must be "outside directors"—a Japanese law concept that shares similarities with the U.S. concept of "independent director" where the company is a "Company with Nominating Committee, etc." However, we are not required to include on our board of directors a majority of outside directors, nor are we required to compose our committees exclusively from outside directors. Six out of our 12 directors are outside directors. Under the Companies Act, the directors who compose the Audit Committee are not permitted to be executive officers or executive directors of the Company or its subsidiaries, or managers, employees or accounting advisors of the Company's subsidiaries. Our Audit Committee members meet this requirement. We have adopted a written charter for our Compensation Committee that addresses committee member appointment and removal, committee structure and operations, and reporting to the board. However, our Compensation Committee has not retained, or obtained the advice of, a compensation consultant, independent legal counsel or other adviser.

Under the Companies Act, an outside director is a director (i) who is not an executive director, executive officer (*shikko-yaku*), manager or any other kind of employee (an "Executive Director, etc.") of the Company or its subsidiaries and who has not been an Executive Director, etc. of the Company or its subsidiaries in the past 10 years; (ii) who has not been an Executive Director, etc. of the Company or its subsidiaries for the past 10 years from the assumptions of any of the position of director, accounting advisor, or auditor; (iii) who is not a person with a controlling stake in the management of the Company, such as a holder of more than 50 percent of the Company's shares, etc., or has not been an Executive Director, etc. of the parent company of the Company; (iv) who has not been an Executive Director, etc. of any other company with same parent company; and (v) who has not been the spouse or the kin (within the second degree) of any director, manager or any other kind of important employee of the Company, or a person with a controlling stake in the management of the Company, such as a holder of more than 50 percent of the Company's shares etc.

In addition to differences in composition requirements for our board of directors and its committees, we are not required to:

- make publicly available one or more documents that summarize all aspects of our corporate governance guidelines or prepare a written code that states the objectives, responsibilities, and performance evaluation of our Nominating, Audit and Compensation Committees in a manner that satisfies the NYSE's requirements;
- adopt a code of business conduct and ethics for our directors, officers, and employees that addresses fully the topics necessary to satisfy the NYSE's requirements;
- hold regularly scheduled executive sessions for our outside directors;
- obtain shareholder approval for all equity compensation plans for employees, directors or executive officers of ORIX or for material revisions to any such plans;
- provide the compensation committee with authority to obtain or retain the advice of a compensation adviser only after taking into consideration all factors relevant to determining the adviser's independence from management.

## PART III

### Item 17. Financial Statements

ORIX has elected to provide financial statements and related information pursuant to Item 18.

### Item 18. Financial Statements

See pages F-1 through F-134.

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, 2018 and 2019 (page F-4 to F-5);
- (b) Consolidated Statements of Income for the years ended March 31, 2017, 2018 and 2019 (page F-6 to F-7);
- (c) Consolidated Statements of Comprehensive Income for the years ended March 31, 2017, 2018 and 2019 (page F-8);
- (d) Consolidated Statements of Changes in Equity for the years ended March 31, 2017, 2018 and 2019 (page F-9 to F-10);
- (e) Consolidated Statements of Cash Flows for the years ended March 31, 2017, 2018 and 2019 (page F-11);
- (f) Notes to Consolidated Financial Statements (page F-12 to F-133);
- (g) Schedule II.—Valuation and Qualifying Accounts and Reserves (page F-134).

## 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 26, 2018 (Incorporated by reference from the annual report on Form 20-F filed on June 28, 2018, commission file number 001-14856).
Exhibit 1.2	Regulations of the Board of Directors of ORIX Corporation, as amended on July 21, 2017 (Incorporated by reference from the annual report on Form 20-F filed on June 28, 2018, commission file number 001-14856).
Exhibit 1.3	Share Handling Regulations of ORIX Corporation, as amended on May 27, 2016 (Incorporated by reference from the annual report on Form 20-F filed on June 28, 2018, commission file number 001-14856).
Exhibit 2.1	Description of American Depositary Shares of ORIX Corporation, (Incorporated by reference from the registration statement on Form F-3 ASR filed on July 2, 2009, commission file number 333-160410).
Exhibit 2.2	Deposit Agreement, dated September 14, 1998, by and among ORIX Corporation, Citibank, N.A., as Depository, and the Holders and Beneficial Owners of American Depositary Shares Evidenced by American Depositary Receipts (Incorporated by reference from the registration statement on Form F-3 ASR filed on July 2, 2009, commission file number 333-160410).
Exhibit 8.1	List of subsidiaries and affiliates.
Exhibit 11.1	Code of Ethics, as amended on April 18, 2014.
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 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 15.1	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.

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.



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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors  
ORIX Corporation

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of ORIX Corporation (a Japanese corporation) and its subsidiaries (the “Company”) as of March 31, 2019 and 2018, 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, 2019, and the related notes and financial statement schedule II (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of March 31, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated June 25, 2019 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

KPMG AZSA LLC

We have served as the Company’s auditor since 1985.

Tokyo, Japan

June 25, 2019

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors

ORIX Corporation

### Opinion on Internal Control Over Financial Reporting

We have audited ORIX Corporation (a Japanese corporation) and subsidiaries' (the "Company") internal control over financial reporting as of March 31, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of March 31, 2019 and 2018, 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, 2019, and the related notes and financial statement schedule II (collectively, the "consolidated financial statements"), and our report dated June 25, 2019 expressed an unqualified opinion on those consolidated financial statements.

### Basis for Opinion

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. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

### Definition and Limitations of Internal Control Over Financial Reporting

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.

KPMG AZSA LLC  
Tokyo, Japan  
June 25, 2019

**CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2018 AND 2019**

**ORIX Corporation and Subsidiaries**

	Millions of yen	
	2018	2019
<b>ASSETS</b>		
Cash and Cash Equivalents . . . . .	¥ 1,321,241	¥ 1,161,032
Restricted Cash . . . . .	83,876	122,548
Investment in Direct Financing Leases . . . . .	1,194,888	1,155,632
Installment Loans . . . . .	2,823,769	3,277,670
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2018 . . . . .	¥17,260 million	
March 31, 2019 . . . . .	¥38,671 million	
Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses . . . . .	(54,672)	(58,011)
Investment in Operating Leases . . . . .	1,344,926	1,335,959
Investment in Securities . . . . .	1,729,455	1,928,916
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2018 . . . . .	¥37,631 million	
March 31, 2019 . . . . .	¥27,367 million	
Property under Facility Operations . . . . .	434,786	441,632
Investment in Affiliates . . . . .	591,363	842,760
Trade Notes, Accounts and Other Receivable . . . . .	294,773	280,590
Inventories . . . . .	111,001	115,695
Office Facilities . . . . .	112,962	108,390
Other Assets . . . . .	1,437,614	1,462,104
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2018 . . . . .	¥15,008 million	
March 31, 2019 . . . . .	¥12,449 million	
Total Assets . . . . .	¥11,425,982	¥12,174,917

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

	Millions of yen	
	2018	2019
Cash and Cash Equivalents . . . . .	¥ 4,553	¥ 4,437
Investment in Direct Financing Leases (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses) . . . . .	43,942	15,058
Installment Loans (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses) . . . . .	36,991	185,988
Investment in Operating Leases . . . . .	124,998	82,405
Property under Facility Operations . . . . .	108,115	203,933
Investment in Affiliates . . . . .	52,450	52,079
Other . . . . .	74,645	100,101
	¥445,694	¥644,001

**CONSOLIDATED BALANCE SHEETS—(Continued)**  
**AS OF MARCH 31, 2018 AND 2019**

**ORIX Corporation and Subsidiaries**

	Millions of yen	
	2018	2019
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Short-term Debt .....	¥ 306,754	¥ 309,549
Deposits .....	1,757,462	1,927,741
Trade Notes, Accounts and Other Payable .....	262,301	293,480
Policy Liabilities and Policy Account Balances .....	1,511,246	1,521,355
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2018 .....	¥444,010 million	
March 31, 2019 .....	¥360,198 million	
Income Taxes:		
Current .....	18,798	42,010
Deferred .....	348,149	313,833
Long-term Debt .....	3,826,504	4,186,222
Other Liabilities .....	588,474	617,746
Total Liabilities .....	8,619,688	9,211,936
Redeemable Noncontrolling Interests .....	7,420	9,780
Commitments and Contingent Liabilities		
Equity:		
Common stock:	220,961	221,111
Authorized: 2,590,000,000 shares		
Issued:		
March 31, 2018 1,324,495,728 shares		
March 31, 2019 1,324,629,128 shares		
Additional Paid-in Capital .....	267,291	257,625
Retained Earnings .....	2,315,283	2,555,585
Accumulated Other Comprehensive Income (Loss) .....	(45,566)	(61,343)
Treasury Stock, at Cost:	(75,545)	(75,904)
March 31, 2018 44,494,856 shares		
March 31, 2019 44,667,776 shares		
ORIX Corporation Shareholders' Equity .....	2,682,424	2,897,074
Noncontrolling Interests .....	116,450	56,127
Total Equity .....	2,798,874	2,953,201
Total Liabilities and Equity .....	¥11,425,982	¥12,174,917

Notes 1: The Company's shares held through the Board Incentive Plan Trust (1,651,443 shares as of March 31, 2018 and 1,823,993 shares as of March 31, 2019) are included in the number of treasury stock shares as of March 31, 2018 and 2019.

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

	Millions of yen	
	2018	2019
Short-term Debt .....	¥ 0	¥ 580
Trade Notes, Accounts and Other Payable .....	1,102	7,339
Long-term Debt .....	263,973	418,631
Other .....	8,047	16,480
	¥273,122	¥443,030

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

**CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED MARCH 31, 2017, 2018 AND 2019**

**ORIX Corporation and Subsidiaries**

	Millions of yen		
	2017	2018	2019
Revenues:			
Finance revenues . . . . .	¥ 211,852	¥ 228,252	¥ 242,893
Gains on investment securities and dividends . . . . .	30,328	43,302	15,958
Operating leases . . . . .	398,655	379,665	413,918
Life insurance premiums and related investment income . . . . .	295,940	351,590	347,136
Sales of goods and real estate . . . . .	1,015,249	1,079,052	596,165
Services income . . . . .	726,635	780,910	818,794
Total revenues . . . . .	<u>2,678,659</u>	<u>2,862,771</u>	<u>2,434,864</u>
Expenses:			
Interest expense . . . . .	72,910	76,815	93,337
Costs of operating leases . . . . .	243,537	252,327	257,321
Life insurance costs . . . . .	200,158	255,070	246,533
Costs of goods and real estate sold . . . . .	928,794	1,003,509	535,261
Services expense . . . . .	451,277	482,796	508,320
Other (income) and expense, net . . . . .	(4,396)	429	1,301
Selling, general and administrative expenses . . . . .	418,746	431,594	437,028
Provision for doubtful receivables and probable loan losses . . . . .	22,667	17,265	22,525
Write-downs of long-lived assets . . . . .	9,134	5,525	2,418
Write-downs of securities . . . . .	6,608	1,246	1,382
Total expenses . . . . .	<u>2,349,435</u>	<u>2,526,576</u>	<u>2,105,426</u>
Operating Income . . . . .	329,224	336,195	329,438
Equity in Net Income of Affiliates . . . . .	26,520	50,103	32,978
Gains on Sales of Subsidiaries and Affiliates and Liquidation Losses, net . . . . .	63,419	49,203	33,314
Bargain Purchase Gain . . . . .	5,802	0	0
Income before Income Taxes . . . . .	424,965	435,501	395,730
Provision for Income Taxes . . . . .	144,039	113,912	68,691
Net Income . . . . .	<u>280,926</u>	<u>321,589</u>	<u>327,039</u>
Net Income Attributable to the Noncontrolling Interests . . . . .	7,255	8,002	2,890
Net Income Attributable to the Redeemable Noncontrolling Interests . . . . .	432	452	404
Net Income Attributable to ORIX Corporation Shareholders . . . . .	<u>¥ 273,239</u>	<u>¥ 313,135</u>	<u>¥ 323,745</u>

- Notes: 1. Revenues from guarantees in the consolidated statements of income have been reclassified from “Services income” to “Finance revenues” from fiscal 2019. This change aims to reflect revenue structure of the Company and its subsidiaries more appropriately accompanying the adoption of ASC606 (“Revenue from Contracts with Customers”). Corresponding to this change, the presented amounts in the consolidated statements of income for the previous fiscal year have also been reclassified retrospectively to conform to the presentation for fiscal 2019.
2. Accounting Standards Update 2016-01 (“Recognition and Measurement of Financial Assets and Financial Liabilities”—ASC 825-10 (“Financial Instruments—Overall”)) has been applied since April 1, 2018. The unrealized change in fair value of investment in equity securities has been included in “Gains on investment securities and dividends” since April 1, 2018 for this application.

**CONSOLIDATED STATEMENTS OF INCOME—(Continued)**  
**FOR THE YEARS ENDED MARCH 31, 2017, 2018 AND 2019**

**ORIX Corporation and Subsidiaries**

	Yen		
	2017	2018	2019
Amounts per Share of Common Stock for Income Attributable to ORIX Corporation Shareholders:			
Basic:			
Net Income Attributable to ORIX Corporation Shareholders . . . . .	¥208.88	¥244.40	¥252.92
Diluted:			
Net Income Attributable to ORIX Corporation Shareholders . . . . .	¥208.68	¥244.15	¥252.70
Cash Dividends . . . . .	46.75	56.25	69.00

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, 2017, 2018 AND 2019**

**ORIX Corporation and Subsidiaries**

	Millions of yen		
	2017	2018	2019
Net Income .....	¥280,926	¥321,589	¥327,039
Other comprehensive income (loss), net of tax:			
Net change of unrealized gains (losses) on investment in securities .....	(14,926)	(22,834)	10,215
Net change of debt valuation adjustments .....	0	0	231
Net change of defined benefit pension plans .....	7,670	(2,962)	(7,346)
Net change of foreign currency translation adjustments .....	(5,968)	(1,955)	(11,537)
Net change of unrealized gains (losses) on derivative instruments .....	326	779	(4,118)
Total other comprehensive income (loss) .....	(12,898)	(26,972)	(12,555)
Comprehensive Income .....	268,028	294,617	314,484
Comprehensive Income Attributable to the Noncontrolling Interests .....	4,276	6,433	2,784
Comprehensive Income Attributable to the Redeemable Noncontrolling Interests .....	374	36	730
Comprehensive Income Attributable to ORIX Corporation Shareholders . . . .	¥263,378	¥288,148	¥310,970

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, 2017, 2018 AND 2019**

**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 gains (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 (losses) 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>	¥220,524	¥268,138	¥2,077,474	¥(21,270)	¥(37,168)	¥2,507,698	¥139,927	¥2,647,625
Contribution to subsidiaries						0	13,830	13,830
Transaction with noncontrolling interests		(972)		(1)		(973)	(35,522)	(36,495)
Comprehensive income, net of tax:								
Net income			313,135			313,135	8,002	321,137
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				(22,746)		(22,746)	(88)	(22,834)
Net change of defined benefit pension plans				(2,984)		(2,984)	22	(2,962)
Net change of foreign currency translation adjustments				(2)		(2)	(1,537)	(1,539)
Net change of unrealized gains (losses) on derivative instruments				745		745	34	779
Total other comprehensive income (loss)						(24,987)	(1,569)	(26,556)
Total comprehensive income						288,148	6,433	294,581
Cash dividends			(72,757)			(72,757)	(8,218)	(80,975)
Exercise of stock options	437	219				656	0	656
Acquisition of treasury stock					(39,110)	(39,110)	0	(39,110)
Disposal of treasury stock		(476)			733	257	0	257
Adjustment of redeemable noncontrolling interests to redemption value			(1,876)			(1,876)	0	(1,876)
Reclassification of change in accounting standards			(692)	692		0	0	0
Other, net		382	(1)			381	0	381
<b>Balance at March 31, 2018</b>	¥220,961	¥267,291	¥2,315,283	¥(45,566)	¥(75,545)	¥2,682,424	¥116,450	¥2,798,874

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY—(Continued)**  
**FOR THE YEARS ENDED MARCH 31, 2017, 2018 AND 2019**

**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, 2018</b> .....	¥220,961	¥267,291	¥2,315,283	¥(45,566)	¥(75,545)	¥2,682,424	¥116,450	¥2,798,874
Cumulative effect of adopting Accounting Standards Update 2014-09 .....			405			405	354	759
Cumulative effect of adopting Accounting Standards Update 2016-01 .....			2,899	(2,899)		0	0	0
Cumulative effect of adopting Accounting Standards Update 2016-16 .....			3,772			3,772	0	3,772
<b>Balance at April 1, 2018</b> .....	¥220,961	¥267,291	¥2,322,359	¥(48,465)	¥(75,545)	¥2,686,601	¥116,804	¥2,803,405
Contribution to subsidiaries .....						0	7,680	7,680
Transaction with noncontrolling interests ..		(10,033)		(103)		(10,136)	(60,347)	(70,483)
Comprehensive income, net of tax:								
Net income .....			323,745			323,745	2,890	326,635
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities .....				10,174		10,174	41	10,215
Net change of debt valuation adjustments .....				231		231	0	231
Net change of defined benefit pension plans .....				(7,289)		(7,289)	(57)	(7,346)
Net change of foreign currency translation adjustments .....				(11,775)		(11,775)	(88)	(11,863)
Net change of unrealized gains (losses) on derivative instruments .....				(4,116)		(4,116)	(2)	(4,118)
Total other comprehensive income (loss) .....						(12,775)	(106)	(12,881)
Total comprehensive income .....						310,970	2,784	313,754
Cash dividends .....			(88,438)			(88,438)	(10,794)	(99,232)
Exercise of stock options .....	150	75				225	0	225
Acquisition of treasury stock .....					(707)	(707)	0	(707)
Disposal of treasury stock .....		(233)			348	115	0	115
Adjustment of redeemable noncontrolling interests to redemption value .....			(2,131)			(2,131)	0	(2,131)
Other, net .....		525	50			575	0	575
<b>Balance at March 31, 2019</b> .....	¥221,111	¥257,625	¥2,555,585	¥(61,343)	¥(75,904)	¥2,897,074	¥ 56,127	¥2,953,201

Notes 1: Changes in the redeemable noncontrolling interests are not included in this table. For further information, see Note 20 "Redeemable Noncontrolling Interests."

2: Reclassification of change in accounting standards represents the amounts reclassified for the application of the Accounting Standards Update 2018-02 ("Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"—ASC 220 ("Income Statement—Reporting Comprehensive Income")).

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, 2017, 2018 AND 2019**

**ORIX Corporation and Subsidiaries**

	Millions of yen		
	2017	2018	2019
<b>Cash Flows from Operating Activities:</b>			
Net income	¥ 280,926	¥ 321,589	¥ 327,039
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	253,677	279,923	295,589
Provision for doubtful receivables and probable loan losses	22,667	17,265	22,525
Equity in net income of affiliates (excluding interest on loans)	(24,549)	(46,587)	(29,674)
Gains on sales of subsidiaries and affiliates and liquidation losses, net	(63,419)	(49,203)	(33,314)
Bargain purchase gain	(5,802)	0	0
Gains on sales of securities other than trading	(30,907)	(32,083)	(10,182)
Gains on sales of operating lease assets	(69,265)	(35,291)	(62,883)
Write-downs of long-lived assets	9,134	5,525	2,418
Write-downs of securities	6,608	1,246	1,382
Deferred tax provision	25,318	5,588	(35,128)
Decrease in trading securities	159,809	144,367	95,370
Decrease (Increase) in inventories	(5,318)	10,609	6,852
Decrease (Increase) in trade notes, accounts and other receivable	8,362	(13,984)	(5,576)
Increase (Decrease) in trade notes, accounts and other payable	(6,660)	17,831	10,990
Increase (Decrease) in policy liabilities and policy account balances	(103,878)	(53,512)	10,109
Increase (Decrease) in income taxes payable	67,904	(74,241)	36,753
Other, net	59,193	69,749	(44,592)
Net cash provided by operating activities	<u>583,800</u>	<u>568,791</u>	<u>587,678</u>
<b>Cash Flows from Investing Activities:</b>			
Purchases of lease equipment	(894,300)	(971,163)	(998,073)
Principal payments received under direct financing leases	483,627	470,870	469,262
Installment loans made to customers	(1,309,056)	(1,396,724)	(1,460,336)
Principal collected on installment loans	1,063,339	1,184,298	1,239,385
Proceeds from sales of operating lease assets	321,328	285,954	429,295
Investment in affiliates, net	(51,529)	(110,547)	(278,027)
Proceeds from sales of investment in affiliates	97,453	74,742	56,423
Purchases of available-for-sale debt securities	(452,508)	(372,236)	(556,213)
Proceeds from sales of available-for-sale debt securities	496,250	395,629	221,824
Proceeds from redemption of available-for-sale debt securities	105,255	97,565	73,156
Purchases of held-to-maturity debt securities	(306)	0	0
Purchases of equity securities other than trading	(36,543)	(67,147)	(66,959)
Proceeds from sales of equity securities other than trading	85,444	104,600	83,261
Purchases of property under facility operations	(95,601)	(80,095)	(62,221)
Acquisitions of subsidiaries, net of cash acquired	(79,403)	(66,034)	(119,105)
Sales of subsidiaries, net of cash disposed	55,530	43,278	56,584
Other, net	(14,243)	(32,110)	37,793
Net cash used in investing activities	<u>(225,263)</u>	<u>(439,120)</u>	<u>(873,951)</u>
<b>Cash Flows from Financing Activities:</b>			
Net increase (decrease) in debt with maturities of three months or less	793	50,900	(50,881)
Proceeds from debt with maturities longer than three months	1,319,523	1,488,259	1,123,923
Repayment of debt with maturities longer than three months	(1,456,366)	(1,396,531)	(932,676)
Net increase in deposits due to customers	216,118	143,318	169,830
Cash dividends paid to ORIX Corporation shareholders	(61,299)	(72,757)	(88,438)
Acquisition of treasury stock	(12,128)	(39,110)	(707)
Contribution from noncontrolling interests	5,599	4,740	22,760
Purchases of shares of subsidiaries from noncontrolling interests	(25,840)	(11,299)	(86,165)
Net increase (decrease) in call money	(14,500)	(18,000)	20,000
Other, net	(5,630)	(8,510)	(10,999)
Net cash provided by (used in) financing activities	<u>(33,730)</u>	<u>141,010</u>	<u>166,647</u>
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash	(2,994)	1,224	(1,911)
Net increase (decrease) in Cash, Cash Equivalents and Restricted Cash	<u>321,813</u>	<u>271,905</u>	<u>(121,537)</u>
Cash, Cash Equivalents and Restricted Cash at Beginning of Year	811,399	1,133,212	1,405,117
Cash, Cash Equivalents and Restricted Cash at End of Year	<u>¥ 1,133,212</u>	<u>¥ 1,405,117</u>	<u>¥ 1,283,580</u>

Notes: 1. Prior-year amounts have been adjusted for the retrospective application of Accounting Standards Update 2016-18 ("Restricted Cash"—ASC 230 ("Statement of Cash Flows")) on April 1, 2018.

2. Accounting Standards Update 2016-01 ("Recognition and Measurement of Financial Assets and Financial Liabilities"—ASC 825-10 ("Financial Instruments—Overall")) has been applied since April 1, 2018. The amounts that previously reported have been reclassified for this application.

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 generally accepted accounting principles in the United States (“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 revenue recognition for revenue from contracts with customers, 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 pension plans, accounting for sales of the parent’s ownership interest in subsidiaries, classification in the statements of cash flows, accounting for transfer of financial assets, accounting for investment in securities, accounting for fair value option and reflection of the income tax effect on such adjustments.

##### (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 include VIEs 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 indefinite-lived intangible assets.

#### (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 other comprehensive income (loss), net of applicable income taxes, arise from the translation of foreign currency financial statements into Japanese yen.

#### (e) Revenue recognition

The Company and its subsidiaries recognize revenues from only contracts with customers that are not completed on April 1, 2018, such as sales of goods and real estate, and services income, based on the following five steps;

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

In accordance with these steps, revenues are recognized to depict the transfer of promised goods or services to customers in the amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenues are recognized net of discount, incentives and estimated sales returns. In case that the Company and its subsidiaries receive payment from customers before satisfying performance obligations, the amounts are recognized as contract liabilities. In transactions that involve third parties, if the Company and its subsidiaries control the goods or services before they are transferred to the customers, revenue is recognized on gross amount as the principal.

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 fiscal 2017 and 2018.

Excluding the aforementioned policy, the policies as specifically described hereinafter are applied for each of revenue items.

**Finance Revenues**—Finance revenues mainly include revenues from direct financing leases, installment loans, and financial guarantees.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### **(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 unguaranteed residual value represents estimated proceeds from the disposition of equipment at the time the lease is terminated. The estimated unguaranteed residual value is based on market value of used equipment, estimates of when and how much equipment will become obsolete, and actual recovery being experienced for similar used equipment. Initial direct costs are being deferred and amortized as a yield adjustment over the life of the related lease by using interest method. The unamortized balance of initial direct costs is reflected as a component of investment in direct financing leases.

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

Interest income on installment loans is recognized on an accrual basis. Certain direct loan origination costs, net of origination fees, are being deferred and amortized over the contractual term of the loan as an adjustment of the related loan's yield using the interest method. Interest payments received on impaired loans other than purchased loans are recorded as interest income unless the collection of the remaining investment is doubtful at which time payments received are recorded as reductions of principal. For purchased loans, although the acquired assets may remain loans in legal form, collections on these loans often do not reflect the normal historical experience of collecting delinquent accounts, and the need to tailor individual collateral-realization strategies often makes it difficult to reliably estimate the amount, timing, or nature of collections. Accordingly, the Company and its subsidiaries use the cost recovery method of income recognition for such purchased loans regardless of whether impairment is recognized or not.

#### **(3) Revenues from financial guarantees**

At the inception of a guarantee, fair value for the guarantee is recognized as a liability in the consolidated balance sheets. The Company and its subsidiaries recognize revenue mainly over the term of guarantee by a systematic and rational amortization method as the Company and the subsidiaries are released from the risk of the obligation.

#### **(4) 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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 debtors' creditworthiness, such as the debtors' 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 8 years, measuring and information-related equipment is 4 years, real estate (other than land) is 28 years and other is 7 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.

#### **(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 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 include 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

#### **(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 and 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

Equity securities are generally reported at fair value with unrealized gains and losses included in income. Equity securities without readily determinable fair values are recorded at its cost minus impairment, if any, plus or minus changes resulting from observable price changes under the election of the measurement alternative, except for investments which are valued at net asset value per share.

Equity securities elected to apply the measurement alternative are written down to its fair value with losses included in income if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value.

In addition, investments included in equity securities that are accounted for under the equity method are recorded at fair value with unrealized gains and losses included in income if certain subsidiaries elect the fair value option.

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

Available-for-sale debt 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 for investments which are recorded at fair value with unrealized gains and losses included in income by electing the fair value option.

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

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

#### (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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

amounts of existing assets and liabilities and their respective tax bases and for 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. The Company and its subsidiaries release to earnings stranded income tax effects in accumulated other comprehensive income (loss) resulting from changes in tax laws or rates or changes in judgment about realization of a valuation allowance on a specific identification basis when the individual items are completely sold or terminated. 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 special purpose companies, collectively special purpose entities (“SPEs”) that issue asset-backed beneficial interests and securities to the investors.

SPEs used in securitization transactions are consolidated if the Company and its subsidiaries are the primary beneficiary of the SPEs, and the transfers of the financial assets to those consolidated SPEs are not accounted for as sales. Assets held by 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.

The Company and certain subsidiaries originate and sell loans into the secondary market, while retaining the obligation to service those loans. In addition, a certain subsidiary 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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.

#### **(l) 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), net of applicable income taxes.

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), net of applicable income taxes, 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), net of applicable income taxes, 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), net of applicable income taxes.

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

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

#### **(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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### **(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 on 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, 2019 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.

#### **(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, deposits held on behalf of third parties in the aircraft-related business and others.

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

Property under facility operations consist primarily of operating facilities (including hotels, training facilities and senior housings) and environmental assets (including mega solar), which are stated at cost less accumulated depreciation, and depreciation is calculated mainly on a straight-line basis over the estimated useful lives of the assets. Depreciation expenses in fiscal 2017, 2018 and 2019 were ¥20,976 million, ¥25,444 million and ¥28,133 million, respectively. Accumulated depreciation was ¥101,103 million and ¥102,185 million as of March 31, 2018 and 2019, respectively. Estimated useful lives range up to 65 years for buildings, up to 60 years for structures and up to 30 years for others.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### (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 lease contracts.

#### (t) Inventories

Inventories consist primarily of residential condominiums under development, completed residential condominiums (including those waiting to be delivered to buyers under the contract for sale), and merchandise for sale. Residential condominiums under development are carried at cost less any impairment losses, and completed residential condominiums and merchandise for sale are stated at the lower of cost or fair value less cost to sell. The cost of inventories that are unique and not interchangeable is determined on the specific identification method and the cost of other inventories is principally determined on the average method. As of March 31, 2018 and 2019, residential condominiums under development were ¥51,415 million and ¥55,860 million, respectively, and completed residential condominiums and merchandise for sale were ¥59,586 million and ¥59,835 million, respectively.

The Company and its subsidiaries recorded ¥916 million, ¥936 million and ¥703 million of write-downs principally on merchandise for sale for fiscal 2017, 2018 and 2019, respectively, primarily resulting from a decrease in expected sales price. These write-downs were recorded in costs of goods and real estate sold and principally included in 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 2017, 2018 and 2019 were ¥5,380 million, ¥5,131 million and ¥4,912 million, respectively. Accumulated depreciation was ¥51,395 million and ¥54,499 million as of March 31, 2018 and 2019, respectively. Estimated useful lives range up to 65 years for buildings and structures and up to 22 years for machinery and equipment.

#### (v) Other assets

Other assets consist primarily of goodwill and other intangible assets in acquisitions, 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 construction of real estate under operating leases and property under facility operations, prepaid benefit cost, servicing assets, derivative assets, contract assets related to real estate contract works 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 separately identifiable 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

The Company and its subsidiaries perform an impairment test for goodwill and any indefinite-lived intangible assets 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, if any. 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 intangible 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 indefinite-lived intangible 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### (y) Other Liabilities

Other liabilities include primarily accrued expenses related to interest and bonus, accrued benefit liability, advances received from lessees in relation to lease contracts, deposits received from real estate transaction, contract liabilities mainly related to automobile maintenance services and software services, and derivative liabilities.

#### (z) Capitalization of interest costs

The Company and its subsidiaries capitalized interest costs of ¥1,066 million, ¥1,043 million and ¥940 million in fiscal 2017, 2018 and 2019, respectively, primarily related to specific environmental assets and long-term real estate development projects.

#### (aa) Advertising

The costs of advertising are expensed as incurred. The total amounts charged to advertising expense in fiscal 2017, 2018 and 2019 were ¥25,309 million, ¥26,083 million and ¥20,650 million, respectively.

#### (ab) Earnings per share

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

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

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

#### (ad) Redeemable noncontrolling interests

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

#### (ae) Issuance of stock by an affiliate

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### (af) New accounting pronouncements

In May 2014, Accounting Standards Update 2014-09 (“Revenue from Contracts with Customers”—ASC 606 (“Revenue from Contracts with Customers”)) was issued, and related amendments were issued thereafter. The core principle of these Updates requires 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. The Company and its subsidiaries adopted these Updates on April 1, 2018, using the cumulative-effect method, for only those contracts that are not completed at the date of initial adoption. The adoption primarily resulted in changes in the timing of revenue recognition for performance fees received from customers regarding asset management business, and certain project-based orders in real estate business for which the Company and its subsidiaries currently apply the percentage-of-completion or completed contract method. The effect of adopting these Updates on the Company and its subsidiaries’ financial position at the adoption date was mainly an increase of ¥405 million in retained earnings in the consolidated balance sheets. There are no material effects on the Company and its subsidiaries’ results of operations for fiscal 2019 and financial position as of March 31, 2019 by adopting these Updates, as compared to the guidance that was in effect before the change.

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 requires an entity to measure equity investments at fair value, and requires recognizing the changes in fair value through earnings or using alternative method that requires carrying value to be adjusted by subsequent observable transactions. Additionally, this Update revises the presentation of certain fair value changes for financial liabilities measured at fair value. The Company and its subsidiaries adopted this Update on April 1, 2018. The effect of adopting this Update on the Company and its subsidiaries’ financial position at the adoption date was mainly a decrease of ¥2,899 million in accumulated other comprehensive income and an increase of ¥2,899 million in retained earnings in the consolidated balance sheets, due to reclassification of unrealized changes in fair value of equity investments from accumulated other comprehensive income to retained earnings, and reclassification of changes in fair value of financial liabilities resulting from a change in the instrument specific credit risk when the Company and its subsidiaries have elected to measure the liabilities at fair value in accordance with the fair value option, from retained earnings to accumulated other comprehensive income.

In February 2016, Accounting Standards Update 2016-02 (ASC 842 (“Leases”)) (hereinafter, “new lease standard”) was issued, and related amendments were issued thereafter. These Updates require a lessee to recognize most leases on the balance sheet. Lessor accounting remains substantially similar to current U.S. GAAP but with some changes. These Updates require an entity to disclose more information about leases than under the current disclosure requirements.

In July 2018, Accounting Standards Update 2018-11 (“Targeted Improvements”—ASC 842 (“Leases”)) was issued. This Update provides entities with an additional (and optional) transition method of which an entity initially applies new lease standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the fiscal year of adoption. Consequently, an entity’s reporting for the comparative periods presented in the financial statements in which it adopts ASC 840 will continue to be in accordance with ASC 840. This Update also provides lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component, where the timing and pattern of transfer of the nonlease component(s) and associated lease component are the same, and the lease component, if accounting for separately, would be classified as an operating lease.

In December 2018, Accounting Standards Update 2018-20 (“Narrow-Scope Improvements for Lessors”—ASC 842 (“Leases”)) was issued as amendments of the new lease standard. The amendments in this Update

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

(1) provide an entity with an accounting policy election to account for the payment for all sales (and other similar) taxes as a lessor cost; (2) require lessors to exclude from variable payments lessor costs paid by lessees directly to third parties, and also require lessors to account for costs excluded from consideration of a contract that are paid by the lessor and reimbursed by the lessee as variable payments; and (3) require lessors to allocate (rather than recognize as currently required) certain variable payments to the lease and nonlease components when the changes in facts and circumstances on which the variable payment is based occur and recognize the amount of variable payments allocated to nonlease components as income in profit or loss in accordance with other Accounting Standards, such as ASC 606.

In March 2019, Accounting Standards Update 2019-01 (“Codification Improvements”—ASC 842 (“Leases”)) was issued as amendments of the new lease standard. This Update reinstates the exception in the new lease standard for lessors that are not manufacturers or dealers to use their costs, reflecting discounts, as the fair value of the underlying asset; and this Update clarifies the board’s original intent by explicitly providing an exception to ASC 250-10-50-3 (“Accounting Changes and Error Corrections—General”) interim disclosure requirements in the new lease standard transition disclosure requirements.

These Updates, excluding Accounting Standards Update 2019-01, are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. A modified retrospective transition approach is required, applying the new lease standard to all leases existing at the date of initial adoption. An entity may choose to use either (1) the beginning of the fiscal year of adoption or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial adoption. Accounting Standards Update 2019-01 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early application is permitted.

Accounting Standards Update 2019-01 is applied retrospectively as of the date that the new lease standard is first applied. The Company and its subsidiaries will adopt these Updates, including Accounting Standards Update 2019-01, on April 1, 2019 and use the beginning of the fiscal year of adoption as the date of initial adoption. Consequently, financial information of comparative period will not be updated and the disclosures required under the new lease standard will not be provided for periods before April 1, 2019.

The new lease standard provides a number of optional practical expedients in transition. The Company and its subsidiaries will elect the “package of practical expedients”, which permits the Company and its subsidiaries to not reassess under the new lease standard the prior conclusions about lease identification, lease classification and initial direct costs. The Company and its subsidiaries will elect the new lease standard’s available transition practical expedients. The new lease standard also provides practical expedients for an entity’s ongoing accounting. The Company and its subsidiaries will elect the short-term lease recognition exemption mainly for vehicle and office equipment leases. Consequently, for those leases that meet the requirements, the Company and its subsidiaries will not recognize right-of-use (hereinafter, “ROU”) assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company and its subsidiaries also will elect the practical expedient to not separate lease and non-lease components for part of leases as lessors. The Company and its subsidiaries will expand their disclosures regarding lessee and lessor.

Based on the Company and its subsidiaries’ assessment and best estimates to date, the impact of the adoption of these Updates will likely result in gross up of ROU assets and corresponding lease liabilities principally for operating leases where it is the lessee, such as land leases and office and equipment leases. The effect of the adoption of these Updates on the Company and its subsidiaries’ financial position at the adoption date will be increases of approximately ¥286,000 million of ROU assets and almost same amount of lease liabilities in the consolidated balance sheets as of April 1, 2019.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

In June 2016, Accounting Standards Update 2016-13 (“Measurement of Credit Losses on Financial Instruments”—ASC 326 (“Financial Instruments—Credit Losses”)) was issued, and related amendments were issued thereafter. These Updates significantly change 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 these Updates. These Updates also make targeted amendments to the current impairment model for available-for-sale debt securities. These Updates are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in these Updates 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 will adopt these Updates on April 1, 2020. Although the allowance for credit losses is expected to increase by adopting these Updates, 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.

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. The Company and its subsidiaries adopted this Update on April 1, 2018. The adoption did not have an effect in the consolidated statements 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 occur. The Company and its subsidiaries adopted this Update on April 1, 2018. The effect of adopting this Update on the Company and its subsidiaries’ financial position at the adoption date was mainly an increase of ¥3,772 million in retained earnings in the consolidated balance sheets. In addition, the adoption had no material effect on the Company and its subsidiaries’ results of operations or financial position for fiscal 2019.

In November 2016, Accounting Standards Update 2016-18 (“Restricted Cash”—ASC 230 (“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. The Company and its subsidiaries adopted this Update on April 1, 2018, using retrospective transition approach. The effects of adopting this Update for fiscal 2017, 2018 and 2019 are an increase of ¥12,363 million, a decrease of ¥9,466 million and an increase of ¥38,672 million, respectively, in cash, cash equivalents and restricted cash in the consolidated statements of cash flows. There are no material effects on the cash flows from operating activities, investing activities and financing activities of the Company and its subsidiaries by adopting this Update.

In January 2017, Accounting Standards Update 2017-04 (“Simplifying the Test for Goodwill Impairment”—ASC 350 (“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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

tests performed on testing dates on or after January 1, 2017. The Company and its subsidiaries will adopt this Update on April 1, 2020. 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.

In August 2017, Accounting Standards Update 2017-12 (“Targeted Improvements to Accounting for Hedging Activities”—ASC 815 (“Derivatives and Hedging”)) was issued, and related amendments were issued thereafter. These Updates change the recognition and presentation requirements of hedge accounting including eliminating the requirements to separately measure and report hedge ineffectiveness and presenting the entire change in the fair value of the hedging instrument that affects earnings in the same income statement line as the hedged item. These Updates are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including in an interim period. For cash flow hedges and net investment hedges existing at the date of adoption, an entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of fiscal year that an entity adopts the amendments in these Updates. The amended presentation and disclosure guidance is required only prospectively. The Company and its subsidiaries will adopt these Updates on April 1, 2019. The adoption of this Update will not have a material effect on the Company and its subsidiaries' results of operations or financial position.

In August 2018, Accounting Standards Update 2018-12 (“Targeted Improvements to the Accounting for Long-Duration Contracts”—ASC 944 (“Financial Services—Insurance”)) was issued. This Update changes the recognition, measurement, presentation and disclosure requirements for long duration contracts issued by an insurance entity. This Update requires an insurance entity to review and, if there is a change, update cash flow assumptions at least annually and to update discount rate used for liability for future policy benefits at each reporting date for nonparticipating traditional long-duration and limited-payment contracts. The effect of updating the discount rate is recognized in other comprehensive income (loss). This Update also requires market risk benefits to be measured at fair value, and simplifies amortization of deferred acquisition costs. Furthermore, this Update requires additional disclosures for long-duration contracts. This Update is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application is permitted. For the liability for future policy benefits and deferred acquisition costs, this Update is applied to contracts in force as of beginning of the earliest period presented (hereinafter, “the transition date” of this Update) on a modified retrospective basis, and an insurance entity may elect to apply retrospectively. For the market risk benefits, this Update is applied retrospectively at the transition date, and the difference between fair value and carrying value requires an adjustment to retained earnings at the transition date. The cumulative effect of changes in the instrument-specific credit risk between contract inception date and the transition date should be recognized in accumulated other comprehensive income at the transition date. The Company and its subsidiaries will adopt this Update on April 1, 2021. 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, as well as changes in disclosures required by this Update.

In August 2018, Accounting Standards Update 2018-13 (“Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”—ASC 820 (“Fair Value Measurement”)) was issued. This Update modifies and adds the disclosure requirements for Fair Value Measurements. This Update also removes disclosure requirements of the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, and the valuation processes for Level 3 fair value measurements. This Update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 and early adoption is permitted. An entity is also permitted to early adopt any removed or modified disclosure requirements and delay adoption of the additional disclosure requirements until their effective date. Removals and modifications of disclosure requirements should be mainly applied

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

retrospectively to all periods presented upon their effective date, while the additional disclosure requirements should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. The Company and its subsidiaries early adopted the removals of disclosure requirements from the three months ended September 30, 2018. The Company and its subsidiaries will adopt the modifications and additions of disclosure requirements from fiscal 2021. Since this Update relates to disclosure requirements, the adoption will not have an effect on the Company and its subsidiaries' results of operations or financial position.

In August 2018, Accounting Standards Update 2018-14 (“Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans”—ASC 715-20 (“Compensation—Retirement Benefits—Defined Benefit Plans—General”)) was issued. This Update adds and clarifies the disclosure requirements for Pension Plans, and removes certain disclosure requirements such as the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. This Update is effective for fiscal years ending after December 15, 2020. The amendments in this Update should be applied on a retrospective basis to all periods presented. Early adoption is permitted. The Company and its subsidiaries will adopt this Update from fiscal 2021. Since this Update relates to disclosure requirements, the adoption will not have an effect on the Company and its subsidiaries' results of operations or financial position.

#### (ag) Reclassifications

Revenues from financial guarantees in the consolidated statements of income have been reclassified from “Services income” to “Finance revenues” for fiscal 2019.

This change aims to reflect revenue structure of the Company and its subsidiaries more appropriately accompanying the adoption of ASC606 (“Revenue from Contracts with Customers”). Corresponding to this change, the presented amounts in the consolidated statements of income for fiscal 2017 and 2018 have also been reclassified retrospectively to conform to the presentation for fiscal 2019.

In the Company's consolidated statements of income for fiscal 2017 and 2018, “Services income” in the amounts of ¥11,268 million and ¥14,148 million have been reclassified to “Finance revenues.”

## 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 debt securities, available-for-sale debt securities, certain equity securities, derivatives, certain reinsurance recoverables, 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, 2018 and 2019:

March 31, 2018

	Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Loans held for sale*1	¥ 17,260	¥ 0	¥ 17,260	¥ 0
Trading securities	422,053	35,766	386,287	0
Available-for-sale securities:	1,015,477	65,716	828,844	120,917
Japanese and foreign government bond securities*2	275,810	3,949	271,861	0
Japanese prefectural and foreign municipal bond securities	163,236	0	163,236	0
Corporate debt securities*3	366,475	8,882	354,556	3,037
CMBS and RMBS in the Americas	74,176	0	38,166	36,010
Other asset-backed securities and debt securities	82,182	0	312	81,870
Equity securities*4	53,598	52,885	713	0
Other securities:	37,879	0	0	37,879
Investment funds*5	37,879	0	0	37,879
Derivative assets:	21,831	507	19,033	2,291
Interest rate swap agreements	327	0	327	0
Options held/written and other	7,025	0	4,734	2,291
Futures, foreign exchange contracts	14,057	507	13,550	0
Foreign currency swap agreements	422	0	422	0
Netting*6	(2,105)	0	0	0
Net derivative assets	19,726	0	0	0
Other assets:	15,008	0	0	15,008
Reinsurance recoverables*7	15,008	0	0	15,008
Total	<u>¥1,529,508</u>	<u>¥101,989</u>	<u>¥1,251,424</u>	<u>¥176,095</u>
<b>Liabilities:</b>				
Derivative liabilities:	¥ 12,400	¥ 318	¥ 12,082	¥ 0
Interest rate swap agreements	4,924	0	4,924	0
Options held/written and other	701	0	701	0
Futures, foreign exchange contracts	3,447	318	3,129	0
Foreign currency swap agreements	3,220	0	3,220	0
Credit derivatives held	108	0	108	0
Netting*6	(2,105)	0	0	0
Net derivative Liabilities	10,295	0	0	0
Policy Liabilities and Policy Account Balances:	444,010	0	0	444,010
Variable annuity and variable life insurance contracts*8	444,010	0	0	444,010
Total	<u>¥ 456,410</u>	<u>¥ 318</u>	<u>¥ 12,082</u>	<u>¥444,010</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

- \*1 A certain subsidiary elected the fair value option on certain loans held for sale. These loans are multi-family and seniors housing loans and are sold to Federal National Mortgage Association (“Fannie Mae”) or institutional investors. Included in “Other (income) and expense, net” in the consolidated statements of income were a gain of ¥31 million and a loss of ¥663 million from the change in the fair value of the loans for fiscal 2017 and 2018, respectively. No gains or losses were recognized in earnings for fiscal 2017 and 2018 attributable to changes in instrument-specific credit risk. The amounts of aggregate unpaid principal balance and aggregate fair value of the loans held for sale as of March 31, 2018, were ¥16,873 million and ¥17,260 million, respectively, and the amount of the aggregate fair value exceeded the amount of aggregate unpaid principal balance by ¥387 million. As of March 31, 2018, there were no loans that are 90 days or more past due, or in non-accrual status.
- \*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 ¥12 million and ¥12 million from the change in the fair value of those investments for fiscal 2017 and 2018, respectively. The amount of aggregate fair value elected the fair value option was ¥719 million as of March 31, 2018.
- \*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 were losses of ¥31 million and ¥181 million from the change in the fair value of those investments for fiscal 2017 and 2018, respectively. The amount of aggregate fair value elected the fair value option was ¥8,882 million as of March 31, 2018.
- \*4 A certain subsidiary elected the fair value option for certain 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 gains of ¥1,277 million and ¥961 million from the change in the fair value of those investments for fiscal 2017 and 2018, respectively. The amount of aggregate fair value elected the fair value option was ¥22,365 million as of March 31, 2018.
- \*5 Certain subsidiaries elected the fair value option for certain investments in investment funds included in other securities. Included in “Gains on investment securities and dividends” in the consolidated statements of income were gains of ¥699 million and ¥1,456 million from the change in the fair value of those investments for fiscal 2017 and 2018, respectively. The amount of aggregate fair value elected the fair value option was ¥5,665 million as of March 31, 2018.
- \*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 was ¥15,008 million as of March 31, 2018. For the effect of changes in the fair value of those reinsurance contracts on earnings for fiscal 2017 and 2018, see Note 25 “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 was ¥444,010 million as of March 31, 2018. For the effect of changes in the fair value of the variable annuity and variable life insurance contracts on earnings for fiscal 2017 and 2018, see Note 25 “Life Insurance Operations.”

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2019

	Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Loans held for sale*1	¥ 38,671	¥ 0	¥ 38,671	¥ 0
Trading debt securities	1,564	0	1,564	0
Available-for-sale debt securities:	1,264,244	24,831	1,138,966	100,447
Japanese and foreign government bond securities*2	430,851	3,227	427,624	0
Japanese prefectural and foreign municipal bond securities	193,305	0	190,417	2,888
Corporate debt securities*3	487,997	21,604	459,235	7,158
CMBS and RMBS in the Americas	61,479	0	61,479	0
Other asset-backed securities and debt securities	90,612	0	211	90,401
Equity securities*4*5	425,593	68,631	295,769	61,193
Derivative assets:	15,495	299	9,924	5,272
Interest rate swap agreements	138	0	138	0
Options held/written and other	11,140	0	5,868	5,272
Futures, foreign exchange contracts	3,007	299	2,708	0
Foreign currency swap agreements	1,203	0	1,203	0
Credit derivatives written	7	0	7	0
Netting*6	(1,497)	0	0	0
Net derivative assets	13,998	0	0	0
Other assets:	12,449	0	0	12,449
Reinsurance recoverables*7	12,449	0	0	12,449
Total	<u>¥1,758,016</u>	<u>¥93,761</u>	<u>¥1,484,894</u>	<u>¥179,361</u>
Liabilities:				
Derivative liabilities:	¥ 25,958	¥ 522	¥ 25,436	¥ 0
Interest rate swap agreements	17,439	0	17,439	0
Options held/written and other	2,809	0	2,809	0
Futures, foreign exchange contracts	5,336	522	4,814	0
Foreign currency swap agreements	364	0	364	0
Credit derivatives held	10	0	10	0
Netting*6	(1,497)	0	0	0
Net derivative Liabilities	24,461	0	0	0
Policy Liabilities and Policy Account Balances:	360,198	0	0	360,198
Variable annuity and variable life insurance contracts*8	360,198	0	0	360,198
Total	<u>¥ 386,156</u>	<u>¥ 522</u>	<u>¥ 25,436</u>	<u>¥360,198</u>

\*1 A certain subsidiary elected the fair value option on certain loans held for sale. These loans are multi-family and seniors housing loans and are sold to Federal National Mortgage Association (“Fannie Mae”) or institutional investors. Included in “Other (income) and expense, net” in the consolidated statements of income was a gain of ¥401 million from the change in the fair value of the loans for fiscal 2019. No gains or

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

losses were recognized in earnings for fiscal 2019 attributable to changes in instrument-specific credit risk. The amounts of aggregate unpaid principal balance and aggregate fair value of the loans held for sale as of March 31, 2019, were ¥37,865 million and ¥38,671 million, respectively, and the amount of the aggregate fair value exceeded the amount of aggregate unpaid principal balance by ¥806 million. As of March 31, 2019, there were no loans that are 90 days or more past due, or in non-accrual status.

- \*2 A certain subsidiary elected the fair value option for investments in foreign government bond securities included in available-for-sale debt securities. Included in “Gains on investment securities and dividends” in the consolidated statements of income was a loss of ¥19 million from the change in the fair value of those investments for fiscal 2019. The amount of aggregate fair value elected the fair value option was ¥420 million as of March 31, 2019.
- \*3 A certain subsidiary elected the fair value option for investments in foreign corporate debt securities included in available-for-sale debt securities. Included in “Gains on investment securities and dividends” in the consolidated statements of income was a gain of ¥784 million from the change in the fair value of those investments for fiscal 2019. The amount of aggregate fair value elected the fair value option was ¥21,136 million as of March 31, 2019.
- \*4 Certain subsidiaries elected the fair value option for certain investments in investment funds included in equity securities. Included in “Gains on investment securities and dividends” in the consolidated statements of income was a gain of ¥1,141 million from the change in the fair value of those investments for fiscal 2019. The amount of aggregate fair value elected the fair value option was ¥5,811 million as of March 31, 2019.
- \*5 The amount of ¥12,100 million of investments funds measured at net asset value per share is not included.
- \*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 was ¥12,449 million as of March 31, 2019. For the effect of changes in the fair value of those reinsurance contracts on earnings for fiscal 2019, see Note 25 “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 was ¥360,198 million as of March 31, 2019. For the effect of changes in the fair value of the variable annuity and variable life insurance contracts on earnings during for fiscal 2019, see Note 25 “Life Insurance Operations.”

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

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 2017, 2018 and 2019:

2017

Millions of yen										
	Balance at April 1, 2016	Gains or losses (realized/unrealized)			Purchases*3	Sales	Settlements*4	Transfers in and/or out of Level 3 (net)	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						
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
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	61,024	85	7,435	7,520	13,541	(6,079)	(10,966)	0	65,040	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*5	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*6	795,001	3,651	0	3,651	0	0	(185,830)	0	605,520	3,651

2018

Millions of yen										
	Balance at April 1, 2017	Gains or losses (realized/unrealized)			Purchases*3	Sales	Settlements*4	Transfers in and/or out of Level 3 (net)	Balance at March 31, 2018	Change in unrealized gains or losses included in earnings for assets and liabilities still held at March 31, 2018*1
		Included in earnings*1	Included in other comprehensive income*2	Total						
Available-for-sale securities	¥124,516	¥ 3,690	¥(5,717)	¥ (2,027)	¥79,925	¥(37,942)	¥ (43,555)	¥0	¥120,917	¥ (35)
Corporate debt securities	1,618	0	2	2	2,050	0	(633)	0	3,037	0
CMBS and RMBS in the Americas	57,858	1,664	(3,248)	(1,584)	1,858	(3,347)	(18,775)	0	36,010	(97)
Other asset-backed securities and debt securities	65,040	2,026	(2,471)	(445)	76,017	(34,595)	(24,147)	0	81,870	62
Other securities	27,801	4,169	(1,976)	2,193	26,991	(19,106)	0	0	37,879	4,274
Investment funds	27,801	4,169	(1,976)	2,193	26,991	(19,106)	0	0	37,879	4,274
Derivative assets and liabilities (net)	5,233	(3,356)	0	(3,356)	2,024	0	(1,610)	0	2,291	(3,356)
Options held/written and other	5,233	(3,356)	0	(3,356)	2,024	0	(1,610)	0	2,291	(3,356)
Other asset	22,116	(11,191)	0	(11,191)	5,385	0	(1,302)	0	15,008	(11,191)
Reinsurance recoverables*5	22,116	(11,191)	0	(11,191)	5,385	0	(1,302)	0	15,008	(11,191)
Policy Liabilities and Policy Account										
Balances	605,520	(19,265)	0	(19,265)	0	0	(180,775)	0	444,010	(19,265)
Variable annuity and variable life insurance contracts*6	605,520	(19,265)	0	(19,265)	0	0	(180,775)	0	444,010	(19,265)

\*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" respectively. Additionally, 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." Additionally, unrealized gains and losses from other securities are included mainly in "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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

- \*5 “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.”
- \*6 “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.

2019

	Millions of yen								Change in unrealized gains or losses included in earnings for assets and liabilities still held at March 31, 2019*1	
	Balance at April 1, 2018	Gains or losses (realized/unrealized)			Purchases*3	Sales	Settlements*4	Transfers in and/or out of Level 3 (net)		Balance at March 31, 2019
		Included in earnings*1	Included in other comprehensive income*2	Total						
Available-for-sale debt securities	¥120,917	¥ 1,912	¥2,020	¥ 3,932	¥44,163	¥(23,241)	¥(27,221)	¥(18,103)	¥100,447	¥ 268
Japanese prefectural and foreign municipal bond securities	0	(553)	136	(417)	0	0	0	3,305	2,888	0
Corporate debt securities	3,037	0	4	4	3,100	0	(981)	1,998	7,158	0
CMBS and RMBS in the Americas	36,010	1,034	546	1,580	1,304	(6,711)	(8,777)	(23,406)	0	0
Other asset-backed securities and debt securities	81,870	1,431	1,334	2,765	39,759	(16,530)	(17,463)	0	90,401	268
Equity securities	37,879	4,443	578	5,021	37,871	(1,080)	(18,498)	0	61,193	4,192
Investment funds	37,879	4,443	578	5,021	37,871	(1,080)	(18,498)	0	61,193	4,192
Derivative assets and liabilities (net)	2,291	2,981	0	2,981	0	0	0	0	5,272	2,981
Options held/written and other	2,291	2,981	0	2,981	0	0	0	0	5,272	2,981
Other asset	15,008	(5,483)	0	(5,483)	3,572	0	(648)	0	12,449	(5,483)
Reinsurance recoverables*5	15,008	(5,483)	0	(5,483)	3,572	0	(648)	0	12,449	(5,483)
Policy Liabilities and Policy Account Balances	444,010	7,874	321	8,195	0	0	(75,617)	0	360,198	7,874
Variable annuity and variable life insurance contracts*6	444,010	7,874	321	8,195	0	0	(75,617)	0	360,198	7,874

- \*1 Principally, gains and losses from available-for-sale debt securities are included in “Gains on investment securities and dividends”, “Write-downs of securities” or “Life insurance premiums and related investment income”; equity securities are included in “Gains on investment securities and dividends” and derivative assets and liabilities (net) are included in “Other (income) and expense, net” respectively. Additionally, for available-for-sale debt securities, amortization of interest recognized in finance revenues is included in these columns.
- \*2 Unrealized gains and losses from available-for-sale debt securities are included in “Net change of unrealized gains (losses) on investment in securities” and “Net change of foreign currency translation adjustments”, unrealized gains and losses from equity securities are included mainly in “Net change of foreign currency translation adjustments”, unrealized gains and losses from policy liabilities and policy account balances are included in “Net change of debt valuation 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.
- \*5 “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.”
- \*6 “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.

There were no transfers in or out of Level 3 in fiscal 2017 and 2018.

In fiscal 2019, Japanese prefectural and foreign municipal bond securities totaling ¥3,305 million were transferred from Level 2 to Level 3, since the valuation techniques to measure fair value of a certain foreign municipal bond security has been changed to discounted cash flows methodologies using unobservable inputs. The change of the valuation techniques is due to judgement that the Company and its subsidiaries cannot rely on price quotations from independent pricing service vendors and brokers considering deterioration of estimated

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

**ORIX Corporation and Subsidiaries**

cash flows from the security. In addition, corporate debt securities totaling ¥1,998 million were transferred from Level 2 to Level 3, since the inputs became unobservable. On the other hand, CMBS and RMBS in Americas totaling ¥23,406 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.

The following tables present recorded amounts of assets measured at fair value on a nonrecurring basis during fiscal 2018 and 2019. These assets are measured at fair value on a nonrecurring basis mainly to recognize impairment:

**2018**

	Millions of yen			
	Total Carrying Value in Consolidated Balance Sheets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Real estate collateral-dependent loans (net of allowance for probable loan losses) . . . . .	¥ 7,526	¥0	¥0	¥ 7,526
Investment in operating leases and property under facility operations . . . . .	3,916	0	0	3,916
Certain investments in affiliates . . . . .	<u>11,730</u>	<u>0</u>	<u>0</u>	<u>11,730</u>
	<u>¥23,172</u>	<u>¥0</u>	<u>¥0</u>	<u>¥23,172</u>

**2019**

	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	¥ 3,839	¥0	¥3,839	¥ 0
Real estate collateral-dependent loans (net of allowance for probable loan losses) . . . . .	¥ 6,630	¥0	¥ 0	¥ 6,630
Investment in operating leases and property under facility operations . . . . .	12,901	0	0	12,901
Certain investments in affiliates . . . . .	<u>2,897</u>	<u>0</u>	<u>0</u>	<u>2,897</u>
	<u>¥26,267</u>	<u>¥0</u>	<u>¥3,839</u>	<u>¥22,428</u>

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

***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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

Level 2, because the Company and its subsidiaries measure their fair value based on a market approach using inputs other than quoted prices that are observable for the assets such as treasury rate, swap rate and market spread.

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

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

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

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

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

#### *Trading debt securities, Available-for-sale debt 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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 such as 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 bid 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 debt 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.

#### *Equity securities*

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. Certain subsidiaries elected the fair value option for investments in some funds. In addition, a certain subsidiary measures its investment held by the investment company which is owned by the subsidiary at fair value. These investment funds are classified as Level 3, because the subsidiaries measure their fair value based on discounted cash flow methodologies using inputs that are unobservable in the market and broker quotes.

#### *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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### *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.

#### *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. In addition, variable annuity and variable life insurance contracts are exposed to the minimum guarantee risk, and the subsidiary adjusts the fair value of the underlying investments by incorporating changes in fair value of the minimum guarantee risk in the evaluation of the fair value of the entire variable annuity and variable life insurance contracts. The variable annuity and variable life insurance contracts for which the fair value option is elected are classified as Level 3 because the subsidiary measures the fair value using discounted cash flow methodologies based on inputs that are unobservable in the market.

**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, 2018 and 2019.

March 31, 2018				
	Millions of yen			
	Fair value	Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
<b>Assets:</b>				
<b>Available-for-sale securities:</b>				
Corporate debt securities . . . . .	¥ 3,037	Discounted cash flows	Discount rate	0.2% – 1.7% (0.9%)
CMBS and RMBS in the Americas . . . . .	36,010	Discounted cash flows	Discount rate	6.4% – 20.0% (17.6%)
			Probability of default	0.0% – 24.7% (3.2%)
Other asset-backed securities and debt securities . . . . .	18,146	Discounted cash flows	Discount rate	1.0% – 51.2% (10.0%)
			Probability of default	0.6% – 1.6% (1.0%)
	63,724	Appraisals/Broker quotes	—	—
<b>Other securities:</b>				
Investment funds . . . . .	5,665	Internal cash flows	Discount rate	0.0% – 40.0% (9.9%)
	25,246	Discounted cash flows	Discount rate	3.8% – 11.6% (8.3%)
	6,968	Appraisals/Broker quotes	—	—
<b>Derivative assets:</b>				
Options held/written and other . . . . .	1,447	Discounted cash flows	Discount rate	0.0% – 15.0% (8.0%)
	844	Appraisals/Broker quotes	—	—
<b>Other assets:</b>				
Reinsurance recoverables . . . . .	15,008	Discounted cash flows	Discount rate	(0.1)% – 0.4% (0.1%)
			Mortality rate	0.0% – 100.0% (1.1%)
			Lapse rate	1.5% – 30.0% (17.5%)
			Annuitization rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (99.1%)
<b>Total . . . . .</b>	<b>¥176,095</b>			
<b>Liabilities:</b>				
<b>Policy liabilities and Policy Account Balances:</b>				
Variable annuity and variable life insurance contracts . . . . .	¥444,010	Discounted cash flows	Discount rate	(0.1)% – 0.4% (0.1%)
			Mortality rate	0.0% – 100.0% (1.2%)
			Lapse rate	1.5% – 54.0% (17.1%)
			Annuitization rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (79.4%)
<b>Total . . . . .</b>	<b>¥444,010</b>			

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2019

	Millions of yen	Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
	Fair value			
Assets:				
Available-for-sale debt securities:				
Japanese prefectural and foreign municipal bond securities . . . . .	¥ 2,888	Discounted cash flows	Discount rate	8.5% (8.5%)
Corporate debt securities . . . . .	2,162	Discounted cash flows	Discount rate	0.1% – 1.3% (0.8%)
	4,996	Appraisals/Broker quotes	—	—
Other asset-backed securities and debt securities . . . . .	23,651	Discounted cash flows	Discount rate	0.2% – 51.2% (8.3%)
			Probability of default	0.6% – 1.6% (0.8%)
	66,750	Appraisals/Broker quotes	—	—
Equity securities:				
Investment funds . . . . .	6,012	Internal cash flows	Discount rate	0.0% – 65.0% (11.3%)
	32,702	Discounted cash flows	Discount rate	3.8% – 17.0% (14.1%)
	22,479	Appraisals/Broker quotes	—	—
Derivative assets:				
Options held/written and other . . . . .	5,005	Discounted cash flows	Discount rate	0.0% – 15.0% (8.6%)
	267	Appraisals/Broker quotes	—	—
Other assets:				
Reinsurance recoverables . . . . .	12,449	Discounted cash flows	Discount rate	(0.1)% – 0.4% (0.1%)
			Mortality rate	0.0% – 100.0% (1.3%)
			Lapse rate	1.5% – 24.0% (16.2%)
			Annuitization rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (99.9%)
Total . . . . .	<u>¥179,361</u>			
Liabilities:				
Policy liabilities and Policy Account Balances:				
Variable annuity and variable life insurance contracts . . . . .	¥360,198	Discounted cash flows	Discount rate	(0.1)% – 0.4% (0.1%)
			Mortality rate	0.0% – 100.0% (1.3%)
			Lapse rate	1.5% – 54.0% (16.0%)
			Annuitization rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (80.3%)
Total . . . . .	<u>¥360,198</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 during fiscal 2018 and 2019.

<b>2018</b>				
	<u>Millions of yen</u>	<u>Valuation technique(s)</u>	<u>Significant unobservable inputs</u>	<u>Range (Weighted average)</u>
	<u>Fair value</u>			
Assets:				
Real estate collateral-dependent loans (net of allowance for probable loan losses) . . .	¥ 7,526	Discounted cash flows	Discount rate	10.7% (10.7%)
		Direct capitalization	Capitalization rate	11.2% (11.2%)
Investment in operating leases and property under facility operations . . . . .	27	Discounted cash flows	Discount rate	8.0% (8.0%)
	3,889	Appraisals	—	—
Certain investments in affiliates . . . . .	11,730	Market price method	—	—
		Business enterprise value multiples	—	—
		Discounted cash flows	Discount rate	9.3% – 10.3% (9.8%)
	<u>¥23,172</u>			

<b>2019</b>				
	<u>Millions of yen</u>	<u>Valuation technique(s)</u>	<u>Significant unobservable inputs</u>	<u>Range (Weighted average)</u>
	<u>Fair value</u>			
Assets:				
Real estate collateral-dependent loans (net of allowance for probable loan losses) . . .	¥ 6,630	Direct capitalization	Capitalization rate	5.8% – 8.2% (6.3%)
		Appraisals	—	—
Investment in operating leases and property under facility operations . . . . .	2,345	Discounted cash flows	Discount rate	7.3% (7.3%)
	10,556	Appraisals	—	—
Certain investments in affiliates . . . . .	334	Business enterprise value multiples	—	—
		Discounted cash flows	Discount rate	14.0% (14.0%)
	2,563	Appraisals	—	—
	<u>¥22,428</u>			

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

### 3. Acquisitions and Divestitures

#### (1) Acquisitions

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. In accordance with the finalization of purchase price allocation during fiscal 2018, the amount of goodwill was ¥33,370 million and the goodwill is not deductible for income tax purposes. The amount of acquired intangible assets other than goodwill was ¥35,559 million. The acquisitions were included in Investment and Operation segment and Overseas Business segment.

During fiscal 2018, the Company and its subsidiaries acquired entities for a total cost of the acquisition consideration of ¥71,840 million, which was paid mainly in cash. Goodwill initially recognized in these transactions amounted to ¥42,933 million and the goodwill is not deductible for income tax purposes. The amount of acquired intangible assets other than goodwill recognized in these transactions was ¥40,008 million.

During fiscal 2019, the Company and its subsidiaries acquired entities for a total cost of the acquisition consideration of ¥148,483 million, which was paid mainly in cash. Goodwill initially recognized in these transactions amounted to ¥72,466 million and the goodwill is not deductible for income tax purposes. The amount of acquired intangible assets other than goodwill recognized in these transactions was ¥15,991 million. The Company reflected certain preliminary estimates with respect to the fair value of certain components of the underlying net assets of these entities in determining amounts of the goodwill. The amount of the goodwill and intangible assets 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 with respect to the final valuation of acquired intangible assets among others. The acquisitions were included in Overseas Business segment and Investment and Operation segment.

The Company recognized a bargain purchase gain of ¥5,802 million associated with one of its acquisitions for fiscal 2017. The purchase price allocation was finalized for the three months ended June 30, 2017. The Company did not recognize any bargain purchase gain associated with the purchase price allocation during the three months ended June 30, 2017. The Company did not recognize any bargain purchase gain during fiscal 2018 and 2019.

The segment in which goodwill is allocated is disclosed in Note 15 “Goodwill and Other Intangible Assets.”

#### (2) Divestitures

Gains on sales of subsidiaries and affiliates and liquidation losses, net for fiscal 2017, 2018 and 2019 amounted to ¥63,419 million, ¥49,203 million and ¥33,314 million, respectively. Gains on sales of subsidiaries

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

**ORIX Corporation and Subsidiaries**

and affiliates and liquidation losses, net for fiscal 2017 mainly consisted of ¥30,583 million in Overseas Business segment, ¥29,378 million in Investment and Operation segment, and ¥2,234 million in Corporate Financial Services segment. Gains on sales of subsidiaries and affiliates and liquidation losses, net for fiscal 2018 mainly consisted of ¥30,176 million in Investment and Operation segment, ¥15,408 million in Overseas Business segment, ¥2,028 million in Corporate Financial Services segment and ¥1,604 million in Real Estate segment. Gains on sales of subsidiaries and affiliates and liquidation losses, net for fiscal 2019 mainly consisted of ¥23,513 million in Overseas Business segment, ¥8,025 million in Real Estate segment and ¥1,220 million in Maintenance Leasing segment. The details of significant divestitures are as follows.

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

The Company changed the segment classification of DAIKYO INCORPORATED (hereinafter, “DAIKYO”) from Investment and Operation segment to Real Estate segment. As a result of this change, segment amounts for the previous fiscal year have been retrospectively reclassified.

**(3) Determination of divestitures**

During fiscal 2019, the Company has determined to sell ORIX Living Corporation, which is a consolidated subsidiary of the Company. The sale is expected to be completed during fiscal 2020. In the Company’s consolidated balance sheets as of March 31, 2019, the assets or debts of the business are mainly recognized as property under facility operations of ¥42,595 million, other liabilities of ¥23,078 million. Neither gain nor loss was recognized as the related assets and liabilities are classified as held for sale. These related assets and liabilities are included in Real Estate segment.

**4. Revenues from Contracts with Customers**

The following table provides information about revenues from contracts with customers, and other sources of revenue in fiscal 2019. For further information about sales of goods, real estate sales and services income in fiscal 2017 and 2018, see Note 5 “Sales of Goods and Real Estate Sales and Services Income.”

	<b>Millions of yen</b>
	<b>2019</b>
Goods or services category	
Sales of goods . . . . .	¥ 462,029
Real estate sales . . . . .	134,136
Asset management and servicing . . . . .	191,820
Automobile related services . . . . .	78,723
Facilities operation . . . . .	104,005
Environment and energy services . . . . .	132,243
Real estate management and brokerage . . . . .	103,062
Real estate contract work . . . . .	82,217
Other . . . . .	107,341
Total revenues from contracts with customers . . . . .	¥1,395,576
Other revenues* . . . . .	19,383
Total sales of goods and real estate and services income . . . . .	¥1,414,959

\* Other revenues are not in the scope of ASC 606 (“Revenue from Contracts with Customers”).

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

**ORIX Corporation and Subsidiaries**

The following table provides information about costs of goods sold and real estate sold and services expense in fiscal 2019. For further information about costs of goods sold, costs of real estate sold and services expenses in fiscal 2017 and 2018, see Note 5 “Sales of Goods and Real Estate Sales and Services Income.”

	<b>Millions of yen</b>
	<b>2019</b>
Goods or services category	
Costs of goods sold . . . . .	¥ 419,001
Costs of real estate sold . . . . .	116,260
Asset management and servicing . . . . .	44,107
Automobile related services . . . . .	47,859
Facilities operation . . . . .	95,207
Environment and energy services . . . . .	105,414
Real estate management and brokerage . . . . .	94,869
Real estate contract work . . . . .	71,958
Other . . . . .	48,906
Total expenses of costs of goods and real estate sold and services expenses . . . . .	¥1,043,581

The Company and its subsidiaries recognize revenues when control of the promised goods or services is transferred to our customers, in the amounts that reflect the consideration we expect to receive in exchange for those goods or services. Revenues are recognized net of discounts, incentives and estimated sales returns. Amount to be collected for third party is deducted from revenues. The Company and its subsidiaries evaluate whether we are principal or agent on distinctive goods or services. In transaction that third party concerns, if the Company and its subsidiaries control the goods or services before they are transferred to customers, revenue is recognized on gross amount as the principal. There is no significant variability in considerations included in revenues, except for the performance fees regarding asset management business hereinafter, and there is no significant financial component in considerations on transactions.

For further information about breakdowns of revenues disaggregated by goods or services category and geographical location by segment, see Note 33 “Segment Information.”

Revenue recognition criteria on each goods and services category are mainly the followings:

***Sales of goods***

The Company and its subsidiaries sell various goods such as precious metals, medical equipment, accounting software and other to customers. Revenues from sales of goods are recognized when there is a transfer of control of the product to customers. The Company and its subsidiaries determine transfer of control based on when the products are shipped or delivered to customers, or inspected by customers.

***Real estate sales***

Certain subsidiaries are involved in developing and selling real estates. Revenues from sale of detached houses and residential condominiums are recognized when the real estate is delivered to customers.

***Asset management and servicing***

Certain subsidiaries offer customers investment management services for their financial assets, asset management as well as maintenance and administrative services for their real estate properties. Furthermore, the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

Company and its subsidiaries perform servicing on behalf of customers. Revenues from asset management and servicing primarily include management fees, servicing fees, and performance fees. Management and servicing fees are recognized over the contract period with customers, since the customers simultaneously receive and consume the benefits provided by the performance as the subsidiaries perform. 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 contract terms. Servicing fees are calculated based on the predetermined percentages of the amount in asset under managements in accordance with contract terms. Fees based on the performance of the assets under management are recognized when the performance obligations are satisfied, 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. The performance fee is estimated by using the most likely amount method, in accordance with contract terms. Servicing fees related to financial assets that the Company and its subsidiaries had originated and transferred to investors, are accounted for by ASC 860 (“Transfers and Servicing”).

#### *Automobile related services*

Certain subsidiaries provide mainly automobile maintenance services to customers, as automobile related services. In the service, since customers simultaneously receive and consume the benefits provided by the performance as the subsidiaries perform, revenues are recognized over the contract period with customers. For measurement of progress, the cost incurred is used, because that reasonably describes transfer of control of services to customers. The subsidiaries receive payments from customers before satisfying performance obligations, and the amounts are reported in other liabilities on the consolidated balance sheets as contract liabilities.

#### *Facilities operation*

The Company and its subsidiaries are running hotels, Japanese inns, training facilities, senior housings and other facilities. Revenues from these operations are recognized over the customers’ usage period of the facilities, since customers simultaneously receive and consume the benefits provided by the performance as the Company and its subsidiaries perform. The value transferred to customers is directly measured based on the usage period. With respect to operation of senior housing and other facilities, certain subsidiaries receive payments from customers before satisfying performance obligations, and the amounts are reported in other liabilities on the consolidated balance sheets as contract liabilities. Gains on sale of property under facility operations are accounted for by ASC 610-20 (“Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets”).

#### *Environment and energy services*

The Company and its subsidiaries offer services that provide electric power for business operators’ factories, office buildings and other facilities. Revenues from electric power supply by purchasing electricity or running power plants are recognized over the contracted distribution period with customers, since customers simultaneously receive and consume the benefits provided by the performance as the Company and its subsidiaries perform. The value transferred to customers is directly measured based on electricity usage by customers. Furthermore, certain subsidiaries are running waste processing facilities. Revenues from resources and waste processing business are primarily recognized over the service contract period with customers, since customers simultaneously receive and consume the benefits provided by the performance as the subsidiaries perform. The value transferred to customers is directly measured based on the amount of resources and waste to be processed.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### *Real estate management and brokerage*

The Company and its subsidiaries mainly offer management of condominiums, office buildings, and facilities and other, to customers, as real estate management and brokerage business. Since customers simultaneously receive and consume the benefits provided by the performance as the Company and its subsidiaries perform, revenues from these services are recognized over the contract period with customers. Direct measurement of the value transferred to customers based on time elapsed, is used as method of measuring progress. The Company and its subsidiaries receive payments from customers before satisfying performance obligations, and the amounts are reported in other liabilities on the consolidated balance sheets as contract liabilities.

#### *Real estate contract work*

Certain subsidiaries offer repair and contract work for condominiums, office buildings, and facilities, and other, to customers. The work is held on the real estate where customers own or rent, and the subsidiaries' performance creates the asset that the customers controls as the asset is created or enhanced. Additionally, the performance does not create an asset with an alternative use to the subsidiaries, and the subsidiaries have a substantial enforceable right to payment for performance completed to date so that revenues are recognized over the contract work period. For measurement of progress, the cost incurred is used, because that reasonably describes transfer of control of services to customers. The subsidiaries recognize contract assets regarding a part of performance obligations that the subsidiaries performed, and the amounts are reported in other assets on the consolidated balance sheets. Furthermore, the subsidiaries receive payments from customers before satisfying performance obligations, and the amounts are reported in other liabilities on the consolidated balance sheets as contract liabilities.

#### *Other*

The Company and its subsidiaries have been developing a variety of businesses. Main revenue streams are as follows;

#### *Maintenance services of software, measurement equipment and other:*

Certain subsidiaries offer accounting software maintenance services and support, and maintenance of measurement equipment to customers. Revenues from these services are recognized over the contract period with customers, since customers simultaneously receive and consume the benefits provided by the performance as the subsidiaries perform. For measurement of progress, the cost incurred is used, because that reasonably describes transfer of control of services to customers. The subsidiaries receive payments from customers before satisfying performance obligations, and the amounts are reported in other liabilities on the consolidated balance sheets as contract liabilities.

#### *Fee business:*

The Company and its subsidiaries are involved in insurance policy referrals and other agency business. Commission revenues from these businesses are primarily recognized when the contract between our customers and their client is signed.

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

**ORIX Corporation and Subsidiaries**

Balances from contracts with customers

	Millions of yen	
	April 1, 2018	March 31, 2019
Trade Notes, Accounts and Other Receivable .....	¥154,590	¥161,884
Contract assets (Included in Other Assets) .....	1,058	2,277
Contract liabilities (Included in Other Liabilities) .....	45,545	45,371

For fiscal 2019, there were no significant changes in contract assets and contract liabilities.

For fiscal 2019, revenue amounted to ¥38,905 million was included in contract liabilities as of the beginning of this fiscal year.

As of March 31, 2019, transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) is mainly related to automobile related services, facilities operation, real estate sales and amounted to ¥151,816 million. Remaining term for the obligations ranges up to 28 years. Furthermore, automobile related services primarily constitute the performance obligations that are unsatisfied (or partially unsatisfied) will be recognized as revenue over the next 10 years. The Company and its subsidiaries applied practical expedients in the disclosure, and performance obligations for contracts that have an original expected duration of one year or less and contracts under which the value transferred to a customer is directly measured and recognized as revenue by the amount it has a right to invoice to the customer are not included. The transaction price allocated to unsatisfied performance obligations does not include the estimate of material variable consideration.

As of March 31, 2019, assets recognized from the costs to obtain or fulfill contracts with customers are not material.

**5. Sales of Goods and Real Estate Sales and Services Income**

The following table provides information about sales of goods and real estate and costs of goods and real estate sold in fiscal 2017 and 2018. For further information about sales of goods, real estate sales, costs of goods sold and costs of real estate sold in fiscal 2019, see Note 4 “Revenues from Contracts with Customers.”

	Millions of yen	
	2017	2018
Sales of goods .....	¥ 898,022	¥ 954,807
Real estate sales .....	117,227	124,245
Sales of goods and real estate .....	¥1,015,249	¥1,079,052
Costs of goods sold .....	¥ 832,423	¥ 896,515
Costs of real estate sold .....	96,371	106,994
Costs of goods and real estate sold .....	¥ 928,794	¥1,003,509

Revenue recognition criteria on each goods are the followings:

***Sales of goods and real estate—***

**(1) Sales of goods**

The Company and its subsidiaries sell to our customers various types of goods, including precious metals and jewels. Revenues from such sales of goods are recognized when persuasive evidence of an arrangement

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

**ORIX Corporation and Subsidiaries**

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

**(2) Real estate sales**

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

The following table provides information about services income and services expense in fiscal 2017 and 2018. For further information about services income and services expense in fiscal 2019, see Note 4 "Revenues from Contracts with Customers."

	Millions of yen	
	2017	2018
Revenues from asset management and servicing . . . . .	¥190,454	¥213,667
Revenues from automobile related business . . . . .	73,091	73,095
Revenues from facilities operation related business . . . . .	102,399	104,187
Revenues from environment and energy business . . . . .	100,102	112,821
Revenues from real estate management and contract work . . . . .	181,088	183,243
Other . . . . .	79,501	93,897
Services income . . . . .	¥726,635	¥780,910
Expenses from asset management and servicing . . . . .	¥ 47,126	¥ 49,848
Expenses from automobile related business . . . . .	44,417	44,599
Expenses from facilities operation related business . . . . .	87,709	90,623
Expenses from environment and energy business . . . . .	77,020	89,278
Expenses from real estate management and contract work . . . . .	160,917	166,487
Other . . . . .	34,088	41,961
Services expense . . . . .	¥451,277	¥482,796

Revenue recognition criteria on services category are mainly the followings:

**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

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

**ORIX Corporation and Subsidiaries**

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.

**6. Cash Flow Information**

The following table provides information about Cash, Cash Equivalents and Restricted Cash which are included in the Company's consolidated balance sheets as of March 31, 2018 and 2019, respectively.

	Millions of yen	
	2018	2019
Cash and Cash Equivalents .....	¥1,321,241	¥1,161,032
Restricted Cash .....	83,876	122,548
Cash, Cash Equivalents and Restricted Cash .....	¥1,405,117	¥1,283,580

Cash payments during fiscal 2017, 2018 and 2019 are as follows:

	Millions of yen		
	2017	2018	2019
Cash payments:			
Interest .....	¥71,280	¥ 75,013	¥92,424
Income taxes, net .....	50,813	181,854	67,065

Non-cash activities in fiscal 2017, 2018 and 2019 are as follows.

In fiscal 2017, 2018 and 2019, real estate under operating leases of ¥1,273 million, ¥226 million and ¥1,373 million, respectively, were recognized with the corresponding amounts of installment loans being derecognized as a result of acquiring real estate collateral. In fiscal 2019, property under facility operations of ¥28 million and other assets of ¥320 million, respectively, were recognized with the corresponding amounts of installment loans being derecognized as a result of acquiring real estate collateral.

In fiscal 2018, assets and liabilities decreased by ¥4,313 million and ¥2,304 million, respectively, in the Company's consolidated balance sheet due to deconsolidation of a subsidiary and certain VIEs which had been consolidated by certain subsidiaries. The derecognized assets mainly consist of installment loans, and the

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

**ORIX Corporation and Subsidiaries**

derecognized liabilities mainly consist of long-term debt. In fiscal 2019, assets and liabilities decreased by ¥12,805 million and ¥12,265 million, respectively, in the Company's consolidated balance sheet due to deconsolidation of a subsidiary and certain VIEs which had been consolidated by certain subsidiaries. The derecognized assets mainly consist of installment loans and property under facility operations, and the derecognized liabilities 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."

**7. Investment in Direct Financing Leases**

Investment in direct financing leases at March 31, 2018 and 2019 consists of the following:

	<u>Millions of yen</u>	
	<u>2018</u>	<u>2019</u>
Total Minimum lease payments to be received . . . . .	¥1,358,322	¥1,312,418
Less: Estimated executory costs . . . . .	(57,959)	(60,787)
Minimum lease payments receivable . . . . .	1,300,363	1,251,631
Estimated residual value . . . . .	37,216	37,655
Initial direct costs . . . . .	6,489	6,337
Unearned lease income . . . . .	(149,180)	(139,991)
	<u>¥1,194,888</u>	<u>¥1,155,632</u>

Minimum lease payments receivable are due in periodic installments through fiscal 2039. At March 31, 2019, the amounts due in each of the next five years and thereafter are as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>
2020 . . . . .	¥ 457,752
2021 . . . . .	304,985
2022 . . . . .	207,918
2023 . . . . .	123,066
2024 . . . . .	69,670
Thereafter . . . . .	<u>88,240</u>
Total . . . . .	<u>¥1,251,631</u>

Included in finance revenues in the consolidated statements of income are direct financing leases revenues of ¥56,349 million, ¥59,900 million and ¥58,246 million for fiscal 2017, 2018 and 2019, respectively.

Gains and losses from the disposition of direct financing lease assets, which were included in finance revenues, were not material for fiscal 2017, 2018 and 2019.

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

**ORIX Corporation and Subsidiaries**

**8. Investment in Operating Leases**

Investment in operating leases at March 31, 2018 and 2019 consists of the following:

	Millions of yen	
	2018	2019
Transportation equipment .....	¥1,249,683	¥1,304,925
Measuring and information-related equipment .....	245,492	266,436
Real estate .....	395,533	336,002
Other .....	29,118	31,152
	<u>1,919,826</u>	<u>1,938,515</u>
Accumulated depreciation .....	(605,415)	(634,478)
Net .....	1,314,411	1,304,037
Accrued rental receivables .....	30,515	31,922
	<u>¥1,344,926</u>	<u>¥1,335,959</u>

For fiscal 2017, 2018 and 2019, gains from the disposition of real estate under operating leases included in operating lease revenues are ¥53,004 million, ¥16,383 million and ¥36,763 million, respectively, and gains from the disposition of operating lease assets other than real estate included in operating lease revenues are ¥16,261 million, ¥18,908 million and ¥26,120 million, respectively.

Costs of operating leases include depreciation and various expenses (insurance, property tax and other). Depreciation and various expenses for fiscal 2017, 2018 and 2019 are as follows:

	Millions of yen		
	2017	2018	2019
Depreciation expenses .....	¥185,277	¥195,047	¥202,858
Various expenses .....	58,260	57,280	54,463
	<u>¥243,537</u>	<u>¥252,327</u>	<u>¥257,321</u>

The operating lease contracts include non-cancelable lease terms that range up to 16 years at March 31, 2019. The minimum future rentals on non-cancelable operating leases due in each of the next five years and thereafter are as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>
2020 .....	¥219,366
2021 .....	152,949
2022 .....	110,259
2023 .....	74,577
2024 .....	42,982
Thereafter .....	<u>70,468</u>
Total .....	<u>¥670,601</u>

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

**ORIX Corporation and Subsidiaries**

**9. Installment Loans**

The composition of installment loans by domicile and type of borrower at March 31, 2018 and 2019 is as follows:

	<b>Millions of yen</b>	
	<b>2018</b>	<b>2019</b>
Borrowers in Japan:		
Consumer—		
Housing loans . . . . .	¥1,375,380	¥1,560,832
Card loans . . . . .	264,323	245,139
Other . . . . .	34,333	32,962
	<u>1,674,036</u>	<u>1,838,933</u>
Corporate—		
Real estate companies . . . . .	278,076	288,851
Non-recourse loans . . . . .	18,318	53,067
Commercial, industrial and other companies . . . . .	301,083	266,675
	<u>597,477</u>	<u>608,593</u>
Overseas:		
Non-recourse loans . . . . .	54,987	49,915
Commercial, industrial companies and other . . . . .	478,336	763,813
	<u>533,323</u>	<u>813,728</u>
Purchased loans* . . . . .	18,933	16,416
	<u>¥2,823,769</u>	<u>¥3,277,670</u>

\* 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, 2019, the contractual maturities of installment loans (except purchased loans) for each of the next five years and thereafter are as follows:

<b>Years ending March 31,</b>	<b>Millions of yen</b>
2020 . . . . .	¥ 483,061
2021 . . . . .	345,321
2022 . . . . .	288,281
2023 . . . . .	228,442
2024 . . . . .	245,607
Thereafter . . . . .	<u>1,670,542</u>
Total . . . . .	<u>¥3,261,254</u>

Revenues from installment loans which are included in finance revenues in the consolidated statements of income are ¥127,128 million, ¥134,211 million and ¥148,863 million for fiscal 2017, 2018 and 2019, 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. 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, 2018 and 2019 were ¥18,300 million and ¥54,311 million, respectively. There were ¥17,260 million and ¥38,671 million of loans held for sale as of March 31, 2018 and 2019, 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 ¥18,933 million and ¥16,416 million as of March 31, 2018 and 2019, respectively, and the fair value at the acquisition date of purchased loans acquired during fiscal 2018 and 2019 were ¥2,886 million and ¥4,716 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 ¥5,101 million and ¥3,658 million as of March 31, 2018 and 2019, respectively.

Changes in the allowance for uncollectible accounts relating to the purchased loans for fiscal 2017, 2018 and 2019 are as follows:

	Millions of yen		
	2017	2018	2019
Beginning balance . . . . .	¥ 8,233	¥ 6,061	¥4,292
Provision (Reversal) . . . . .	(1,247)	(539)	(331)
Charge-offs . . . . .	(841)	(1,375)	(822)
Recoveries . . . . .	232	152	126
Other* . . . . .	(316)	(7)	(79)
Ending balance . . . . .	¥ 6,061	¥ 4,292	¥3,186

\* Other includes foreign currency translation adjustments.

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

**ORIX Corporation and Subsidiaries**

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

The Company and its subsidiaries 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 2017, 2018 and 2019:

	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*2	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2018						
Millions of yen						
Loans						
Consumer	Corporate			Purchased loans*1	Direct financing leases	Total
	Non-recourse loans	Other				
<b>Allowance for credit losses :</b>						
Beginning balance	¥ 18,599	¥ 2,951	¥ 21,079	¥ 6,061	¥ 10,537	¥ 59,227
Provision (Reversal)	11,922	(173)	3,814	(539)	2,241	17,265
Charge-offs	(9,784)	(2,031)	(4,643)	(1,375)	(2,733)	(20,566)
Recoveries	657	0	260	152	32	1,101
Other*3	(198)	(59)	(2,103)	(7)	12	(2,355)
Ending balance	¥ 21,196	¥ 688	¥ 18,407	¥ 4,292	¥ 10,089	¥ 54,672
Individually evaluated for impairment	3,020	149	8,295	2,880	0	14,344
Not individually evaluated for impairment	18,176	539	10,112	1,412	10,089	40,328
<b>Financing receivables :</b>						
Ending balance	¥1,739,173	¥73,305	¥ 974,058	¥18,933	¥1,194,888	¥4,000,357
Individually evaluated for impairment	18,911	3,745	19,385	5,101	0	47,142
Not individually evaluated for impairment	1,720,262	69,560	954,673	13,832	1,194,888	3,953,215
March 31, 2019						
Millions of yen						
Loans						
Consumer	Corporate			Purchased loans*1	Direct financing leases	Total
	Non-recourse loans	Other				
<b>Allowance for credit losses :</b>						
Beginning balance	¥ 21,196	¥ 688	¥ 18,407	¥ 4,292	¥ 10,089	¥ 54,672
Provision (Reversal)	12,400	213	5,919	(331)	4,324	22,525
Charge-offs	(13,115)	0	(4,080)	(822)	(2,413)	(20,430)
Recoveries	687	0	246	126	158	1,217
Other*4	27	18	170	(79)	(109)	27
Ending balance	¥ 21,195	¥ 919	¥ 20,662	¥ 3,186	¥ 12,049	¥ 58,011
Individually evaluated for impairment	3,372	166	8,276	1,917	0	13,731
Not individually evaluated for impairment	17,823	753	12,386	1,269	12,049	44,280
<b>Financing receivables :</b>						
Ending balance	¥1,906,022	¥ 99,028	¥1,201,893	¥16,416	¥1,155,632	¥4,378,991
Individually evaluated for impairment	23,163	4,448	27,452	3,764	0	58,827
Not individually evaluated for impairment	1,882,859	94,580	1,174,441	12,652	1,155,632	4,320,164

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 deconsolidated subsidiaries.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

\*3 Other mainly includes foreign currency translation adjustments and decrease in allowance related to sales of loans.

\*4 Other mainly includes foreign currency translation adjustments.

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

The following table provides information about the impaired loans as of March 31, 2018 and 2019:

Portfolio segment	Class	March 31, 2018		
		Millions of yen		
		Loans individually evaluated for impairment	Unpaid principal balance	Related allowance
<b>With no related allowance recorded *1</b> .....		¥7,813	¥7,774	¥0
<b>Consumer borrowers</b> .....		409	409	0
	Housing loans	184	184	0
	Card loans	0	0	0
	Other	225	225	0
<b>Corporate borrowers</b> .....		7,301	7,262	0
Non-recourse loans .....	Japan	0	0	0
	The Americas	3,395	3,395	0
Other .....	Real estate companies	1,003	1,003	0
	Entertainment companies	7	0	0
	Other	2,896	2,864	0
<b>Purchased loans</b> .....		103	103	0
<b>With an allowance recorded *2</b> .....		39,329	37,943	14,344
<b>Consumer borrowers</b> .....		18,502	17,953	3,020
	Housing loans	3,360	3,068	984
	Card loans	4,060	4,051	631
	Other	11,082	10,834	1,405
<b>Corporate borrowers</b> .....		15,829	15,227	8,444
Non-recourse loans .....	Japan	254	254	53
	The Americas	96	96	96
Other .....	Real estate companies	1,544	1,482	543
	Entertainment companies	1,581	1,570	576
	Other	12,354	11,825	7,176
<b>Purchased loans</b> .....		4,998	4,763	2,880
<b>Total</b> .....		¥47,142	¥45,717	¥14,344
<b>Consumer borrowers</b> .....		18,911	18,362	3,020
	Housing loans	3,544	3,252	984
	Card loans	4,060	4,051	631
	Other	11,307	11,059	1,405
<b>Corporate borrowers</b> .....		23,130	22,489	8,444
Non-recourse loans .....	Japan	254	254	53
	The Americas	3,491	3,491	96
Other .....	Real estate companies	2,547	2,485	543
	Entertainment companies	1,588	1,570	576
	Other	15,250	14,689	7,176
<b>Purchased loans</b> .....		5,101	4,866	2,880

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2019

Portfolio segment	Class	Millions of yen		
		Loans individually evaluated for impairment	Unpaid principal balance	Related allowance
<b>With no related allowance recorded *1</b> .....		¥17,593	¥17,521	¥0
<b>Consumer borrowers</b> .....		1,158	1,111	0
	Housing loans	589	542	0
	Card loans	0	0	0
	Other	569	569	0
<b>Corporate borrowers</b> .....		16,329	16,304	0
Non-recourse loans .....	Japan	232	232	0
	The Americas	3,404	3,404	0
Other .....	Real estate companies	887	887	0
	Entertainment companies	0	0	0
	Other	11,806	11,781	0
<b>Purchased loans</b> .....		106	106	0
<b>With an allowance recorded *2</b> .....		41,234	40,234	13,731
<b>Consumer borrowers</b> .....		22,005	21,401	3,372
	Housing loans	3,845	3,639	835
	Card loans	3,945	3,937	633
	Other	14,215	13,825	1,904
<b>Corporate borrowers</b> .....		15,571	15,175	8,442
Non-recourse loans .....	Japan	0	0	0
	The Americas	812	812	166
Other .....	Real estate companies	1,493	1,480	419
	Entertainment companies	1,382	1,374	490
	Other	11,884	11,509	7,367
<b>Purchased loans</b> .....		3,658	3,658	1,917
<b>Total</b> .....		¥58,827	¥57,755	¥13,731
<b>Consumer borrowers</b> .....		23,163	22,512	3,372
	Housing loans	4,434	4,181	835
	Card loans	3,945	3,937	633
	Other	14,784	14,394	1,904
<b>Corporate borrowers</b> .....		31,900	31,479	8,442
Non-recourse loans .....	Japan	232	232	0
	The Americas	4,216	4,216	166
Other .....	Real estate companies	2,380	2,367	419
	Entertainment companies	1,382	1,374	490
	Other	23,690	23,290	7,367
<b>Purchased loans</b> .....		3,764	3,764	1,917

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 2017, 2018 and 2019:

		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>
		March 31, 2018		
		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> . . . . .		¥17,799	¥ 402	¥ 300
	Housing loans	4,143	191	121
	Card loans	4,081	60	52
	Other	9,575	151	127
<b>Corporate borrowers</b> . . . . .		30,661	204	196
Non-recourse loans . . .	Japan	210	8	8
	The Americas	4,972	6	6
Other . . . . .	Real estate companies	5,657	53	52
	Entertainment companies	1,667	44	43
	Other	18,155	93	87
<b>Purchased loans</b> . . . . .		6,304	18	3
<b>Total</b> . . . . .		<u>¥54,764</u>	<u>¥ 624</u>	<u>¥ 499</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

		March 31, 2019		
		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> . . . . .		¥20,601	¥ 392	¥ 356
	Housing loans	4,099	133	129
	Card loans	4,020	59	52
	Other	12,482	200	175
<b>Corporate borrowers</b> . . . . .		25,381	289	276
Non-recourse loans . . .	Japan	247	7	7
	The Americas	2,851	0	0
Other . . . . .	Real estate companies	2,482	38	38
	Entertainment companies	1,530	41	34
	Other	18,271	203	197
<b>Purchased loans</b> . . . . .		4,678	88	87
<b>Total</b> . . . . .		<u>¥50,660</u>	<u>¥ 769</u>	<u>¥ 719</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, 2018 and 2019:

		March 31, 2018				
		Millions of yen				
		Non-performing				
Portfolio segment	Class	Performing	Loans individually evaluated for impairment	90+ days past-due loans not individually evaluated for impairment	Subtotal	Total
<b>Consumer borrowers</b> . . . . .		¥1,707,514	¥18,911	¥12,748	¥31,659	¥1,739,173
	Housing loans	1,397,217	3,544	2,077	5,621	1,402,838
	Card loans	258,478	4,060	1,785	5,845	264,323
	Other	51,819	11,307	8,886	20,193	72,012
<b>Corporate borrowers</b> . . . . .		1,024,233	23,130	0	23,130	1,047,363
Non-recourse loans . . . . .	Japan	18,064	254	0	254	18,318
	The Americas	51,496	3,491	0	3,491	54,987
Other . . . . .	Real estate companies	326,165	2,547	0	2,547	328,712
	Entertainment companies	81,726	1,588	0	1,588	83,314
	Other	546,782	15,250	0	15,250	562,032
<b>Purchased loans</b> . . . . .		13,832	5,101	0	5,101	18,933
<b>Direct financing leases</b> . . . . .		1,182,804	0	12,084	12,084	1,194,888
	Japan	820,225	0	5,943	5,943	826,168
	Overseas	362,579	0	6,141	6,141	368,720
<b>Total</b> . . . . .		<u>¥3,928,383</u>	<u>¥47,142</u>	<u>¥24,832</u>	<u>¥71,974</u>	<u>¥4,000,357</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2019

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> .....		¥1,870,447	¥23,163	¥12,412	¥35,575	¥1,906,022	
	Housing loans	1,593,005	4,434	1,388	5,822	1,598,827	
	Card loans	239,523	3,945	1,671	5,616	245,139	
	Other	37,919	14,784	9,353	24,137	62,056	
<b>Corporate borrowers</b> .....		1,269,021	31,900	0	31,900	1,300,921	
	Non-recourse loans .....						
	Japan	48,881	232	0	232	49,113	
	The Americas	45,699	4,216	0	4,216	49,915	
	Other .....						
	Real estate companies	352,669	2,380	0	2,380	355,049	
	Entertainment companies	64,665	1,382	0	1,382	66,047	
	Other	757,107	23,690	0	23,690	780,797	
<b>Purchased loans</b> .....		12,652	3,764	0	3,764	16,416	
<b>Direct financing leases</b> .....		1,140,825	0	14,807	14,807	1,155,632	
	Japan	787,081	0	6,158	6,158	793,239	
	Overseas	353,744	0	8,649	8,649	362,393	
<b>Total</b> .....		<u>¥4,292,945</u>	<u>¥58,827</u>	<u>¥27,219</u>	<u>¥86,046</u>	<u>¥4,378,991</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, 2018 and 2019:

		March 31, 2018				
		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>		¥ 6,750	¥15,740	¥22,490	¥1,739,173	¥15,740
	Housing loans	2,560	3,340	5,900	1,402,838	3,340
	Card loans	604	2,268	2,872	264,323	2,268
	Other	3,586	10,132	13,718	72,012	10,132
<b>Corporate borrowers</b>		3,404	8,949	12,353	1,047,363	18,326
	Non-recourse loans					
	Japan	0	0	0	18,318	0
	The Americas	1,655	92	1,747	54,987	3,491
	Other					
	Real estate companies	346	644	990	328,712	1,593
	Entertainment companies	0	760	760	83,314	760
	Other	1,403	7,453	8,856	562,032	12,482
<b>Direct financing leases</b>		5,184	12,084	17,268	1,194,888	12,084
	Japan	628	5,943	6,571	826,168	5,943
	Overseas	4,556	6,141	10,697	368,720	6,141
<b>Total</b>		<u>¥15,338</u>	<u>¥36,773</u>	<u>¥52,111</u>	<u>¥3,981,424</u>	<u>¥46,150</u>
		March 31, 2019				
		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>		¥ 5,783	¥15,647	¥21,430	¥1,906,022	¥15,647
	Housing loans	1,721	2,654	4,375	1,598,827	2,654
	Card loans	548	2,127	2,675	245,139	2,127
	Other	3,514	10,866	14,380	62,056	10,866
<b>Corporate borrowers</b>		4,960	13,753	18,713	1,300,921	27,979
	Non-recourse loans					
	Japan	0	0	0	49,113	0
	The Americas	2,925	2,457	5,382	49,915	3,818
	Other					
	Real estate companies	2	552	554	355,049	1,392
	Entertainment companies	0	663	663	66,047	663
	Other	2,033	10,081	12,114	780,797	22,106
<b>Direct financing leases</b>		7,181	14,807	21,988	1,155,632	14,807
	Japan	679	6,158	6,837	793,239	6,158
	Overseas	6,502	8,649	15,151	362,393	8,649
<b>Total</b>		<u>¥17,924</u>	<u>¥44,207</u>	<u>¥62,131</u>	<u>¥4,362,575</u>	<u>¥58,433</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 2017, 2018 and 2019:

		<b>March 31, 2017</b>	
		<b>Millions of yen</b>	
<b>Portfolio segment</b>	<b>Class</b>	<b>Pre-modification outstanding recorded investment</b>	<b>Post-modification outstanding recorded investment</b>
<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	729	693
<b>Total</b>		<u>¥11,450</u>	<u>¥ 8,946</u>

		<b>March 31, 2018</b>	
		<b>Millions of yen</b>	
<b>Portfolio segment</b>	<b>Class</b>	<b>Pre-modification outstanding recorded investment</b>	<b>Post-modification outstanding recorded investment</b>
<b>Consumer borrowers</b>		¥ 9,632	¥ 7,015
	Housing loans	12	12
	Card loans	2,169	1,589
	Other	7,451	5,414
<b>Corporate borrowers</b>		7,983	7,872
	Non-recourse loans	3,460	3,460
	Other	4,523	4,412
<b>Total</b>		<u>¥17,615</u>	<u>¥14,887</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

Portfolio segment	Class	March 31, 2019	
		Millions of yen	
		Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
<b>Consumer borrowers</b> .....		¥13,280	¥ 9,294
	Housing loans	222	105
	Card loans	2,106	1,393
	Other	10,952	7,796
<b>Corporate borrowers</b> .....		6,002	6,001
Other .....	Other	6,002	6,001
<b>Total</b> .....		<u>¥19,282</u>	<u>¥15,295</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, 2017 and for which there was a payment default during fiscal 2017:

Portfolio segment	Class	March 31, 2017	
		Millions of yen	
		Recorded investment	
<b>Consumer borrowers</b> .....		¥1,526	
	Card loans	47	
	Other	1,479	
<b>Total</b> .....		<u>¥1,526</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, 2018 and for which there was a payment default during fiscal 2018:

<u>Portfolio segment</u>	<u>March 31, 2018</u>	
	<u>Class</u>	<u>Millions of yen Recorded investment</u>
<b>Consumer borrowers</b> .....		¥ 99
	Card loans	25
	Other	74
<b>Corporate borrowers</b>		7,872
Non-recourse loans .....	The Americas	3,460
Other .....	Other	4,412
<b>Total</b> .....		<u>¥7,971</u>

The following table provides information about financing receivables modified as troubled debt restructurings within the previous 12 months from March 31, 2019 and for which there was a payment default during fiscal 2019:

<u>Portfolio segment</u>	<u>March 31, 2019</u>	
	<u>Class</u>	<u>Millions of yen Recorded investment</u>
<b>Consumer borrowers</b> .....		¥2,013
	Card loans	22
	Other	1,991
<b>Total</b> .....		<u>¥2,013</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, 2018 and 2019, 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 ¥245 million and ¥251 million as of March 31, 2018 and 2019, respectively.

**11. Investment in Securities**

Investment in securities as of March 31, 2018 consists of the following:

	<u>Millions of yen</u>
	<u>2018</u>
Trading securities* .....	¥ 422,053
Available-for-sale securities .....	1,015,477
Held-to-maturity securities .....	113,891
Other securities .....	178,034
<b>Total</b> .....	<u>¥1,729,455</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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\* The amount of assets under management of variable annuity and variable life insurance contracts included in trading securities was ¥403,797 million as of March 31, 2018.

Gains and losses realized from the sale of trading securities and net unrealized holding gains (losses) on trading securities are included in gains on investment securities and dividends and life insurance premiums and related investment income. For further information, see Note 24 “Gains on Investment Securities and Dividends” and Note 25 “Life Insurance Operations.” Net unrealized holding gains (losses) on trading securities held as of March 31, 2017 and 2018 were gains of ¥19,049 million and ¥14,497 million for fiscal 2017 and 2018, respectively.

During fiscal 2017 and 2018, the Company and its subsidiaries sold available-for-sale securities for aggregate proceeds of ¥549,865 million and ¥456,270 million, respectively, resulting in gross realized gains of ¥33,804 million and ¥31,312 million, respectively, and gross realized losses of ¥3,103 million and ¥596 million, respectively. The cost of the securities sold was based on the average cost of each issue of securities held at the time of the sale.

Other securities consist mainly of non-marketable equity securities and preferred equity securities 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 ¥27,334 million as of March 31, 2018. Investments with an aggregate cost of ¥27,260 million 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 to mitigate volatility in the consolidated statements of income caused by the difference in recognition of gain or loss that would otherwise exist between the foreign government bond securities and the derivatives used to reduce the risks of fluctuations in market interest rates and exchange rates on these foreign government bond securities. As of March 31, 2018, these investments were fair valued at ¥719 million.

A certain subsidiary elected the fair value option for investments in foreign corporate debt securities included in available-for-sale securities to mitigate volatility in the consolidated statements of income caused by the difference in recognition of gain or loss that would otherwise exist between the foreign corporate debt securities and the derivatives used to reduce the risks of fluctuations in market interest rates and exchange rates on these foreign corporate debt securities. As of March 31, 2018, these investments were fair valued at ¥8,882 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 difference in recognition of gain or loss that would otherwise exist between the equity securities and the derivatives used to reduce the risks of fluctuations in market prices of these equity securities and exchange rates. As of March 31, 2018, these equity securities were fair valued at ¥22,365 million.

Certain subsidiaries elected the fair value option for certain investments in 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, 2018, these investments were fair valued at ¥5,665 million.

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

**ORIX Corporation and Subsidiaries**

Investment in securities as of March 31, 2019 consists of the following:

	<u>Millions of yen</u>
	<u>2019</u>
Equity securities* . . . . .	¥ 549,047
Trading debt securities . . . . .	1,564
Available-for-sale debt securities . . . . .	1,264,244
Held-to-maturity debt securities . . . . .	<u>114,061</u>
Total . . . . .	<u>¥1,928,916</u>

\* The amount of assets under management of variable annuity and variable life insurance contracts included in equity securities was ¥324,220 million as of March 31, 2019. The amount of investment funds that are accounted for under the equity method included in equity securities was ¥75,923 million as of March 31, 2019. The amount of investment funds elected for the fair value option included in equity securities was ¥5,811 million as of March 31, 2019.

Gains and losses realized from the sale of equity securities and net unrealized holding gains (losses) on equity securities are included in gains on investment securities and dividends, life insurance premiums and related investment income, and write-downs of securities. For further information, see Note 24 “Gains on Investment Securities and Dividends” and Note 25 “Life Insurance Operations.” Net unrealized holding gains (losses) on equity securities held as of March 31, 2019 were losses of ¥56 million for fiscal 2019, which did not include net unrealized holding gains (losses) on the both investment funds above mentioned.

Equity securities include non-marketable equity securities and preferred equity securities, etc. elected for the measurement alternative. Upward or downward adjustments resulting from observable price changes are included in gains on investment securities and dividends and life insurance premiums and related investment income. Impairments are included in write-downs of securities. The following table provides information about impairment and upward or downward adjustments resulting from observable price changes as of March 31, 2019 and for fiscal 2019.

	<u>Millions of yen</u>				
	<u>March 31, 2019</u>			<u>2019</u>	
	<u>Carrying value</u>	<u>Accumulated impairments and downward adjustments</u>	<u>Accumulated upward adjustments</u>	<u>Impairments and downward adjustments</u>	<u>Upward adjustments</u>
Equity securities measured using the measurement alternative . . . . .	¥35,431	¥(1,688)	¥18	¥(159)	¥18

Gains and losses realized from the sale of trading debt securities and net unrealized holding gains (losses) on trading debt securities are included in gains on investment securities and dividends. Net unrealized holding gains (losses) on trading debt securities held as of March 31, 2019 were gains of ¥156 million for fiscal 2019.

During fiscal 2019, the Company and its subsidiaries sold available-for-sale debt securities for aggregate proceeds of ¥221,824 million, resulting in gross realized gains of ¥5,134 million and gross realized losses of ¥101 million. The cost of the debt securities sold was based on the average cost of each issue of securities held at the time of the sale.

Certain subsidiaries elected the fair value option for certain investments in investment funds included in equity securities whose net asset values do not represent the fair value of investments due to the illiquid nature of

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

**ORIX Corporation and Subsidiaries**

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, 2019, these investments were fair valued at ¥5,811 million.

A certain subsidiary elected the fair value option for investments in foreign government bond securities included in available-for-sale debt securities to mitigate volatility in the consolidated statements of income caused by the difference in recognition of gain or loss that would otherwise exist between the foreign government bond securities and the derivatives used to reduce the risks of fluctuations in market interest rates and exchange rates on these foreign government bond securities. As of March 31, 2019, these investments were fair valued at ¥420 million.

A certain subsidiary elected the fair value option for investments in foreign corporate debt securities included in available-for-sale debt securities to mitigate volatility in the consolidated statements of income caused by the difference in recognition of gain or loss that would otherwise exist between the foreign corporate debt securities and the derivatives used to reduce the risks of fluctuations in market interest rates and exchange rates on these foreign corporate debt securities. As of March 31, 2019, these investments were fair valued at ¥21,136 million.

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, 2018 are as follows:

**March 31, 2018**

	Millions of yen			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale securities:				
Japanese and foreign government bond securities . . . . .	¥ 271,866	¥11,383	¥ (7,439)	¥ 275,810
Japanese prefectural and foreign municipal bond securities . . . . .	160,549	3,247	(560)	163,236
Corporate debt securities . . . . .	368,106	2,974	(4,605)	366,475
CMBS and RMBS in the Americas . . . . .	72,793	2,543	(1,160)	74,176
Other asset-backed securities and debt securities . . . . .	78,828	3,420	(66)	82,182
Equity securities . . . . .	49,971	5,653	(2,026)	53,598
	<u>1,002,113</u>	<u>29,220</u>	<u>(15,856)</u>	<u>1,015,477</u>
Held-to-maturity securities:				
Japanese government bond securities and other . . . . .	113,891	26,933	0	140,824
	<u>¥1,116,004</u>	<u>¥56,153</u>	<u>¥(15,856)</u>	<u>¥1,156,301</u>

**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 debt securities and held-to-maturity debt securities in each major security type as of March 31, 2019 are as follows:

**March 31, 2019**

	Millions of yen			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale debt securities:				
Japanese and foreign government bond securities . . . . .	¥ 416,218	¥20,133	¥ (5,500)	¥ 430,851
Japanese prefectural and foreign municipal bond securities . . . . .	189,792	3,749	(236)	193,305
Corporate debt securities . . . . .	485,156	5,205	(2,364)	487,997
CMBS and RMBS in the Americas . . . . .	59,954	2,566	(1,041)	61,479
Other asset-backed securities and debt securities . . . . .	88,620	3,381	(1,389)	90,612
	<u>1,239,740</u>	<u>35,034</u>	<u>(10,530)</u>	<u>1,264,244</u>
Held-to-maturity debt securities:				
Japanese government bond securities and other . . . . .	114,061	30,265	0	144,326
	<u>¥1,353,801</u>	<u>¥65,299</u>	<u>¥(10,530)</u>	<u>¥1,408,570</u>

The following table provides information about available-for-sale securities with gross unrealized losses and the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2018:

**March 31, 2018**

	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 securities:						
Japanese and foreign government bond securities . . . . .	¥ 72,523	¥(5,599)	¥ 27,458	¥(1,840)	¥ 99,981	¥ (7,439)
Japanese prefectural and foreign municipal bond securities . . . . .	17,208	(125)	19,479	(435)	36,687	(560)
Corporate debt securities . . . . .	90,216	(2,011)	89,573	(2,594)	179,789	(4,605)
CMBS and RMBS in the Americas . . . . .	12,798	(359)	7,065	(801)	19,863	(1,160)
Other asset-backed securities and debt securities . . . . .	4,623	(56)	774	(10)	5,397	(66)
Equity securities . . . . .	6,505	(247)	6,914	(1,779)	13,419	(2,026)
	<u>¥203,873</u>	<u>¥(8,397)</u>	<u>¥151,263</u>	<u>¥(7,459)</u>	<u>¥355,136</u>	<u>¥(15,856)</u>

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

**ORIX Corporation and Subsidiaries**

The following table provides information about available-for-sale debt 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, 2019:

**March 31, 2019**

	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 debt securities:						
Japanese and foreign government bond securities . . . . .	¥51,551	¥(1,119)	¥ 98,830	¥(4,381)	¥150,381	¥ (5,500)
Japanese prefectural and foreign municipal bond securities . . . . .	1,329	(35)	4,510	(201)	5,839	(236)
Corporate debt securities . . . . .	9,156	(18)	68,924	(2,346)	78,080	(2,364)
CMBS and RMBS in the Americas . . . . .	10,194	(362)	7,147	(679)	17,341	(1,041)
Other asset-backed securities and debt securities . . . . .	10,253	(411)	28,748	(978)	39,001	(1,389)
	<u>¥82,483</u>	<u>¥(1,945)</u>	<u>¥208,159</u>	<u>¥(8,585)</u>	<u>¥290,642</u>	<u>¥(10,530)</u>

The number of investment securities that were in an unrealized loss position as of March 31, 2018 and 2019 were 320 and 199, respectively. The gross unrealized losses on these securities are attributable to a number of factors including changes in interest rates, credit spreads and market trends.

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

Debt securities with unrealized loss position mainly include foreign government bond securities and corporate debt securities in Japan and overseas.

The unrealized loss associated with government bond securities and corporate debt securities are 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, 2019.

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

**ORIX Corporation and Subsidiaries**

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 2017, 2018 and 2019 are as follows:

	Millions of yen		
	2017	2018	2019
Total other-than-temporary impairment losses . . . . .	¥6,608	¥1,246	¥1,359
Portion of loss recognized in other comprehensive income (before taxes) . . . .	0	0	(136)
Net impairment losses recognized in earnings . . . . .	<u>¥6,608</u>	<u>¥1,246</u>	<u>¥1,223</u>

Total other-than-temporary impairment losses for fiscal 2017 were related to equity securities and other securities. Total other-than-temporary impairment losses for fiscal 2018 were related to equity securities, other securities and debt securities. Total other-than-temporary impairment losses for fiscal 2019 were related to debt securities.

During fiscal 2018 and 2019, other-than-temporary impairment losses related to debt securities are recognized mainly on certain foreign municipal bond securities and certain other asset-backed securities. These securities have experienced credit losses due to deterioration in utilization rates and a decline in value of the underlying assets. 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. 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.

Other-than-temporary impairments related to the non-credit losses recognized in other comprehensive income (loss) were related to CMBS and RMBS in the Americas and foreign municipal bond securities. 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. Gross unrealized gains and gross unrealized losses recorded in accumulated other comprehensive income (loss) as of March 31, 2018 and 2019 are as follows:

	Millions of yen			
	March 31, 2018		March 31, 2019	
	Gross unrealized gains	Gross unrealized losses	Gross unrealized gains	Gross unrealized losses
Before taxes . . . . .	¥42	¥0	¥0	¥0
Net of taxes . . . . .	¥33	¥0	¥0	¥0

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

**ORIX Corporation and Subsidiaries**

For debt securities held as of March 31, 2017, 2018 and 2019, roll-forwards of the amount of accumulated other-than-temporary impairments related to credit losses for fiscal 2017, 2018 and 2019 are as follows:

	Millions of yen		
	2017	2018	2019
Beginning .....	¥1,413	¥1,220	¥1,021
Addition during the period:			
Credit loss for which an other-than-temporary impairment was not previously recognized .....	0	0	1,103
Reduction during the period:			
For securities sold or redeemed .....	(171)	0	(22)
Due to change in intent to sell or requirement to sell .....	(22)	(199)	0
Ending .....	<u>¥1,220</u>	<u>¥1,021</u>	<u>¥2,102</u>

The following is a summary of the contractual maturities of available-for-sale debt securities and held-to-maturity debt securities held as of March 31, 2019:

**Available-for-sale debt securities held as of March 31, 2019:**

	Millions of yen	
	Amortized cost	Fair value
Due within one year .....	¥ 64,120	¥ 64,381
Due after one to five years .....	205,377	207,630
Due after five to ten years .....	558,592	555,858
Due after ten years .....	411,651	436,375
	<u>¥1,239,740</u>	<u>¥1,264,244</u>

**Held-to-maturity debt securities held as of March 31, 2019:**

	Millions of yen	
	Amortized cost	Fair value
Due after five to ten years .....	¥ 3,983	¥ 4,808
Due after ten years .....	110,078	139,518
	<u>¥114,061</u>	<u>¥144,326</u>

Debt 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 ¥14,031 million, ¥15,756 million and ¥14,745 million for fiscal 2017, 2018 and 2019, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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 subsidiary was able to recover all contractual amounts of those debt securities. 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 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 subsidiary determines 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 subsidiary recognizes the entire difference between the amortized cost and the fair value in earnings if the subsidiary intends to sell the debt security or it is more likely than not that 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 subsidiary does not intend to sell the debt security and it is not more likely than not that the subsidiary will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, the subsidiary separates 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 ¥17 million and ¥337 million as of March 31, 2018. The outstanding balance of accretable yield was ¥298 million as of March 31, 2018. In addition, there was no such debt security as of March 31, 2019.

#### 12. Transfer of Financial Assets

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

In the securitization process, these financial assets are transferred to SPEs 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 have continuing involvement with transferred financial assets by retaining the servicing arrangements and the 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. SPEs used in securitization transactions have been consolidated if the Company and its subsidiaries are the primary beneficiary of the SPEs.

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

**ORIX Corporation and Subsidiaries**

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.

During fiscal 2017, 2018 and 2019, the amount of installment loans that has been derecognized due to new securitization and transfer of loans were ¥280,350 million, ¥394,688 million and ¥475,904 million, respectively. For fiscal 2018 and 2019, gains (losses) from the securitization and transfer of loans were ¥12,702 million and ¥16,342 million, respectively, which is included in finance revenues in the consolidated statements of income. For fiscal 2017, gains (losses) from the securitization and transfer of loans were not material.

A certain subsidiary originates and sells loans into the secondary market while retaining the obligation to service those loans. In addition, the subsidiary undertakes obligations to service loans originated by others. The servicing assets related to those servicing activities are included in other assets in the consolidated balance sheets and roll-forwards of the amount of the servicing assets during fiscal 2018 and 2019 are as follows:

	Millions of yen	
	2018	2019
Beginning balance . . . . .	¥17,303	¥28,756
Increase mainly from loans sold with servicing retained . . . . .	16,983	6,275
Decrease mainly from amortization . . . . .	(4,019)	(4,728)
Increase (Decrease) from the effects of changes in foreign exchange rates . . . . .	(1,511)	1,269
Ending balance . . . . .	¥28,756	¥31,572

The fair value of the servicing assets as of March 31, 2018 and 2019 are as follows:

	Millions of yen	
	March 31, 2018	March 31, 2019
Beginning balance . . . . .	¥24,907	¥35,681
Ending balance . . . . .	¥35,681	¥39,846

**13. Variable Interest Entities**

The Company and its subsidiaries use 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, “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; and

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

- 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 factors 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; and
- 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; and
- providing liquidity and other financial support.

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

**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, 2018**

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	2,181	0	0	0
(c) VIEs for acquisition of real estate for the Company and its subsidiaries' real estate-related business	103,288	27,892	46,860	0
(d) VIEs for corporate rehabilitation support business	1,057	49	0	0
(e) VIEs for investment in securities	42,456	60	60	0
(f) VIEs for securitizing financial assets such as direct financing lease receivable and loan receivable	116,665	72,219	89,103	0
(g) VIEs for securitization of loan receivable originated by third parties	9,783	10,425	9,783	0
(h) VIEs for power generation projects	236,367	117,906	138,159	85,371
(i) Other VIEs	177,373	67,592	161,729	0
Total	<u>¥689,170</u>	<u>¥296,143</u>	<u>¥445,694</u>	<u>¥85,371</u>

**March 31, 2019**

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	2,014	0	0	0
(c) VIEs for acquisition of real estate for the Company and its subsidiaries' real estate-related business	94,404	31,208	49,587	0
(d) VIEs for corporate rehabilitation support business	564	30	0	0
(e) VIEs for investment in securities	72,347	121	42	0
(f) VIEs for securitizing financial assets such as direct financing lease receivable and loan receivable	228,859	175,115	228,859	0
(g) VIEs for securitization of loan receivable originated by third parties	2,264	2,729	2,264	0
(h) VIEs for power generation projects	282,739	195,915	242,937	54,533
(i) Other VIEs	149,333	45,082	120,312	0
Total	<u>¥832,524</u>	<u>¥450,200</u>	<u>¥644,001</u>	<u>¥54,533</u>

\*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.

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

**ORIX Corporation and Subsidiaries**

2. Non-consolidated VIEs

**March 31, 2018**

Types of VIEs	Millions of yen			
	Carrying amount of the variable interests in the VIEs held by the Company and its subsidiaries			
	Total assets	Non-recourse loans	Investments	Maximum exposure to loss *
(a) VIEs for liquidating customer assets . . . . .	¥ 8,602	¥ 0	¥ 991	¥ 991
(b) VIEs for acquisition of real estate and real estate development projects for customers . . . . .	35,812	0	2,424	2,424
(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 . . . . .	19,170,411	0	75,336	108,678
(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 . . . . .	1,355,962	0	16,653	16,670
(h) VIEs for power generation projects . . . . .	29,539	0	1,920	1,920
(i) Other VIEs . . . . .	467,259	3,732	23,484	29,813
Total . . . . .	<u>¥21,067,585</u>	<u>¥3,732</u>	<u>¥120,808</u>	<u>¥160,496</u>

**March 31, 2019**

Types of VIEs	Millions of yen			
	Carrying amount of the variable interests in the VIEs held by the Company and its subsidiaries			
	Total assets	Non-recourse loans	Investments	Maximum exposure to loss *
(a) VIEs for liquidating customer assets . . . . .	¥ 8,524	¥ 0	¥ 991	¥ 991
(b) VIEs for acquisition of real estate and real estate development projects for customers . . . . .	34,872	0	3,426	3,426
(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 . . . . .	3,493,461	0	60,329	81,337
(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 . . . . .	982,353	0	21,768	21,776
(h) VIEs for power generation projects . . . . .	26,495	0	1,783	1,783
(i) Other VIEs . . . . .	391,602	3,200	32,569	37,947
Total . . . . .	<u>¥4,937,307</u>	<u>¥3,200</u>	<u>¥120,866</u>	<u>¥147,260</u>

\* 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

#### **(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 has, are mainly included in other assets in the Company's consolidated balance sheets.

#### **(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 investment in affiliates.

Variable interests of non-consolidated VIEs, which the Company and its subsidiaries have, 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 concluded that the VIEs are not consolidated because the power to direct these VIEs is held by unrelated parties. In some cases, the Company and its subsidiaries concluded that the VIEs are not consolidated because the power to direct these VIEs is shared among multiple unrelated parties.

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

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

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, investment in securities, property under facility operations and other assets, and liabilities of those consolidated VIEs are mainly included in long-term debt.

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

Financial institutions, the Company and its subsidiaries are involved with VIEs established for the corporate rehabilitation support business. VIEs receive the funds from investors including the financial institutions, the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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 subsidiaries consolidated such VIEs since the Company and its subsidiaries 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 and other liabilities.

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 commitment agreements by which the Company and its subsidiaries may be required to make additional investment in certain such non-consolidated VIEs.

#### **(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 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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, construct solar power stations and thermal power stations 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 cash and cash equivalents, restricted cash, property under facility operations and other assets, and liabilities of those consolidated VIEs are mainly included in long-term debt, trade notes, accounts and other payable and other liabilities. The Company and a certain subsidiary have commitment agreements by which the Company and the subsidiary 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, are included in investment in affiliates in the Company's consolidated balance sheets.

#### **(i) Other VIEs**

The Company and its subsidiaries are involved with other types of VIEs for various purposes. Consolidated and non-consolidated VIEs of this category are mainly kumiai structures. In addition, certain subsidiaries have 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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 for financing. 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 performs 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, office facilities and other assets, 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 have, non-recourse loans are included in installment loans, and investments are mainly included in investment in securities in the Company's consolidated balance sheets. Certain subsidiaries have commitment agreements by which the Company and its subsidiaries may be required to make additional investment in certain such non-consolidated VIEs.

#### 14. Investment in Affiliates

Investment in affiliates at March 31, 2018 and 2019 consists of the following:

	Millions of yen	
	2018	2019
Shares .....	¥531,481	¥789,638
Loans and others .....	59,882	53,122
	<u>¥591,363</u>	<u>¥842,760</u>

Certain affiliates are listed on stock exchanges. The aggregate investment in and quoted market value of those affiliates amounted to ¥176,216 million and ¥225,569 million, respectively, as of March 31, 2018 and ¥168,569 million and ¥188,456 million, respectively, as of March 31, 2019.

In fiscal 2017, 2018 and 2019, the Company and its subsidiaries received dividends from affiliates of ¥14,913 million, ¥47,688 million and ¥17,334 million, respectively.

In the Company's consolidated balance sheets, the book value of investment in affiliates over the underlying equity in the net assets of such affiliates as of date of the most recent available financial statements of the investees were ¥95,575 million and ¥87,424 million as of March 31, 2018 and 2019, respectively. The differences mainly consist of goodwill and fair value adjustments for fixed assets.

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

**ORIX Corporation and Subsidiaries**

A company comprising a significant portion of investment in affiliates was Avolon Holdings Limited (30% of equity share) as of March 31, 2019.

Combined and condensed information relating to the affiliates for fiscal 2017, 2018 and 2019 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		
	2017	2018	2019
Operations:			
Total revenues . . . . .	¥1,394,872	¥1,871,156	¥ 1,606,565
Income before income taxes . . . . .	154,162	245,408	187,203
Net income . . . . .	109,183	210,443	114,271
Financial position:			
Total assets . . . . .	¥8,452,544	¥9,391,445	¥11,473,689
Total liabilities . . . . .	6,075,513	6,717,326	7,542,997
Total equity . . . . .	2,377,031	2,674,119	3,930,692

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

15. Goodwill and Other Intangible Assets

Changes in goodwill by reportable segment for fiscal 2017, 2018 and 2019 are as follows:

	Millions of yen						
	Corporate Financial Services	Maintenance Leasing	Real Estate	Investment and Operation	Retail	Overseas Business	Total
Balance at March 31, 2016							
Goodwill . . . . .	¥56,203	¥ 282	¥32,270	¥ 53,879	¥15,424	¥184,266	¥342,324
Accumulated impairment losses . . . . .	(837)	0	(8,708)	(39)	0	(587)	(10,171)
	55,366	282	23,562	53,840	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	32,239	68,853	15,424	181,133	354,134
Accumulated impairment losses . . . . .	(837)	0	(8,708)	(39)	0	(3,372)	(12,956)
	55,366	282	23,531	68,814	15,424	177,761	341,178
Acquired . . . . .	0	9,258	0	13,517	0	20,158	42,933
Impairment . . . . .	0	0	0	0	0	0	0
Other (net)* . . . . .	0	0	83	(20,756)	0	5,187	(15,486)
Balance at March 31, 2018							
Goodwill . . . . .	56,203	9,540	32,322	61,614	15,424	206,478	381,581
Accumulated impairment losses . . . . .	(837)	0	(8,708)	(39)	0	(3,372)	(12,956)
	55,366	9,540	23,614	61,575	15,424	203,106	368,625
Acquired . . . . .	0	0	0	27,569	0	44,897	72,466
Impairment . . . . .	0	0	0	0	0	0	0
Other (net)* . . . . .	0	(270)	(7,231)	34	0	(2,945)	(10,412)
Balance at March 31, 2019							
Goodwill . . . . .	56,203	9,270	16,383	89,217	15,424	248,430	434,927
Accumulated impairment losses . . . . .	(837)	0	0	(39)	0	(3,372)	(4,248)
	<u>¥55,366</u>	<u>¥9,270</u>	<u>¥16,383</u>	<u>¥ 89,178</u>	<u>¥15,424</u>	<u>¥245,058</u>	<u>¥430,679</u>

Notes: The Company changed the segment classification of DAIKYO from Investment and Operation segment to Real Estate segment from the fiscal 2019. As a result of this change, the amounts as of the end of and for the previous fiscal year have been retrospectively reclassified.

\* Other includes foreign currency translation adjustments, decreases due to sale of ownership interest in subsidiaries and certain other reclassifications.

As a result of the impairment test, 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

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

**ORIX Corporation and Subsidiaries**

installment loans, which brought the fair value of the reporting unit below its carrying amount. The Company and its subsidiaries recognized no impairment loss on goodwill during fiscal 2018 and 2019.

Other intangible assets at March 31, 2018 and 2019 consist of the following:

	Millions of yen	
	2018	2019
Indefinite-lived intangible assets:		
Trade names	¥ 80,844	¥ 78,252
Asset management contracts	154,014	146,981
Others	8,311	3,847
	<u>243,169</u>	<u>229,080</u>
Intangible assets subject to amortization:		
Software	99,315	111,767
Customer relationships	121,385	130,971
Others	89,028	92,306
	<u>309,728</u>	<u>335,044</u>
Accumulated amortization	<u>(113,797)</u>	<u>(137,026)</u>
Net	<u>195,931</u>	<u>198,018</u>
	<u>¥ 439,100</u>	<u>¥ 427,098</u>

The aggregate amortization expenses for intangible assets are ¥26,252 million, ¥30,959 million and ¥31,752 million in fiscal 2017, 2018 and 2019, respectively.

The estimated amortization expenses for each of five succeeding fiscal years are ¥35,827 million in fiscal 2020, ¥26,758 million in fiscal 2021, ¥21,416 million in fiscal 2022, ¥18,147 million in fiscal 2023 and ¥15,264 million in fiscal 2024, respectively.

Intangible assets subject to amortization increased during fiscal 2019 are ¥35,912 million. They mainly consist of ¥13,545 million of software and ¥13,557 million of customer relationships recognized in acquisitions. The weighted average amortization periods for the software and the customer relationships recognized in acquisitions are 5 years and 15 years, respectively.

As a result of the impairment test, the Company and its subsidiaries recognized an impairment loss of ¥411 million on intangible assets included in Overseas Business segment during fiscal 2017. The Company and its subsidiaries recognized an impairment loss of ¥194 million on intangible assets included in Investment and Operation segment during fiscal 2018. The Company and its subsidiaries recognized an impairment loss of ¥606 million on intangible assets included in Overseas Business segment during fiscal 2019. 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**

**16. 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, 2018 and 2019 are as follows:

**March 31, 2018**

	<u>Millions of yen</u>	<u>Weighted average rate</u>
Short-term debt in Japan, mainly from banks . . . . .	¥ 83,940	2.0%
Short-term debt outside Japan, mainly from banks . . . . .	167,920	3.1
Commercial paper in Japan . . . . .	51,597	0.0
Commercial paper outside Japan . . . . .	3,297	3.5
	<u>¥306,754</u>	2.3

**March 31, 2019**

	<u>Millions of yen</u>	<u>Weighted average rate</u>
Short-term debt in Japan, mainly from banks . . . . .	¥121,870	1.9%
Short-term debt outside Japan, mainly from banks . . . . .	146,618	3.7
Commercial paper in Japan . . . . .	38,598	0.0
Commercial paper outside Japan . . . . .	2,463	3.3
	<u>¥309,549</u>	2.5

The composition of long-term debt, the weighted average contract interest rate on long-term debt and the repayment due dates at March 31, 2018 and 2019 are as follows:

**March 31, 2018**

	<u>Due (Fiscal Year)</u>	<u>Millions of yen</u>	<u>Weighted average rate</u>
Banks:			
Fixed rate . . . . .	2019~2035	¥ 497,392	1.3%
Floating rate . . . . .	2019~2077	1,660,225	1.4
Insurance companies and others:			
Fixed rate . . . . .	2020~2035	329,841	0.9
Floating rate . . . . .	2019~2077	316,899	1.0
Unsecured bonds . . . . .	2021~2027	756,865	1.6
Unsecured notes under medium-term note program . . . . .	2021~2024	183,224	3.1
Payables under securitized lease receivables . . . . .	2021~2023	53,017	0.3
Payables under securitized loan receivables and investment in securities . . . . .	2024~2039	29,041	3.1
		<u>¥3,826,504</u>	1.4

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

**ORIX Corporation and Subsidiaries**

**March 31, 2019**

	<u>Due (Fiscal Year)</u>	<u>Millions of yen</u>	<u>Weighted average rate</u>
Banks:			
Fixed rate .....	2020~2037	¥ 496,431	1.2%
Floating rate .....	2020~2077	1,895,176	1.8
Insurance companies and others:			
Fixed rate .....	2020~2037	348,103	0.8
Floating rate .....	2023~2077	271,170	0.7
Unsecured bonds .....	2023~2029	807,460	1.8
Unsecured notes under medium-term note program .....	2021~2027	190,082	3.1
Payables under securitized lease receivables .....	2021~2023	20,151	0.3
Payables under securitized loan receivables and investment in securities .....	2022~2039	157,649	2.4
		<u>¥4,186,222</u>	1.7

The repayment schedule for the next five years and thereafter for long-term debt at March 31, 2019 is as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>
2020 .....	¥ 582,711
2021 .....	590,099
2022 .....	501,554
2023 .....	512,561
2024 .....	476,780
Thereafter .....	<u>1,522,517</u>
Total .....	<u>¥4,186,222</u>

Borrowings with floating rate from banks, insurance companies and others include the amount of ¥94,000 million of subordinated syndicated loan (hybrid loan executed in fiscal 2017, 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 2017, 2018 and 2019, 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 ¥924 million, ¥957 million and ¥1,005 million, respectively.

Total committed credit lines for the Company and its subsidiaries were ¥466,164 million and ¥497,882 million at March 31, 2018 and 2019, respectively, and, of these lines, ¥332,670 million and ¥346,609 million were available at March 31, 2018 and 2019, respectively. Of the available committed credit lines, ¥268,759 million and ¥303,309 million were long-term committed credit lines at March 31, 2018 and 2019, respectively.

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

**ORIX Corporation and Subsidiaries**

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 13 “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, 2019:

	<u>Millions of yen</u>
Minimum lease payments, loans and investment in operating leases . . . . .	¥109,210
Investment in securities . . . . .	160,408
Property under facility operations . . . . .	31,264
Other assets and other . . . . .	<u>28,895</u>
	<u>¥329,777</u>

As of March 31, 2019, debt liabilities was secured by shares of subsidiaries of ¥33,280 million, which were eliminated through consolidation adjustment, and debt liabilities of affiliates were secured by investment in affiliates of ¥49,125 million. In addition, ¥46,029 million was pledged primarily by investment in securities for collateral deposits and deposit for real estate transaction as of March 31, 2019.

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, 2019.

**17. Deposits**

Deposits at March 31, 2018 and 2019 consist of the following:

	<u>Millions of yen</u>	
	<u>2018</u>	<u>2019</u>
Time deposits . . . . .	¥1,334,290	¥1,409,158
Other deposits . . . . .	<u>423,172</u>	<u>518,583</u>
Total . . . . .	<u>¥1,757,462</u>	<u>¥1,927,741</u>

The balances of time deposits and certificates of deposit issued in amounts of ¥10 million or more were ¥880,725 million and ¥952,970 million at March 31, 2018 and 2019, respectively.

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

**ORIX Corporation and Subsidiaries**

The maturity schedule of time deposits at March 31, 2019 is as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>
2020 .....	¥ 761,825
2021 .....	407,053
2022 .....	109,011
2023 .....	63,274
2024 .....	67,995
Thereafter .....	<u>0</u>
Total .....	<u>¥1,409,158</u>

**18. Income Taxes**

Income before income taxes and the provision for income taxes in fiscal 2017, 2018 and 2019 are as follows:

	<u>Millions of yen</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Income before income taxes:			
Japan .....	¥302,995	¥296,577	¥254,352
Overseas .....	<u>121,970</u>	<u>138,924</u>	<u>141,378</u>
	<u>¥424,965</u>	<u>¥435,501</u>	<u>¥395,730</u>
Provision for income taxes:			
Current—			
Japan .....	¥ 85,963	¥ 85,514	¥ 83,995
Overseas .....	<u>32,758</u>	<u>22,810</u>	<u>19,824</u>
	<u>118,721</u>	<u>108,324</u>	<u>103,819</u>
Deferred—			
Japan .....	20,859	5,960	(51,795)
Overseas .....	<u>4,459</u>	<u>(372)</u>	<u>16,667</u>
	<u>25,318</u>	<u>5,588</u>	<u>(35,128)</u>
Provision for income taxes .....	<u>¥144,039</u>	<u>¥113,912</u>	<u>¥ 68,691</u>

In fiscal 2017 and 2018, the Company and its subsidiaries in Japan were 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%. In fiscal 2019, the Company and its subsidiaries in Japan were 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 31.5%.

**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 2017, 2018 and 2019 are as follows:

	Millions of yen		
	2017	2018	2019
Income before income taxes . . . . .	¥424,965	¥435,501	¥395,730
Tax provision computed at statutory rate . . . . .	¥134,714	¥138,054	¥124,655
Increases (reductions) in taxes due to:			
Change in valuation allowance . . . . .	57	(6,971)	(329)
Nondeductible expenses . . . . .	4,550	3,000	4,431
Nontaxable income . . . . .	(3,504)	(4,464)	(15,176)
Effect of lower tax rates on certain subsidiaries . . . . .	(2,780)	(5,713)	(17,950)
Effect of investor taxes on earnings of subsidiaries . . . . .	8,650	3,831	(26,756)
Effect of the tax rate change related to the new tax law . . . . .	1,219	(16,232)	(1,264)
Other, net . . . . .	1,133	2,407	1,080
Provision for income taxes . . . . .	¥144,039	¥113,912	¥ 68,691

The effective income tax rate is different from the statutory tax rate primarily because of certain nondeductible expenses, nontaxable income, changes in valuation allowance, the effect of lower tax rates on certain subsidiaries, effect of investor taxes on earnings of subsidiaries, and the effect of the tax reforms as discussed in the following paragraph.

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 in fiscal 2017 was not material.

On December 22, 2017, the tax reform bill commonly referred to as the Tax Cuts and Jobs Act in the United States was enacted. From January 1, 2018, the U.S. corporate tax rate was reduced from 35% to 21%. The decrease in the deferred tax assets and liabilities due to the change in the tax reform resulted in a decrease in provision for income taxes by ¥17,465 million in the consolidated statements of income in fiscal 2018.

On October 26, 2018, the Company decided to acquire common shares of its domestic subsidiary, DAIKYO through a tender offer (hereinafter, "the Tender Offer"), and with the establishment of the Tender Offer, the Company decided to change the method of collecting undistributed earnings of DAIKYO from collection through a taxable transaction to collection through a tax free transaction. On December 10, 2018, the Tender Offer was concluded. Along with the establishment of the event, the Company completely reversed the deferred tax liabilities previously recorded for undistributed earnings of DAIKYO. As a result of this reversal of deferred tax liabilities, income taxes decreased by ¥27,376 million in the consolidated statement of income.

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

**ORIX Corporation and Subsidiaries**

Total income taxes recognized in fiscal 2017, 2018 and 2019 are as follows:

	Millions of yen		
	2017	2018	2019
Provision for income taxes . . . . .	¥144,039	¥113,912	¥68,691
Income taxes on other comprehensive income (loss):			
Net change of unrealized gains (losses) on investment in securities . . . . .	(6,293)	(11,084)	4,013
Net change of debt valuation adjustments . . . . .	0	0	90
Net change of defined benefit pension plans . . . . .	2,582	(911)	(2,864)
Net change of foreign currency translation adjustments . . . . .	(8,576)	(1,517)	729
Net change of unrealized gains (losses) on derivative instruments . . . . .	229	139	(1,258)
Direct adjustments to shareholders' equity . . . . .	(1)	(2)	0
Total income taxes . . . . .	<u>¥131,980</u>	<u>¥100,537</u>	<u>¥69,401</u>

The tax effects of temporary differences giving rise to the deferred tax assets and liabilities at March 31, 2018 and 2019 are as follows:

	Millions of yen	
	2018	2019
Assets:		
Net operating loss carryforwards . . . . .	¥ 27,144	¥ 14,246
Allowance for doubtful receivables on direct financing leases and probable loan losses . . . . .	12,984	16,336
Investment in securities . . . . .	8,650	5,045
Accrued expenses . . . . .	20,729	21,498
Investment in operating leases . . . . .	15,400	13,134
Property under facility operations . . . . .	11,048	8,642
Installment loans . . . . .	5,916	4,737
Other . . . . .	53,300	58,689
	<u>155,171</u>	<u>142,327</u>
Less: valuation allowance . . . . .	(14,676)	(13,156)
	<u>140,495</u>	<u>129,171</u>
Liabilities:		
Investment in direct financing leases . . . . .	11,503	10,819
Investment in operating leases . . . . .	92,243	97,653
Unrealized gains (losses) on investment in securities . . . . .	4,957	6,971
Deferred insurance policy acquisition costs . . . . .	49,982	56,132
Policy liabilities and policy account balances . . . . .	54,202	38,227
Property under facility operations . . . . .	10,596	11,594
Other intangible assets . . . . .	99,999	97,426
Undistributed earnings . . . . .	89,311	42,329
Prepaid benefit cost . . . . .	9,290	8,932
Other . . . . .	34,520	38,959
	<u>456,603</u>	<u>409,042</u>
Net deferred tax liability . . . . .	<u>¥316,108</u>	<u>¥279,871</u>

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

**ORIX Corporation and Subsidiaries**

Net deferred tax assets and liabilities at March 31, 2018 and 2019 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen	
	2018	2019
Other assets .....	¥ 32,041	¥ 33,962
Income taxes: Deferred .....	348,149	313,833
Net deferred tax liability .....	¥316,108	¥279,871

The valuation allowance is primarily recognized for deferred tax assets of consolidated subsidiaries with net operating loss carryforwards for income 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 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, 2019. 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 ¥267 million in fiscal 2017, decreases of ¥28,811 million in fiscal 2018, and decreases of ¥1,520 million in fiscal 2019. The decrease in the total valuation allowance recognized in earnings due to the utilization of net operating loss carryforwards were ¥1,639 million in fiscal 2017, ¥8,303 million in fiscal 2018 and ¥2,648 million in fiscal 2019. 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 increases of ¥2,215 million in fiscal 2017 (increases of ¥2,859 million and decreases of ¥644 million on a gross basis), net increases of ¥2,029 million in fiscal 2018 (increases of ¥2,677 million and decreases of ¥648 million on a gross basis), and net increases of ¥728 million in fiscal 2019 (increases of ¥1,044 million and decreases of ¥316 million on a gross basis), respectively.

The Company and certain subsidiaries have net operating loss carryforwards of ¥135,814 million at March 31, 2019, which expire as follows:

Years ending March 31,	Millions of yen
2020 .....	¥ 13,505
2021 .....	12,775
2022 .....	6,074
2023 .....	7,614
2024 .....	18,484
Thereafter .....	61,673
Indefinite period .....	15,689
Total .....	¥135,814

The unrecognized tax benefits as of March 31, 2018 and 2019 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, 2019.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

The total amounts of penalties and interest expense related to income taxes recognized in the consolidated balance sheets as of March 31, 2018 and 2019, and in the consolidated statements of income for the fiscal 2017, 2018 and 2019 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 in Japan for the tax years prior to fiscal 2018, and its major domestic subsidiaries are no longer subject to ordinary tax examination for the tax years prior to fiscal 2014, 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 2013.

#### 19. Pension Plans

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

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

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

**ORIX Corporation and Subsidiaries**

The funded status of the defined benefit pension plans, which consists of Japanese plans and overseas plans, as of March 31, 2018 and 2019 are as follows:

	Millions of yen			
	Japanese plans		Overseas plans	
	2018	2019	2018	2019
Change in benefit obligation:				
Benefit obligation at beginning of year	¥ 99,721	¥104,593	¥ 88,630	¥100,782
Service cost	5,339	5,526	3,455	3,186
Interest cost	778	721	1,994	2,002
Actuarial loss	1,587	4,051	1,843	8,060
Foreign currency exchange rate change	0	0	6,838	(4,392)
Benefits paid	(2,997)	(3,178)	(1,654)	(1,452)
Business combinations	381	0	0	0
Divestitures	(226)	(684)	0	0
Plan amendments	10	(368)	(324)	(374)
Benefit obligation at end of year	<u>104,593</u>	<u>110,661</u>	<u>100,782</u>	<u>107,812</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	116,990	121,269	83,394	93,338
Actual return on plan assets	3,196	1,383	2,586	7,023
Employer contribution	3,559	3,633	1,738	1,920
Benefits paid	(2,486)	(2,657)	(1,529)	(1,346)
Business combinations	142	0	0	0
Divestitures	(132)	0	0	0
Foreign currency exchange rate change	0	0	7,149	(4,098)
Fair value of plan assets at end of year	<u>121,269</u>	<u>123,628</u>	<u>93,338</u>	<u>96,837</u>
The funded status of the plans	<u>¥ 16,676</u>	<u>¥ 12,967</u>	<u>¥ (7,444)</u>	<u>¥(10,975)</u>
Amount recognized in the consolidated balance sheets consists of:				
Prepaid benefit cost included in other assets	¥ 29,701	¥ 25,590	¥ 0	¥ 12
Accrued benefit liability included in other liabilities	<u>(13,025)</u>	<u>(12,623)</u>	<u>(7,444)</u>	<u>(10,987)</u>
Net amount recognized	<u>¥ 16,676</u>	<u>¥ 12,967</u>	<u>¥ (7,444)</u>	<u>¥(10,975)</u>

Amount recognized in accumulated other comprehensive income (loss), pre-tax, at March 31, 2018 and 2019 consisted of:

	Millions of yen			
	Japanese plans		Overseas plans	
	2018	2019	2018	2019
Net prior service credit	¥ 2,241	¥ 1,364	¥ 754	¥ 594
Net actuarial loss	(24,155)	(28,389)	(9,764)	(14,711)
Net transition obligation	0	0	(8)	0
Total recognized in accumulated other comprehensive loss, pre-tax	<u>¥(21,914)</u>	<u>¥(27,025)</u>	<u>¥(9,018)</u>	<u>¥(14,117)</u>

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

**ORIX Corporation and Subsidiaries**

The estimated portions of the net prior service credit and net actuarial loss above that will be recognized as a component of net pension cost (gain) of Japanese pension plans in fiscal 2020 are ¥821 million and ¥1,182 million, respectively, 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 overseas pension plans in fiscal 2020 are ¥166 million, ¥554 million and ¥1 million, respectively.

The accumulated benefit obligations for all Japanese defined benefit pension plans were ¥93,143 million and ¥97,819 million, respectively, at March 31, 2018 and 2019. The accumulated benefit obligations for all overseas defined benefit pension plans were ¥92,176 million and ¥95,879 million, respectively, at March 31, 2018 and 2019.

The aggregates of projected benefit obligations, accumulated benefit obligations and aggregate fair values of plan assets in Japanese pension plans with the accumulated benefit obligations in excess of plan assets were ¥20,621 million, ¥20,005 million and ¥7,597 million, respectively, at March 31, 2018 and ¥20,739 million, ¥20,427 million and ¥8,116 million, respectively, at March 31, 2019. The aggregates of projected benefit obligations, accumulated benefit obligations and aggregate fair values in overseas pension plans with the accumulated benefit obligations in excess of plan assets were ¥6,863 million, ¥6,584 million and ¥5,356 million, respectively, at March 31, 2018 and ¥7,076 million, ¥7,012 million and ¥5,758 million, respectively, at March 31, 2019.

Net pension cost of the plans for fiscal 2017, 2018 and 2019 consists of the following:

	Millions of yen		
	2017	2018	2019
Japanese plans:			
Service cost	¥ 5,276	¥ 5,339	¥ 5,526
Interest cost	682	778	721
Expected return on plan assets	(2,566)	(2,627)	(2,723)
Amortization of prior service credit	(925)	(912)	(897)
Amortization of net actuarial loss	959	856	844
Amortization of transition obligation	45	45	0
Net periodic pension cost	<u>¥ 3,471</u>	<u>¥ 3,479</u>	<u>¥ 3,471</u>
Overseas plans:			
Service cost	¥ 3,270	¥ 3,455	¥ 3,186
Interest cost	1,757	1,994	2,002
Expected return on plan assets	(3,581)	(4,217)	(4,407)
Amortization of prior service credit	(96)	(123)	(174)
Amortization of net actuarial loss	617	38	75
Amortization of transition obligation	4	4	7
Net periodic pension cost	<u>¥ 1,971</u>	<u>¥ 1,151</u>	<u>¥ 689</u>

Note: The components of net periodic pension cost other than the service cost component are included in personnel expenses, which is included in selling, general and administrative expenses in the consolidated statements of income.

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

**ORIX Corporation and Subsidiaries**

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) for fiscal 2017, 2018 and 2019 are summarized as follows:

	Millions of yen		
	2017	2018	2019
<b>Japanese plans:</b>			
Current year actuarial gain (loss) . . . . .	¥ 168	¥(1,005)	¥(5,078)
Amortization of net actuarial loss . . . . .	959	856	844
Prior service credit due to amendments . . . . .	(34)	(5)	20
Amortization of prior service credit . . . . .	(925)	(912)	(897)
Amortization of transition obligation . . . . .	45	45	0
Total recognized in other comprehensive income (loss), pre-tax . . . . .	<u>¥ 213</u>	<u>¥(1,021)</u>	<u>¥(5,111)</u>
<b>Overseas plans:</b>			
Current year actuarial gain (loss) . . . . .	¥ 8,585	¥(2,417)	¥(5,553)
Amortization of net actuarial loss . . . . .	617	38	75
Prior service credit due to amendments . . . . .	(1)	0	50
Amortization of prior service credit . . . . .	(96)	(123)	(174)
Amortization of transition obligation . . . . .	4	4	7
Foreign currency exchange rate change . . . . .	930	(354)	496
Total recognized in other comprehensive income (loss), pre-tax . . . . .	<u>¥10,039</u>	<u>¥(2,852)</u>	<u>¥(5,099)</u>

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

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

<b>Japanese plans</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Weighted-average assumptions used to determine benefit obligations at March 31:			
Discount rate . . . . .	0.8%	0.7%	0.5%
Rate of increase in compensation levels . . . . .	4.5%	4.6%	4.4%
Weighted-average assumptions used to determine net periodic pension cost for years ended March 31:			
Discount rate . . . . .	0.7%	0.8%	0.7%
Rate of increase in compensation levels . . . . .	4.4%	4.5%	4.6%
Expected long-term rate of return on plan assets . . . . .	2.2%	2.2%	2.2%
<b>Overseas plans</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Weighted-average assumptions used to determine benefit obligations at March 31:			
Discount rate . . . . .	2.1%	2.0%	1.7%
Rate of increase in compensation levels . . . . .	2.4%	2.4%	2.4%
Weighted-average assumptions used to determine net periodic pension cost for years ended March 31:			
Discount rate . . . . .	1.9%	2.1%	2.0%
Rate of increase in compensation levels . . . . .	2.8%	2.4%	2.4%
Expected long-term rate of return on plan assets . . . . .	4.7%	4.9%	4.7%

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

**ORIX Corporation and Subsidiaries**

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.

The fair value of Japanese pension plan assets at March 31, 2018 and 2019, 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, 2018			
	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	¥ 20,628	¥0	¥ 0	¥0
Other than Japan				
Pooled funds*2	23,954	0	0	0
Debt securities:				
Japan				
Pooled funds*3	17,828	0	0	0
Other than Japan				
Pooled funds*4	26,540	0	0	0
Other assets:				
Life insurance company general accounts*5	27,112	0	27,112	0
Others*6	5,207	0	5,207	0
	<u>¥121,269</u>	<u>¥0</u>	<u>¥32,319</u>	<u>¥0</u>

\*1 These funds invest in listed shares including shares of ORIX Corporation in the amounts of ¥49 million at March 31, 2018.

\*2 These funds invest in listed shares.

\*3 These funds invest approximately 50% in Japanese government bonds, approximately 10% in Japanese municipal bonds, and approximately 40% in Japanese corporate bonds. These funds include corporate bonds of ORIX Corporation in the amounts of ¥2,017 million at March 31, 2018.

\*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.

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

**ORIX Corporation and Subsidiaries**

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

At March 31, 2018, our policy for the portfolio of plans consists of three major components: approximately 40% is invested in equity securities, approximately 40% is invested in debt securities and approximately 20% 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.

	Millions of yen			
	March 31, 2019			
	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	¥ 19,824	¥0	¥ 0	¥0
Other than Japan				
Pooled funds*2	24,535	0	0	0
Debt securities:				
Japan				
Pooled funds*3	19,243	0	0	0
Other than Japan				
Pooled funds*4	27,382	0	0	0
Other assets:				
Life insurance company general accounts*5	27,482	0	27,482	0
Others*6	5,162	0	5,162	0
	<u>¥123,628</u>	<u>¥0</u>	<u>¥32,644</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, 2019.

\*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 ¥1,578 million at March 31, 2019.

\*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, 2019, our policy for the portfolio of plans consists of three major components: approximately 40% is invested in equity securities, approximately 40% is invested in debt securities and approximately 20% is invested in other assets, primarily consisting of investments in life insurance company general accounts.

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

**ORIX Corporation and Subsidiaries**

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.

The fair value of overseas pension plan assets at March 31, 2018 and 2019, 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, 2018			
	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 .....	¥39,841	¥39,841	¥ 0	¥0
Pooled funds*1 .....	69	0	0	0
Debt securities:				
Other than Japan				
Government bonds .....	43,110	43,110	0	0
Municipal bonds .....	4,387	0	4,387	0
Other assets:				
Life insurance company general accounts*2 .....	2,318	0	2,318	0
Others*3 .....	3,613	0	3,613	0
	<u>¥93,338</u>	<u>¥82,951</u>	<u>¥10,318</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, 2018, 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.

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

**ORIX Corporation and Subsidiaries**

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.

	Millions of yen			
	March 31, 2019			
	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 .....	¥42,124	¥42,124	¥ 0	¥0
Pooled funds*1 .....	392	0	0	0
Debt securities:				
Other than Japan				
Government bonds .....	47,269	47,269	0	0
Municipal bonds .....	4,640	0	4,640	0
Other assets:				
Life insurance company general accounts*2 .....	588	0	588	0
Others*3 .....	1,824	0	1,824	0
	<u>¥96,837</u>	<u>¥89,393</u>	<u>¥7,052</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, 2019, 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 ¥3,622 million to its Japanese pension plans and ¥2,349 million to its overseas pension plans during the year ending March 31, 2020.

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

**ORIX Corporation and Subsidiaries**

At March 31, 2019, 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>
2020 .....	¥ 2,515	¥ 1,493
2021 .....	2,357	1,558
2022 .....	2,577	1,492
2023 .....	2,726	1,570
2024 .....	2,934	1,691
2025-2029 .....	17,717	9,991
Total .....	<u>¥30,826</u>	<u>¥17,795</u>

The cost recognized for Japanese defined contribution pension plans of the Company and certain of its subsidiaries for fiscal 2017, 2018 and 2019 were ¥1,422 million, ¥1,626 million and ¥1,728 million, respectively. The cost recognized for overseas defined contribution pension plans of the Company and certain of its subsidiaries for fiscal 2017, 2018 and 2019 were ¥2,077 million, ¥2,354 million and ¥2,504 million, respectively.

**20. Redeemable Noncontrolling Interests**

Changes in redeemable noncontrolling interests in fiscal 2017, 2018 and 2019 are as follows:

	<u>Millions of yen</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Beginning Balance .....	¥ 7,467	¥ 6,548	¥7,420
Adjustment of redeemable noncontrolling interests to redemption value .....	(1,293)	1,876	2,131
Comprehensive income			
Net Income .....	432	452	404
Other comprehensive income (loss)			
Net change of foreign currency translation adjustments .....	(58)	(416)	326
Total other comprehensive income (loss) .....	(58)	(416)	326
Comprehensive income .....	374	36	730
Dividends .....	0	(1,040)	(501)
Ending Balance .....	<u>¥ 6,548</u>	<u>¥ 7,420</u>	<u>¥9,780</u>

**21. 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 2009, 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 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 2017, 2018 and 2019.

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

**ORIX Corporation and Subsidiaries**

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>
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 2019:

	<u>Number of shares*2</u>	<u>Weighted average exercise price*1*2</u>	<u>Weighted average remaining contractual life</u>	<u>Aggregate intrinsic value</u>
		<u>Yen</u>	<u>Years</u>	<u>Millions of yen</u>
Outstanding at beginning of the year . . . .	430,600	1,689		
Exercised .....	(133,400)	1,689		
Forfeited or expired .....	(297,200)	1,689		
Outstanding at end of year .....	<u>0</u>	0	0	0
Exercisable at end of year .....	0	0	0	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 ¥81 million, ¥656 million and ¥225 million in cash from the exercise of stock options during fiscal 2017, 2018 and 2019, respectively.

The total intrinsic value of options exercised during fiscal 2017, 2018 and 2019 was ¥6 million, ¥118 million and ¥25 million, respectively.

In fiscal 2017, 2018 and 2019, the Company did not recognize any stock-based compensation costs of its stock-option program. As of March 31, 2019, 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 retiree to provide these shares through the Board Incentive Plan Trust by a resolution of the Compensation Committee. The Board Incentive Plan 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

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

**ORIX Corporation and Subsidiaries**

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 2019, the Company granted 289,750 points, and 225,076 points were settled for individuals who retired during fiscal 2019. Total points outstanding under the stock compensation program as of March 31, 2019 were 1,516,158 points. The points were adjusted for the 10-for-1 stock split implemented on April 1, 2013.

During fiscal 2017, 2018 and 2019, the Company recognized stock-based compensation costs of its stock compensation program in the amount of ¥611 million, ¥701 million and ¥413 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

22. Accumulated Other Comprehensive Income (Loss)

Changes in each component of accumulated other comprehensive income (loss) attributable to ORIX Corporation Shareholders in fiscal 2017, 2018 and 2019 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, 2016	¥ 47,185	¥(23,884)	¥(24,766)	¥(4,757)	¥ (6,222)
Net unrealized gains (losses) 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 gains (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)
Net unrealized gains (losses) on investment in securities, net of tax of ¥2,045 million	(2,408)				(2,408)
Reclassification adjustment included in net income, net of tax of ¥9,039 million	(20,426)				(20,426)
Defined benefit pension plans, net of tax of ¥888 million		(2,893)			(2,893)
Reclassification adjustment included in net income, net of tax of ¥23 million		(69)			(69)
Foreign currency translation adjustments, net of tax of ¥2,813 million			(1,387)		(1,387)
Reclassification adjustment included in net income, net of tax of ¥(1,296) million			(568)		(568)
Net unrealized gains (losses) on derivative instruments, net of tax of ¥(1,120) million				3,820	3,820
Reclassification adjustment included in net income, net of tax of ¥981 million				(3,041)	(3,041)
Total other comprehensive income (loss)	(22,834)	(2,962)	(1,955)	779	(26,972)
Transaction with noncontrolling interests	0	0	(1)	0	(1)
Less: Other Comprehensive Income (Loss) Attributable to the Noncontrolling Interest	(88)	22	(1,537)	34	(1,569)
Less: Other Comprehensive Income (Loss) Attributable to the Redeemable Noncontrolling Interests	0	0	(416)	0	(416)
Reclassification of change in accounting standards	932	(173)	(67)	0	692
Balance at March 31, 2018	¥ 10,465	¥(20,487)	¥(31,806)	¥(3,738)	¥(45,566)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

Note: Reclassification of change in accounting standards represents the amounts reclassified for the early adoption of the Accounting Standards Update 2018-02 (“Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”—ASC 220 (“Income Statement—Reporting Comprehensive Income”)).

	Millions of yen					
	Net unrealized gains (losses) on investment in securities	Debt valuation adjustments	Defined benefit pension plans	Foreign currency translation adjustments	Net unrealized gains (losses) on derivative instruments	Accumulated other comprehensive income (loss)
Balance at March 31, 2018 . . . . .	¥10,465	¥ 0	¥(20,487)	¥(31,806)	¥(3,738)	¥(45,566)
Cumulative effect of adopting Accounting Standards Update 2016-01 . . . . .	(3,250)	351	0	0	0	(2,899)
Balance at April 1, 2018 . . . . .	7,215	351	(20,487)	(31,806)	(3,738)	(48,465)
Net unrealized gains (losses) on investment in securities, net of tax of ¥(4,693) million . . . . .	12,169					12,169
Reclassification adjustment included in net income, net of tax of ¥680 million . . . . .	(1,954)					(1,954)
Debt valuation adjustments, net of tax of ¥(101) million . . . . .		258				258
Reclassification adjustment included in net income, net of tax of ¥11 million . . . . .		(27)				(27)
Defined benefit pension plans, net of tax of ¥2,821 million . . . . .			(7,244)			(7,244)
Reclassification adjustment included in net income, net of tax of ¥43 million . . . . .			(102)			(102)
Foreign currency translation adjustments, net of tax of ¥(729) million . . . . .				(11,540)		(11,540)
Reclassification adjustment included in net income, net of tax of ¥0 million . . . . .				3		3
Net unrealized gains (losses) on derivative instruments, net of tax of ¥1,393 million . . . . .					(4,621)	(4,621)
Reclassification adjustment included in net income, net of tax of ¥(135) million . . . . .					503	503
Total other comprehensive income (loss) . . . . .	10,215	231	(7,346)	(11,537)	(4,118)	(12,555)
Transaction with noncontrolling interests . . . . .	0	0	(126)	23	0	(103)
Less: Other Comprehensive Income (Loss) Attributable to the Noncontrolling Interest . . . . .	41	0	(57)	(88)	(2)	(106)
Less: Other Comprehensive Income Attributable to the Redeemable Noncontrolling Interests . . . . .	0	0	0	326	0	326
Balance at March 31, 2019 . . . . .	¥17,389	¥582	¥(27,902)	¥(43,558)	¥(7,854)	¥(61,343)

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

**ORIX Corporation and Subsidiaries**

Amounts reclassified to net income from accumulated other comprehensive income (loss) for fiscal 2017, 2018 and 2019 are as follows:

Details about accumulated other comprehensive income components	March 31, 2017	
	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 . . . . .	¥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 income tax
	<u>(8,255)</u>	Income tax (expense) or benefit
	<u>¥14,456</u>	Net of tax
Defined benefit pension plans		
Amortization of prior service credit . . . . .	¥ 1,021	See Note 19 “Pension Plans”
Amortization of net actuarial loss . . . . .	(1,576)	See Note 19 “Pension Plans”
Amortization of transition obligation . . . . .	<u>(49)</u>	See Note 19 “Pension Plans”
	(604)	Total before income tax
	<u>160</u>	Income tax (expense) or benefit
	<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 income tax
	<u>809</u>	Income tax (expense) or benefit
	<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 income tax
	<u>(559)</u>	Income tax (expense) or benefit
	<u>¥ 1,694</u>	Net of tax

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

		March 31, 2018
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 . . . . .	¥27,158	Gains on investment securities and dividends
Sales of investment securities . . . . .	4,228	Life insurance premiums and related investment income
Amortization of investment securities . . . .	(735)	Finance revenues
Amortization of investment securities . . . .	(504)	Life insurance premiums and related investment income
Others . . . . .	(682)	Write-downs of securities and other
	29,465	Total before income tax
	(9,039)	Income tax (expense) or benefit
	<u>¥20,426</u>	Net of tax
Defined benefit pension plans		
Amortization of prior service credit . . . . .	¥ 1,035	See Note 19 “Pension Plans”
Amortization of net actuarial loss . . . . .	(894)	See Note 19 “Pension Plans”
Amortization of transition obligation . . . . .	(49)	See Note 19 “Pension Plans”
	92	Total before income tax
	(23)	Income tax (expense) or benefit
	<u>¥ 69</u>	Net of tax
Foreign currency translation adjustments		
Sales or liquidation . . . . .	¥ (728)	Gains on sales of subsidiaries and affiliates and liquidation losses, net
	(728)	Total before income tax
	1,296	Income tax (expense) or benefit
	<u>¥ 568</u>	Net of tax
Net unrealized gains (losses) on derivative instruments		
Interest rate swap agreements . . . . .	¥ 132	Finance revenues/Interest expense
Foreign exchange contracts . . . . .	(20)	Other (income) and expense, net
Foreign currency swap agreements . . . . .	3,910	Finance revenues/Interest expense/Other (income) and expense, net
	4,022	Total before income tax
	(981)	Income tax (expense) or benefit
	<u>¥ 3,041</u>	Net of tax

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2019

Details about accumulated other comprehensive income components	Reclassification adjustment included in net income Millions of yen	Consolidated statements of income caption
Net unrealized gains (losses) on investment in securities		
Sales of debt securities . . . . .	¥ 3,460	Gains on investment securities and dividends
Sales of debt securities . . . . .	1,573	Life insurance premiums and related investment income
Amortization of debt securities . . . . .	(1,030)	Finance revenues
Amortization of debt securities . . . . .	(146)	Life insurance premiums and related investment income
Others . . . . .	(1,223)	Write-downs of securities and other
	2,634	Total before income tax
	(680)	Income tax (expense) or benefit
	<u>¥ 1,954</u>	Net of tax
Debt valuation adjustments		
Fulfillment of policy liabilities and amortization of policy account balances . . . . .	¥ 38	Life insurance costs
	38	Total before income tax
	(11)	Income tax (expense) or benefit
	<u>¥ 27</u>	Net of tax
Defined benefit pension plans		
Amortization of prior service credit . . . . .	¥ 1,071	See Note 19 “Pension Plans”
Amortization of net actuarial loss . . . . .	(919)	See Note 19 “Pension Plans”
Amortization of transition obligation . . . . .	(7)	See Note 19 “Pension Plans”
	145	Total before income tax
	(43)	Income tax (expense) or benefit
	<u>¥ 102</u>	Net of tax
Foreign currency translation adjustments		
Sales or liquidation . . . . .	¥ (3)	Gains on sales of subsidiaries and affiliates and liquidation losses, net
	(3)	Total before income tax
	0	Income tax (expense) or benefit
	<u>¥ (3)</u>	Net of tax
Net unrealized gains (losses) on derivative instruments		
Interest rate swap agreements . . . . .	¥ 157	Finance revenues/Interest expense
Foreign exchange contracts . . . . .	(156)	Other (income) and expense, net
Foreign currency swap agreements . . . . .	(639)	Finance revenues/Interest expense/Other (income) and expense, net
	(638)	Total before income tax
	135	Income tax (expense) or benefit
	<u>¥ (503)</u>	Net of tax

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

**ORIX Corporation and Subsidiaries**

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 20 “Redeemable Noncontrolling Interests.” Total comprehensive income (loss) and its components have been reported, net of tax, in the consolidated statements of comprehensive income.

**23. ORIX Corporation Shareholders’ Equity**

Changes in the number of shares issued in fiscal 2017, 2018 and 2019 are as follows:

	Number of shares		
	2017	2018	2019
Beginning balance . . . . .	1,324,058,828	1,324,107,328	1,324,495,728
Exercise of stock options . . . . .	48,500	388,400	133,400
Ending balance . . . . .	1,324,107,328	1,324,495,728	1,324,629,128

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 2019 that a total of ¥58,962 million dividends shall be distributed to the shareholders of record as of March 31, 2019. 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 ¥714,502 million as of March 31, 2019.

Retained earnings at March 31, 2019 include ¥61,508 million relating to equity in undistributed earnings of the companies accounted for by the equity method.

As of March 31, 2019, the restricted net assets of certain subsidiaries include regulatory capital requirements mainly for banking and life insurance operations of ¥16,282 million.

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

**ORIX Corporation and Subsidiaries**

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

Gains on investment securities and dividends in fiscal 2017, 2018 and 2019 consist of the following:

	Millions of yen		
	2017	2018	2019
Net gains on investment securities . . . . .	¥27,233	¥39,139	¥14,273
Dividends income, other . . . . .	3,095	4,163	1,685
	<u>¥30,328</u>	<u>¥43,302</u>	<u>¥15,958</u>

\* Unrealized changes in fair value of investments in equity securities have been included in “Net gains on investment securities” since fiscal 2019.

**25. Life Insurance Operations**

Life insurance premiums and related investment income in fiscal 2017, 2018 and 2019 consist of the following:

	Millions of yen		
	2017	2018	2019
Life insurance premiums . . . . .	¥247,427	¥299,320	¥330,811
Life insurance related investment income* . . . . .	48,513	52,270	16,325
	<u>¥295,940</u>	<u>¥351,590</u>	<u>¥347,136</u>

\* Life insurance related investment income in fiscal 2019 includes net unrealized holding losses of ¥217 million on equity securities held as of March 31, 2019.

Life insurance premiums include reinsurance benefits, net of reinsurance premiums. For fiscal 2017, 2018 and 2019, reinsurance benefits and reinsurance premiums included in life insurance premiums are as follows:

	Millions of yen		
	2017	2018	2019
Reinsurance benefits . . . . .	¥ 4,023	¥ 3,617	¥ 2,849
Reinsurance premiums . . . . .	(9,657)	(6,993)	(5,546)

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 2017, 2018 and 2019 amounted to ¥14,346 million, ¥16,465 million and ¥19,592 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

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

**ORIX Corporation and Subsidiaries**

option and insurance costs recognized for insurance and annuity payouts as a result of insured events. Certain subsidiaries have elected the fair value option for certain reinsurance contracts to partially offset the changes in fair value recognized in earnings of the policy liabilities and policy account balances attributable to the changes in the minimum guarantee risks of the variable annuity and variable life insurance contracts, and the changes in the fair value of the reinsurance contracts were recorded in life insurance costs.

The above mentioned gains or losses relating to variable annuity and variable life insurance contracts for fiscal 2017, 2018 and 2019 are as follows:

	Millions of yen		
	2017	2018	2019
<b>Life insurance premiums and related investment income:</b>			
Net realized and unrealized gains or losses from investment assets . . . .	¥ 37,016	¥ 46,890	¥ 879
Net gains or losses from derivative contracts: . . . . .	(10,568)	(7,332)	(1,348)
Futures . . . . .	(9,118)	(6,238)	(374)
Foreign exchange contracts . . . . .	220	(270)	(350)
Options held . . . . .	(1,670)	(824)	(624)
<b>Life insurance costs:</b>			
Changes in the fair value of the policy liabilities and policy account balances . . . . .	¥(189,481)	¥(161,510)	¥(83,491)
Insurance costs recognized for insurance and annuity payouts as a result of insured events . . . . .	185,830	¥ 180,775	75,617
Changes in the fair value of the reinsurance contracts . . . . .	15,739	¥ 7,108	2,559

**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, 2018 and 2019, the long-lived assets classified as held for sale in the accompanying consolidated balance sheets are as follows.

	Millions of yen	
	2018	2019
Investment in operating leases . . . . .	¥31,776	¥24,956
Property under facility operations . . . . .	12,483	44,473
Other assets . . . . .	164	19

The long-lived assets classified as held for sale as of March 31, 2018 are included in Corporate Financial Services segment, Real Estate segment, Investment and Operation segment and Overseas Business segment. The long-lived assets classified as held for sale as of March 31, 2019 are included in Corporate Financial Services 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 2017, 2018 and 2019, the Company and its subsidiaries recognized impairment losses for the difference between carrying amounts and fair values in the amount of ¥9,134 million, ¥5,525 million and ¥2,418 million, respectively, which are reflected as write-downs of long-lived assets. Breakdowns of these amounts are as follows.

	Write-downs of the assets held for sale		Write-downs due to decline in estimated future cash flows	
	Amount (Millions of yen)	The number of properties	Amount (Millions of yen)	The number of properties
<b>Fiscal Year ended March 31, 2017</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>
<b>Fiscal Year ended March 31, 2018</b>				
Office buildings . . . . .	¥ 190	2	¥ 0	0
Commercial facilities other than office buildings . . . . .	1,134	2	297	3
Others* . . . . .	538	—	3,366	—
Total . . . . .	<u>¥1,862</u>	<u>—</u>	<u>¥3,663</u>	<u>—</u>
<b>Fiscal Year ended March 31, 2019</b>				
Commercial facilities other than office buildings . . . . .	¥ 712	1	¥ 16	1
Others* . . . . .	0	—	1,690	—
Total . . . . .	<u>¥ 712</u>	<u>—</u>	<u>¥1,706</u>	<u>—</u>

\* For the “Others”, the number of properties are omitted. Write-downs of long-lived assets for fiscal 2017 include write-downs of ¥1,156 million of aircraft. Write-downs of long-lived assets for fiscal 2018 and 2019 include write-downs of ¥2,138 million and ¥825 million of hotels, respectively.

Breakdowns of these amounts by segment are provided in Note 33 “Segment Information.”

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

**ORIX Corporation and Subsidiaries**

**27. Per Share Data**

Reconciliation of the differences between basic and diluted earnings per share (EPS) in fiscal 2017, 2018 and 2019 is as follows:

In fiscal 2017 and 2018, the diluted EPS calculation excludes stock options for 2,697 thousand shares and 192 thousand shares, as they were antidilutive. In fiscal 2019, there were no stock options which were antidilutive.

	Millions of yen		
	2017	2018	2019
Net Income attributable to ORIX Corporation shareholders . . . . .	¥ 273,239	¥ 313,135	¥ 323,745
	Thousands of shares		
	2017	2018	2019
Weighted-average shares . . . . .	1,308,105	1,281,238	1,280,020
Effect of dilutive securities			
Exercise of stock options . . . . .	1,277	1,314	1,107
Weighted-average shares for diluted EPS computation . . . . .	1,309,382	1,282,552	1,281,127
	Yen		
	2017	2018	2019
Earnings per share for net income attributable to ORIX Corporation shareholders:			
Basic . . . . .	¥ 208.88	¥ 244.40	¥ 252.92
Diluted . . . . .	208.68	244.15	252.70

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 (2,092,595 shares, 1,946,561 shares and 1,740,314 shares in fiscal 2017, 2018 and 2019).

**28. Derivative Financial Instruments and Hedging**

**Risk management policy**

The Company and its subsidiaries manage interest rate risk through asset-liability management ("ALM"). The Company and its subsidiaries use derivative financial instruments to hedge interest rate risk and mitigate 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.

The Company and its subsidiaries have no derivative instruments with credit-risk-related contingent features as of March 31, 2018 and 2019.

#### (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 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 gains of ¥1,694 million and ¥3,041 million, losses of ¥503 million during fiscal 2017, 2018 and 2019, respectively. The amount of net gains (losses), which represent the ineffectiveness of cash flow hedges, ¥310 million of gains, ¥1,124 million of losses were recorded in earnings for fiscal 2017 and 2018, respectively. For fiscal 2019, there were no gains or losses which represent the ineffectiveness of cash flow hedges. The amount of net derivative gains, ¥86 million, included in other comprehensive income (loss), net of applicable income taxes at March 31, 2019 will be reclassified into earnings within fiscal 2020.

#### (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 2017, net losses of ¥2 million, of hedge ineffectiveness associated with instruments designated as fair value hedges were recorded in earnings. For fiscal 2018, there were no gains or losses of hedge ineffectiveness associated with instruments designated as fair value hedges. For fiscal 2019, net losses of ¥135 million, 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 and borrowings and bonds denominated in foreign 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).

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

**ORIX Corporation and Subsidiaries**

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

The Company and its 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.

The effect of derivative instruments on the consolidated statements of income, pre-tax, for fiscal 2017 is as follows.

**(1) Cash flow hedges**

	<b>Gains (losses) recognized in other comprehensive income on derivative (effective portion)</b>	<b>Gains (losses) reclassified from other comprehensive income (loss) into income (effective portion)</b>	<b>Gains (losses) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)</b>		
	<b>Millions of yen</b>	<b>Consolidated statements of income location</b>	<b>Millions of yen</b>	<b>Consolidated statements of income location</b>	<b>Millions of yen</b>
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**

	<b>Gains (losses) recognized in income on derivative and other</b>	<b>Gains (losses) recognized in income on hedged item</b>		
	<b>Millions of yen</b>	<b>Consolidated statements of income location</b>	<b>Millions of yen</b>	<b>Consolidated statements of income location</b>
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

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 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

(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 . . . . .	¥ 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* Other (income) and expense, net
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 25 “Life Insurance Operations”).

The effect of derivative instruments on the consolidated statements of income, pre-tax, for fiscal 2018 is as follows.

(1) Cash flow hedges

	Gains (losses) recognized in other comprehensive income on derivative (effective portion)	Gains (losses) reclassified from 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 . . .	¥ (114)	Finance revenues/Interest expense	¥ 132	—	¥ 0
Foreign exchange contracts . . . . .	(566)	Other (income) and expense, net	(20)	—	0
Foreign currency swap agreements . . . . .	5,620	Finance revenues/Interest expense/Other (income) and expense, net	3,910	Other (income) and expense, net	(1,124)

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

**ORIX Corporation and Subsidiaries**

**(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 . . . . .	¥ (393)	Finance revenues/Interest expense	¥ 393	Finance revenues/Interest expense
Foreign exchange contracts . . . . .	956	Other (income) and expense, net	(956)	Other (income) and expense, net
Foreign currency swap agreements . . . . .	1,147	Other (income) and expense, net	(1,147)	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 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 . . . . .	¥(14,300)	Gains on sales of subsidiaries and affiliates and liquidation losses, net	¥(3,559)	—	¥0
Borrowings and bonds in foreign currencies . . . . .	8,746	—	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 . . . . .	¥ 1,420	Other (income) and expense, net
Futures . . . . .	(5,819)	Gains on investment securities and dividends Life insurance premiums and related investment income*
Foreign exchange contracts . . . . .	(6,626)	Gains on investment securities and dividends Life insurance premiums and related investment income* Other (income) and expense, net
Credit derivatives held . . . . .	(4)	Other (income) and expense, net
Options held/written and other . . . . .	(291)	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 2018 (see Note 25 "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 2019 is as follows.

(1) Cash flow hedges

	Gains (losses) recognized in other comprehensive income on derivative (effective portion)	Gains (losses) reclassified from 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
Interest rate swap agreements . . .	¥(4,313)	Finance revenues/Interest expense	¥ 157	—
Foreign exchange contracts . . . . .	115	Other (income) and expense, net	(156)	—
Foreign currency swap agreements . . . . .	(1,816)	Finance revenues/Interest expense/Other (income) and expense, net	(639)	—
				Millions of yen
				¥0
				0
				0

(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 . . . . .	¥(8,448)	Finance revenues/Interest expense	¥8,448	Finance revenues/Interest expense
Foreign exchange contracts . . . . .	(5,538)	Other (income) and expense, net	5,403	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 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
Foreign exchange contracts . . . . .	¥4,850	Gains on sales of subsidiaries and affiliates and liquidation losses, net	¥(2,540)	—
Borrowings and bonds in foreign currencies . . . . .	(5,963)	—	0	—
				Millions of yen
				¥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	¥ 832	Other (income) and expense, net	
Futures	(912)	Gains on investment securities and dividends Life insurance premiums and related investment income*	
Foreign exchange contracts	(6,589)	Gains on investment securities and dividends Life insurance premiums and related investment income* Other (income) and expense, net	
Credit derivatives held/written	105	Other (income) and expense, net	
Options held/written and other	710	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 2019 (see Note 25 “Life Insurance Operations”).

Notional amounts of derivative instruments and other, fair values of derivative instruments and other before offsetting at March 31, 2018 and 2019 are as follows.

**March 31, 2018**

	Notional amount	Derivative assets		Derivative liabilities	
		Fair value	Consolidated balance sheets location	Fair value	Consolidated balance sheets location
	Millions of yen	Millions of yen		Millions of yen	
Derivatives designated as hedging instruments and other:					
Interest rate swap agreements	¥278,850	¥ 55	Other Assets	¥4,759	Other Liabilities
Futures, foreign exchange contracts	566,583	11,445	Other Assets	2,149	Other Liabilities
Foreign currency swap agreements	70,156	422	Other Assets	3,220	Other Liabilities
Foreign currency long-term debt	396,503	0	—	0	—
Derivatives not designated as hedging instruments:					
Interest rate swap agreements	¥ 19,569	¥ 272	Other Assets	¥ 165	Other Liabilities
Options held/written and other*	372,138	7,025	Other Assets	701	Other Liabilities
Futures, foreign exchange contracts*	271,365	2,612	Other Assets	1,298	Other Liabilities
Credit derivatives held	5,459	0	—	108	Other Liabilities

\* The notional amounts of options held/written and other and futures, foreign exchange contracts in the above table include options held of ¥40,275 million, futures contracts of ¥38,094 million and foreign exchange contracts of ¥12,140 million to economically hedge the minimum guarantee risk of variable annuity and variable life insurance contracts at March 31, 2018, respectively. Derivative assets in the above table include fair value of the options held, futures contracts and foreign exchange contracts before offsetting of ¥844 million, ¥182 million and ¥90 million and derivative liabilities include fair value of the futures and foreign exchange contracts before offsetting of ¥318 million and ¥15 million at March 31, 2018, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2019

	Notional amount	Derivative assets		Derivative liabilities	
		Fair value	Consolidated	Fair value	Consolidated
	Millions of yen	Millions of yen	balance sheets location	Millions of yen	balance sheets location
Derivatives designated as hedging instruments and other:					
Interest rate swap agreements	¥498,874	¥ 11	Other Assets	¥17,320	Other Liabilities
Futures, foreign exchange contracts	505,909	1,888	Other Assets	3,177	Other Liabilities
Foreign currency swap agreements	65,575	1,203	Other Assets	364	Other Liabilities
Foreign currency long-term debt	641,127	0	—	0	—
Derivatives not designated as hedging instruments:					
Interest rate swap agreements	¥ 60,657	¥ 127	Other Assets	¥ 119	Other Liabilities
Options held/written and other*	556,668	11,140	Other Assets	2,809	Other Liabilities
Futures, foreign exchange contracts*	320,710	1,119	Other Assets	2,159	Other Liabilities
Credit derivatives held/written	262	7	Other Assets	10	Other Liabilities

\* The notional amounts of options held/written and other and futures, foreign exchange contracts in the above table include options held of ¥34,701 million, futures contracts of ¥37,359 million and foreign exchange contracts of ¥13,171 million to economically hedge the minimum guarantee risk of variable annuity and variable life insurance contracts at March 31, 2019, respectively. Derivative assets in the above table include fair value of the options held, futures contracts and foreign exchange contracts before offsetting of ¥206 million, ¥248 million and ¥30 million and derivative liabilities include fair value of the futures and foreign exchange contracts before offsetting of ¥258 million and ¥173 million at March 31, 2019, respectively.

29. Offsetting Assets and Liabilities

The gross amounts recognized, gross amounts offset, and net amounts presented in the consolidated balance sheets regarding derivative assets and liabilities and other assets and liabilities as of March 31, 2018 and 2019 are as follows.

March 31, 2018

	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	¥ 21,831	¥ (2,105)	¥ 19,726	¥ (820)	¥ (6,497)	¥ 12,409
Reverse repurchase, securities borrowing, and similar arrangements*2	5,784	(5,590)	194	0	0	194
Total assets	¥ 27,615	¥ (7,695)	¥ 19,920	¥ (820)	¥ (6,497)	¥ 12,603
Derivative liabilities	¥ 12,400	¥ (2,105)	¥ 10,295	¥ 0	¥ (180)	¥ 10,115
Repurchase, securities lending, and similar arrangements*2	5,590	(5,590)	0	0	0	0
Total liabilities	¥ 17,990	¥ (7,695)	¥ 10,295	¥ 0	¥ (180)	¥ 10,115

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2019

	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 .....	¥15,495	¥(1,497)	¥13,998	¥ (196)	¥ 0	¥13,802
Total assets .....	<u>¥15,495</u>	<u>¥(1,497)</u>	<u>¥13,998</u>	<u>¥ (196)</u>	<u>¥ 0</u>	<u>¥13,802</u>
Derivative liabilities .....	¥25,958	¥(1,497)	¥24,461	¥(8,353)	¥(79)	¥16,029
Total liabilities .....	<u>¥25,958</u>	<u>¥(1,497)</u>	<u>¥24,461</u>	<u>¥(8,353)</u>	<u>¥(79)</u>	<u>¥16,029</u>

\*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.

**30. 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 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, 2018 and 2019, 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, ¥6,166 billion, or 76%, at March 31, 2018 and ¥6,363 billion, or 72%, at March 31, 2019 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 the Americas. The gross amount of such exposure is ¥821 billion and ¥1,075 billion as of March 31, 2018 and 2019, 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 11.8% and 11.4% as of March 31, 2018 and 2019, 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 12.3% and 13.1% as of March 31, 2018 and 2019, respectively.

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

**ORIX Corporation and Subsidiaries**

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

**March 31, 2018**

	Millions of yen				
	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
<b>Assets:</b>					
Cash and cash equivalents . . . . .	¥1,321,241	¥1,321,241	¥1,321,241	¥ 0	¥ 0
Restricted cash . . . . .	83,876	83,876	83,876	0	0
Installment loans (net of allowance for probable loan losses) . . . . .	2,779,186	2,788,069	0	139,416	2,648,653
Trading securities . . . . .	422,053	422,053	35,766	386,287	0
Investment in securities:					
Practicable to estimate fair value . . . . .	1,167,247	1,194,180	65,716	969,668	158,796
Not practicable to estimate fair value*1 . . . . .	140,155	140,155	0	0	0
Other Assets:					
Time deposits . . . . .	3,378	3,378	0	3,378	0
Derivative assets*2 . . . . .	19,726	19,726	0	0	0
Reinsurance recoverables (Investment contracts) . . . . .	51,351	52,015	0	0	52,015
<b>Liabilities:</b>					
Short-term debt . . . . .	¥ 306,754	¥ 306,754	¥ 0	¥ 306,754	¥ 0
Deposits . . . . .	1,757,462	1,759,248	0	1,759,248	0
Policy liabilities and Policy account balances (Investment contracts) . . . . .					
	275,507	275,979	0	0	275,979
Long-term debt . . . . .	3,826,504	3,830,529	0	922,319	2,908,210
Other Liabilities:					
Derivative liabilities*2 . . . . .	10,295	10,295	0	0	0

\*1 The fair value of investment securities of ¥140,155 million was not estimated, as it was not practicable.

\*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."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2019

	Millions of yen				
	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
<b>Assets:</b>					
Cash and cash equivalents . . . . .	¥1,161,032	¥1,161,032	¥1,161,032	¥ 0	¥ 0
Restricted cash . . . . .	122,548	122,548	122,548	0	0
Installment loans (net of allowance for probable loan losses) . . . . .	3,231,708	3,228,750	0	199,590	3,029,160
Equity securities*1 . . . . .	425,593	425,593	68,631	295,769	61,193
Trading debt securities . . . . .	1,564	1,564	0	1,564	0
Available-for-sale debt securities . . . . .	1,264,244	1,264,244	24,831	1,138,966	100,447
Held-to-maturity debt securities . . . . .	114,061	144,326	0	120,714	23,612
<b>Other Assets:</b>					
Time deposits . . . . .	4,754	4,754	0	4,754	0
Derivative assets*2 . . . . .	13,998	13,998	0	0	0
Reinsurance recoverables (Investment contracts) . . . . .	29,989	30,400	0	0	30,400
<b>Liabilities:</b>					
Short-term debt . . . . .	¥ 309,549	¥ 309,549	¥ 0	¥ 309,549	¥ 0
Deposits . . . . .	1,782,198	1,782,753	0	1,782,753	0
Policy liabilities and Policy account balances (Investment contracts) . . . . .	244,497	244,653	0	0	244,653
Long-term debt . . . . .	4,186,222	4,199,341	0	1,158,287	3,041,054
<b>Other Liabilities:</b>					
Derivative liabilities*2 . . . . .	24,461	24,461	0	0	0

\*1 The amount of ¥12,100 million of investment funds measured at net asset value per share is not included.

\*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.

**32. Commitments, Guarantees and Contingent Liabilities**

**Commitments**—As of March 31, 2019, the Company and certain subsidiaries have commitments for the purchase of equipment to be leased, having a cost of ¥210 million.

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

**ORIX Corporation and Subsidiaries**

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

<u>Years ending March 31,</u>	<u>Millions of yen</u>
2020 .....	¥ 7,694
2021 .....	6,647
2022 .....	5,923
2023 .....	5,434
2024 .....	4,802
Thereafter .....	<u>34,485</u>
Total .....	<u>¥64,985</u>

The Company and certain subsidiaries lease lands under fixed-term land lease agreements, which are cancelable when certain conditions are met. The future maximum lease commitment under such arrangements at March 31, 2019 totals ¥57,388 million through March 31, 2024 and ¥64,222 million thereafter.

The Company and certain subsidiaries lease office space under operating lease agreements, which are primarily cancelable, and made rental payments totaling ¥13,849 million, ¥14,516 million and ¥17,564 million in fiscal 2017, 2018 and 2019, 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 ¥5,068 million, ¥5,922 million and ¥7,355 million in fiscal 2017, 2018 and 2019, respectively. The longest contract of them will mature in fiscal 2025. As of March 31, 2019, the amounts due are as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>
2020 .....	¥4,323
2021 .....	1,891
2022 .....	856
2023 .....	420
2024 .....	18
Thereafter .....	<u>0</u>
Total .....	<u>¥7,508</u>

The Company and certain subsidiaries have commitments to fund estimated construction costs and so forth to complete ongoing real estate development projects and other commitments, totaling ¥121,647 million as of March 31, 2019.

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, 2019, the total unused credit and capital amount available is ¥375,238 million.

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

**ORIX Corporation and Subsidiaries**

**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, 2018 and 2019:

<b>Guarantees</b>	<b>2018</b>			<b>2019</b>		
	<b>Millions of yen</b>		<b>Fiscal year</b>	<b>Millions of yen</b>		<b>Fiscal year</b>
	<b>Potential future payment</b>	<b>Book value of guarantee liabilities</b>	<b>Maturity of the longest contract</b>	<b>Potential future payment</b>	<b>Book value of guarantee liabilities</b>	<b>Maturity of the longest contract</b>
Corporate loans . . . . .	¥488,297	¥ 7,294	2025	¥ 500,499	¥ 6,707	2026
Transferred loans . . . . .	166,906	1,227	2058	175,623	1,436	2059
Consumer loans . . . . .	297,153	37,596	2029	343,119	42,400	2030
Housing loans . . . . .	28,408	5,021	2048	40,395	4,701	2048
Other . . . . .	615	230	2025	263	1	2024
<b>Total . . . . .</b>	<b>¥981,379</b>	<b>¥51,368</b>	<b>—</b>	<b>¥1,059,899</b>	<b>¥55,245</b>	<b>—</b>

**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, 2018 and 2019, total notional amount of the loans subject to such guarantees are ¥1,098,000 million and ¥1,089,000 million, respectively, and book value of guarantee liabilities are ¥1,966 million and ¥2,559 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 2019.

**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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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 2019.

As of March 31, 2018 and 2019, the total outstanding principal amount of loans transferred under the Delegated Underwriting and Servicing program, for which the subsidiary guarantees to absorb some of the losses, were ¥564,854 million and ¥593,062 million, respectively.

**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 2019.

**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 2019.

**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.

### 33. Segment Information

Financial information about the operating segments reported below is that which is available by segment and evaluated regularly by the chief operating decision maker 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	: Finance and fee business
Maintenance Leasing	: Automobile leasing and rentals, car-sharing; test and measurement instruments and IT-related equipment rentals and leasing
Real Estate	: Real estate development, rental and management; facility operation; real estate investment management
Investment and Operation	: Environment and energy, private equity and concession
Retail	: Life insurance, banking and card loan
Overseas Business	: Asset management, aircraft- and ship-related operations, private equity and finance

Financial information of the segments for fiscal 2017, 2018 and 2019 is as follows:

The Company made DAIKYO a wholly-owned subsidiary in fiscal 2019 to complement their respective real estate businesses and to jointly aim for medium- and long-term growth as a comprehensive real estate business. Accordingly, ORIX changed the segment classification of DAIKYO from Investment and Operation segment to Real Estate segment. As a result of this change, segment amounts as of the end of and for the previous fiscal year have been retrospectively reclassified.

Year ended March 31, 2017	Millions of yen						
	Corporate Financial Services	Maintenance Leasing	Real Estate	Investment and Operation	Retail	Overseas Business	Total
Revenues	¥ 103,146	¥270,960	¥512,756	¥ 969,956	¥ 368,700	¥ 462,740	¥2,688,258
Finance revenues	32,449	13,355	2,357	10,981	68,131	85,140	212,413
Interest expense	6,199	3,705	3,204	4,889	4,076	40,300	62,373
Depreciation and amortization	6,517	130,272	15,718	12,627	18,914	50,960	235,008
Other significant non-cash items:							
Provision for doubtful receivables and probable loan losses	(96)	210	46	(1,060)	10,109	13,546	22,755
Write-downs of long-lived assets	0	46	3,890	1,032	0	4,165	9,133
Increase (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	7,891	36,019	14	42,470	89,926
Bargain Purchase Gain	0	0	0	5,802	0	0	5,802
Segment profits	38,032	39,787	84,479	73,362	72,865	112,386	420,911
Segment assets	1,085,997	806,722	843,892	593,761	3,293,448	2,578,101	9,201,921
Long-lived assets	42,337	475,640	534,173	248,272	45,267	435,728	1,781,417
Expenditures for long-lived assets	8,330	164,486	42,010	65,652	276	196,451	477,205
Investment in affiliates	18,392	1,880	110,553	60,275	810	332,154	524,064

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

Year ended March 31, 2018	Millions of yen						
	Corporate Financial Services	Maintenance Leasing	Real Estate	Investment and Operation	Retail	Overseas Business	Total
Revenues	¥115,837	¥275,933	¥489,752	¥1,083,505	¥ 428,697	¥ 479,619	¥2,873,343
Finance revenues	30,737	14,247	2,072	9,274	72,929	98,426	227,685
Interest expense	5,019	3,242	2,285	5,670	4,026	51,536	71,778
Depreciation and amortization	10,404	131,829	18,218	18,460	21,642	70,109	270,662
Other significant non-cash items:							
Provision for doubtful receivables and probable loan losses	1,072	192	(8)	(927)	11,244	5,783	17,356
Write-downs of long-lived assets	32	29	4,187	27	0	1,250	5,525
Increase (Decrease) in policy liabilities and policy account balances	0	0	0	0	(53,512)	0	(53,512)
Equity in net income (loss) of affiliates and gains (losses) on sales of subsidiaries and affiliates and liquidation losses, net	2,681	102	35,461	49,315	6	11,749	99,314
Segment profits	49,275	40,162	74,395	84,097	74,527	106,622	429,078
Segment assets	991,818	847,190	801,969	674,617	3,174,505	2,608,819	9,098,918
Long-lived assets	41,252	482,563	509,450	257,266	43,878	507,715	1,842,124
Expenditures for long-lived assets	3,764	170,727	69,693	47,841	174	286,730	578,929
Investment in affiliates	16,845	1,996	100,219	156,896	702	314,569	591,227

Year ended March 31, 2019	Millions of yen						
	Corporate Financial Services	Maintenance Leasing	Real Estate	Investment and Operation	Retail	Overseas Business	Total
Revenues	¥ 95,212	¥288,211	¥529,064	¥ 615,151	¥ 428,904	¥ 490,730	¥2,447,272
Finance revenues	28,829	14,352	2,065	9,063	76,693	111,634	242,636
Interest expense	4,067	3,026	2,249	7,054	4,080	62,821	83,297
Depreciation and amortization	11,096	139,897	17,299	21,223	25,774	73,123	288,412
Other significant non-cash items:							
Provision for doubtful receivables and probable loan losses	1,106	336	23	(187)	11,541	9,564	22,383
Write-downs of long-lived assets	0	712	1,553	43	0	110	2,418
Increase (Decrease) in policy liabilities and policy account balances	0	0	0	0	10,109	0	10,109
Equity in net income (loss) of affiliates and gains (losses) on sales of subsidiaries and affiliates and liquidation losses, net	(416)	1,329	16,845	15,707	(17)	32,840	66,288
Segment profits	25,482	38,841	89,247	38,170	84,211	125,444	401,395
Segment assets	959,725	873,775	720,221	733,612	3,571,437	3,138,928	9,997,698
Long-lived assets	39,856	500,435	424,833	282,895	29,406	524,662	1,802,087
Expenditures for long-lived assets	2,781	195,443	73,321	40,818	2	308,808	621,173
Investment in affiliates	16,276	33	107,072	161,966	631	556,682	842,660

The accounting policies of the segments are almost the same as those described in Note 1 “Significant Accounting and Reporting Policies (ag) Reclassifications” except for the treatment of income tax expenses, net income attributable to the noncontrolling interests, net income attributable to the redeemable noncontrolling

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

interests. 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. Income taxes are not included in segment profits or losses because the management evaluates segments' performance on a pre-tax basis. Additionally, net income attributable to the noncontrolling interests, net income attributable to the redeemable noncontrolling interests, which are recognized net of tax in the accompanying consolidated statements of income, are adjusted to profit or loss before income 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 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 property under facility operations (included in other assets), goodwill and other intangible assets recognized as a result of business combination (included in other assets) and servicing assets (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.

Certain line items presented in the consolidated statements of income have been changed starting from fiscal 2019. For further information, see Note 1 "Significant Accounting and Reporting Policies (ag) Reclassifications."

From fiscal 2019, consolidated VIEs for securitizing financial assets such as lease receivables and loan receivables, which had been excluded from segment revenues, segment profits and segment assets until the previous fiscal year, are included in segment revenues, segment profits and segment assets of each segment. As a result of this change, segment amounts as of the end of and for the previous fiscal year have been retrospectively reclassified.

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

**ORIX Corporation and Subsidiaries**

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.

	Millions of yen		
	2017	2018	2019
<b>Segment revenues:</b>			
Total revenues for segments . . . . .	¥ 2,688,258	¥ 2,873,343	¥ 2,447,272
Revenues related to corporate assets . . . . .	9,244	8,531	8,655
Revenues from inter-segment transactions . . . . .	(18,843)	(19,103)	(21,063)
Total consolidated revenues . . . . .	<u>¥ 2,678,659</u>	<u>¥ 2,862,771</u>	<u>¥ 2,434,864</u>
<b>Segment profits:</b>			
Total segment profits . . . . .	¥ 420,911	¥ 429,078	¥ 401,395
Corporate losses . . . . .	(3,633)	(4,329)	(10,012)
Net income attributable to the noncontrolling interests and net income attributable to the redeemable noncontrolling interests . . . . .	<u>7,687</u>	<u>10,752</u>	<u>4,347</u>
Total consolidated income before income taxes . . . . .	<u>¥ 424,965</u>	<u>¥ 435,501</u>	<u>¥ 395,730</u>
<b>Segment assets:</b>			
Total segment assets . . . . .	¥ 9,201,921	¥ 9,098,918	¥ 9,997,698
Cash and cash equivalents, restricted cash . . . . .	1,133,212	1,405,117	1,283,580
Allowance for doubtful receivables on direct financing leases and probable loan losses . . . . .	(59,227)	(54,672)	(58,011)
Trade notes, accounts and other receivable . . . . .	283,427	294,773	280,590
Other corporate assets . . . . .	<u>672,562</u>	<u>681,846</u>	<u>671,060</u>
Total consolidated assets . . . . .	<u>¥11,231,895</u>	<u>¥11,425,982</u>	<u>¥12,174,917</u>

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

**ORIX Corporation and Subsidiaries**

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			
	Fiscal Year ended March 31, 2017			
	Japan	The Americas*1	Other*2	Total
Total Revenues . . . . .	¥2,195,389	¥239,294	¥243,976	¥2,678,659
Income before Income Taxes . . . . .	313,175	73,945	37,845	424,965
	Millions of yen			
	Fiscal Year ended March 31, 2018			
	Japan	The Americas*1	Other*2	Total
Total Revenues . . . . .	¥2,377,729	¥208,264	¥276,778	¥2,862,771
Income before Income Taxes . . . . .	320,511	74,105	40,885	435,501
	Millions of yen			
	Fiscal Year ended March 31, 2019			
	Japan	The Americas*1	Other*2	Total
Total Revenues . . . . .	¥1,948,868	¥205,233	¥280,763	¥2,434,864
Income before Income Taxes . . . . .	274,431	70,935	50,364	395,730

\*1 Mainly the United States

\*2 Mainly Asia, Europe, Australasia and Middle East

\*3 From fiscal 2019, regarding ORIX Corporation Europe N. V., both total revenues and income before income taxes, previously disclosed in Other, are disclosed separately in the above areas, and the information about geographic areas for the previous fiscal year has been retrospectively reclassified as a result of this change.

Revenues from one customer that exceeds 10% of consolidated revenue for fiscal 2018 consist of approximately ¥3 million in Corporate Financial Services Segment and ¥320,446 million in Investment and Operation Segment. No single customer accounted for 10% or more of the Company's total revenues for fiscal 2017 and 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

Disaggregation of revenues for revenues from contracts with customers, by goods or services category and geographical location is as follows:

	Millions of yen								
	Fiscal Year ended March 31, 2019								
	Reportable segments						Corporate revenue and intersegment transactions	Total revenues	
Corporate Financial Services	Maintenance Leasing	Real Estate	Investment and Operation	Retail	Overseas Business	Total			
Goods or services category									
Sales of goods . . .	¥ 4,379	¥ 5,392	¥ 8,063	¥436,044	¥ 0	¥ 6,798	¥ 460,676	¥ 1,353	¥ 462,029
Real estate sales . . . . .	0	0	133,426	0	0	710	134,136	0	134,136
Asset management and servicing . . . . .	0	0	5,523	454	163	185,787	191,927	(107)	191,820
Automobile related services . . . . .	486	61,398	0	204	0	16,994	79,082	(359)	78,723
Facilities operation . . . . .	0	0	100,940	0	0	3,066	104,006	(1)	104,005
Environment and energy services . . . . .	2,815	0	188	129,166	0	1,004	133,173	(930)	132,243
Real estate management and brokerage . . . . .	0	0	105,278	0	0	0	105,278	(2,216)	103,062
Real estate contract work . . . . .	0	0	83,182	0	0	0	83,182	(965)	82,217
Other . . . . .	35,958	9,153	4,513	39,081	3,448	20,544	112,697	(5,356)	107,341
Total revenues from contracts with customers . . . . .	43,638	75,943	441,113	604,949	3,611	234,903	1,404,157	(8,581)	1,395,576
Geographical location									
Japan . . . . .	43,638	75,610	441,113	603,957	3,611	6,749	1,174,678	(4,886)	1,169,792
The Americas . . . . .	0	0	0	0	0	114,614	114,614	0	114,614
Other . . . . .	0	333	0	992	0	113,540	114,865	(3,695)	111,170
Total revenues from contracts with customers . . . . .	43,638	75,943	441,113	604,949	3,611	234,903	1,404,157	(8,581)	1,395,576
Other revenues* . . . . .	51,574	212,268	87,951	10,202	425,293	255,827	1,043,115	(3,827)	1,039,288
Segment revenues/ Total revenues . . . . .	¥95,212	¥288,211	¥529,064	¥615,151	¥428,904	¥490,730	¥2,447,272	¥(12,408)	¥2,434,864

\* Other revenues include revenues that are not in the scope of ASC 606 (“Revenue from Contracts with Customers”), such as life insurance premiums and related investment income, operating leases, finance revenues that include interest income, and others.

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

**ORIX Corporation and Subsidiaries**

**34. Subsequent Events**

There are no material subsequent events.

**Schedule II.—Valuation and Qualifying Accounts and Reserves**

**ORIX Corporation and Subsidiaries**

Millions of yen						
Year Ended March 31, 2017						
<u>Description</u>	<u>Balance at beginning of period</u>	<u>Acquisitions</u>	<u>Addition: Charged to costs and expenses</u>	<u>Deduction</u>	<u>Translation adjustment</u>	<u>Balance at end of period</u>
<b>Restructuring cost:</b>						
Severance and other benefits to terminated employees .....	¥ 156	¥ 0	¥ 86	¥ (91)	¥ (7)	¥ 144
Total .....	<u>¥ 156</u>	<u>¥ 0</u>	<u>¥ 86</u>	<u>¥ (91)</u>	<u>¥ (7)</u>	<u>¥ 144</u>

Millions of yen						
Year Ended March 31, 2018						
<u>Description</u>	<u>Balance at beginning of period</u>	<u>Acquisitions</u>	<u>Addition: Charged to costs and expenses</u>	<u>Deduction</u>	<u>Translation adjustment</u>	<u>Balance at end of period</u>
<b>Restructuring cost:</b>						
Severance and other benefits to terminated employees .....	¥ 144	¥ 0	¥2,159	¥ (182)	¥ 30	¥ 2,151
Total .....	<u>¥ 144</u>	<u>¥ 0</u>	<u>¥2,159</u>	<u>¥ (182)</u>	<u>¥ 30</u>	<u>¥ 2,151</u>

Millions of yen						
Year Ended March 31, 2019						
<u>Description</u>	<u>Balance at beginning of period</u>	<u>Acquisitions</u>	<u>Addition: Charged to costs and expenses</u>	<u>Deduction</u>	<u>Translation adjustment</u>	<u>Balance at end of period</u>
<b>Restructuring cost:</b>						
Severance and other benefits to terminated employees .....	¥ 2,151	¥ 0	¥ 0	¥ (3)	¥ (99)	¥ 2,049
Total .....	<u>¥ 2,151</u>	<u>¥ 0</u>	<u>¥ 0</u>	<u>¥ (3)</u>	<u>¥ (99)</u>	<u>¥ 2,049</u>

Millions of yen						
<u>Description</u>	<u>Balance at beginning of period</u>	<u>Acquisitions</u>	<u>Addition: Charged to costs and expenses</u>	<u>Deduction*1</u>	<u>Other*2</u>	<u>Balance at end of period</u>
<b>Deferred tax assets:</b>						
<b>Valuation allowance</b>						
Year ended March 31, 2017 .....	¥43,220	¥1,606	¥2,043	¥ (2,104)	¥(1,278)	¥43,487
Year ended March 31, 2018 .....	¥43,487	¥ 0	¥1,451	¥(30,295)	¥ 33	¥14,676
Year ended March 31, 2019 .....	¥14,676	¥ 0	¥2,376	¥ (3,717)	¥ (179)	¥13,156

\*1 The amount of deduction includes benefits recognized in earnings, expiration of loss carryforwards and sales of subsidiaries. The amounts of benefits recognized in earnings were ¥1,639 million in fiscal 2017, ¥8,303 million in fiscal 2018 and ¥2,648 million in fiscal 2019.

\*2 The amount of other includes translation adjustment and the effect of changes in statutory tax rate and the effect of the amendment to tax loss carryforward rules.

**Exhibit 8.1**

**LIST OF SUBSIDIARIES**

<b>Name</b>	<b>Country of Incorporation</b>	<b>Principal Business</b>	<b>ORIX Voting Power<sup>1</sup></b>
Yayoi Co., Ltd.	Japan	Development, Marketing, and Support of Business Management Software and Related Services	99%
ORIX Auto Corporation	Japan	Automobile Leasing, Rental, Car Sharing, Sales of Used Automobiles	100%
ORIX Rentec Corporation	Japan	Rental and Leasing of Test and Measurement Instruments and IT-Related Equipment	100%
ORIX Real Estate Corporation	Japan	Real Estate Rental, Facilities Operation and Management	100%
ORIX Real Estate Investment Advisors Corporation	Japan	Real Estate Investment and Advisory Services	100%
Osaka City Dome Co., Ltd.	Japan	Multipurpose Hall Management	90%
ORIX Asset Management Corporation	Japan	Asset Management of J-REIT	100%
DAIKYO INCORPORATED	Japan	Real Estate Development and Sales, Urban Development	100%
ORIX Eco Services Corporation	Japan	Trading of Recycled Metals and other Resources, Collection and Transportation of Industrial Waste, and Intermediate Waste Processing	100%
ORIX Asset Management & Loan Services Corporation	Japan	Loan Servicing	100%
NET JAPAN Co., Ltd	Japan	Purchases and Sales of Precious Metals (gold, silver, platinum and palladium) and Purchases and Refining of Precious Metals Scraps	99%
ORIX Life Insurance Corporation	Japan	Life Insurance	100%
ORIX Bank Corporation	Japan	Banking	100%
ORIX Credit Corporation	Japan	Consumer Finance Services	100%
ORIX Corporation USA	U.S.A.	Financial Services	100%
ORIX Corporation Europe N.V.	Netherlands	Asset Management	100%
ORIX Aviation Systems Limited	Ireland	Aircraft Leasing, Asset Management, Aircraft-Related Technical Services	100%
ORIX Asia Limited	China (Hong Kong)	Leasing, Automobile Leasing, Lending, Banking	100%
ORIX Leasing Malaysia Berhad	Malaysia	Leasing, Lending	100%
PT. ORIX Indonesia Finance	Indonesia	Leasing, Automobile Leasing	85%
ORIX Australia Corporation Limited	Australia	Automobile Leasing and Truck Rentals	100%
ORIX (China) Investment Co., Ltd.	China	Leasing, Equity Investment, Other Financial Services	100%
ORIX Capital Korea Corporation	South Korea	Automobile Leasing, Leasing, Lending	100%
Thai ORIX Leasing Co., Ltd	Thailand	Leasing, Automobile Leasing and Rentals	96%
ORIX Auto Infrastructure Services Limited	India	Automobile Leasing, Rentals, Leasing, Commercial Vehicle Loans, Commercial Mortgage Loans	99%
Another 858 Subsidiaries			

**LIST OF AFFILIATES**

Avolon Holdings Limited	Ireland	Aircraft Leasing	30%
Another 197 Affiliates			

ORIX voting power includes ORIX's indirect voting power.

**ORIX Corporation**

**Code of Ethics**

Date of final amendment: April 18, 2014

The Chief Executive Officer,  
the Chief Operating Officer,  
the Chief Financial Officer,  
and the Executive Officer of Accounting Department  
(each, a “**Covered Officer**”) of ORIX Corporation (the “**Company**”) are bound by the following specific policies (the “**Code of Ethics**”):

1. Covered Officers have an obligation to conduct themselves in an honest and ethical manner and act in the best interest of the Company. All Covered Officers shall not engage in acts or transactions or the like that create or may create actual or apparent conflicts of interest between the Company and themselves.
2. Covered Officers are responsible for full, fair, accurate, timely and understandable disclosure in (a) reports and documents that the Company files with, or submits to, the United States Securities and Exchange Commission and (b) the Company’s other communications with the public, including both written and oral disclosures, statements and presentations.
3. Covered Officers shall comply with all applicable laws, rules and regulations. No Covered Officer shall commit an illegal act, or instruct others to do so.
4. Covered Officers shall promptly bring to the attention of the Company’s Executive Officer of Group Compliance Department or, in the case of accounting, internal accounting controls, auditing or other matters where he or she deems it appropriate, directly to the Company’s Audit Committee, any information he or she may have concerning any violation of the Code of Ethics
5. Covered Officers are expected to comply with all of the provisions of this Code of Ethics. The Code of Ethics will be strictly enforced and violations will be dealt with immediately. Allegations of non-compliance will be investigated whenever necessary and evaluated at the proper level. Those found to be in violation of the Code of Ethics will be subject to appropriate disciplinary action. Criminal misconduct will be referred to the appropriate legal authorities for prosecution.

This Code of Ethics is a statement of certain fundamental principles, policies and procedures that govern the Company’s Covered Officers in the conduct of the Company’s business. It is not intended to and does not create any rights in any employee, customer, supplier, competitor, shareholder or any other person or entity.

**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 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;
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;
4. The company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and
5. The company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company’s auditors and the audit committee of the company’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company’s internal control over financial reporting.

Date: June 25, 2019

By: \_\_\_\_\_ /s/ MAKOTO INOUE  
Name: Makoto Inoue  
Title: Chief Executive Officer

## CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Shoji Taniguchi, certify that:

1. I have reviewed this annual report on Form 20-F 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;
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;
4. The company’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company’s internal control over financial reporting; and
5. The company’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company’s auditors and the audit committee of the company’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company’s internal control over financial reporting.

Date: June 25, 2019

By: \_\_\_\_\_ /s/ SHOJI TANIGUCHI  
Name: Shoji Taniguchi  
Title: Managing Executive Officer (principal financial officer)



**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
ORIX Corporation:

We consent to the incorporation by reference in the registration statement (No. 333-219189) on Form F-3 of ORIX Corporation of our reports dated June 25, 2019, with respect to the consolidated balance sheets of ORIX Corporation and its subsidiaries as of March 31, 2019 and 2018, 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, 2019, and the related notes and financial statement schedule II (collectively, the “consolidated financial statements”), and the effectiveness of internal control over financial reporting as of March 31, 2019, which reports appear in the March 31, 2019 annual report on Form 20-F of ORIX Corporation.

KPMG AZSA LLC  
Tokyo, Japan  
June 25, 2019