

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, 2020 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:

Table with 3 columns: Title of each class, Trading Symbols(s), Name of each exchange on which registered. Row 1: American depository shares (the "ADSs"), each of which represents five shares... IX New York Stock Exchange. Row 2: Common stock without par value (the "Shares")\*...

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, 2020, 1,324,629,128 Shares were outstanding, including Shares that were represented by 4,703,180 ADSs.

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

[X] Yes [ ] No

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

[ ] Yes [X] No

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

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

[X] Yes [ ] No

Indicate by check mark whether the Registrant submitted electronically 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).

[X] Yes [ ] No

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

[X] 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 whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

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

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

[ ] Item 17 [ ] Item 18

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

[ ] Yes [X] No

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

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

[ ] Yes [ ] No

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

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## **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, 2020 is referred to throughout this annual report as “fiscal 2020,” 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,				
	2016	2017	2018	2019	2020
	(Millions of yen)				
<b>Income statement data*1:</b>					
Total revenues*2	¥2,369,202	¥2,678,659	¥2,862,771	¥2,434,864	¥2,280,329
Total expenses	2,081,461	2,349,435	2,526,576	2,105,426	2,010,648
Operating income	287,741	329,224	336,195	329,438	269,681
Equity in net income of affiliates	45,694	26,520	50,103	32,978	67,924
Gains on sales of subsidiaries and affiliates and liquidation losses, net	57,867	63,419	49,203	33,314	74,001
Bargain purchase gain	0	5,802	0	0	955
Income before income taxes	391,302	424,965	435,501	395,730	412,561
Net income	270,990	280,926	321,589	327,039	306,724
Net income attributable to the noncontrolling interests	10,002	7,255	8,002	2,890	3,640
Net income attributable to the redeemable noncontrolling interests	819	432	452	404	384
Net income attributable to ORIX Corporation shareholders	260,169	273,239	313,135	323,745	302,700

	As of March 31,				
	2016	2017	2018	2019	2020
	(Millions of yen, except number of shares)				
<b>Balance sheet data*1:</b>					
Investment in Direct Financing					
Leases*3	¥ 1,190,136	¥ 1,204,024	¥ 1,194,888	¥ 1,155,632	¥ 0
Net Investment in Leases*3	0	0	0	0	1,080,964
Installment Loans*3	2,592,233	2,815,706	2,823,769	3,277,670	3,740,486
Allowance for Doubtful Receivables on Finance Leases and Probable Loan Losses					
Loan Losses	(60,071)	(59,227)	(54,672)	(58,011)	(56,836)
Investment in Operating Leases	1,349,199	1,313,164	1,344,926	1,335,959	1,400,001
Investment in Securities	2,344,792	2,026,512	1,729,455	1,928,916	2,245,323
Property under Facility Operations	327,016	398,936	434,786	441,632	562,485
Others*4	3,249,613	3,532,780	3,952,830	4,093,119	4,095,105
Total Assets	¥ 10,992,918	¥ 11,231,895	¥ 11,425,982	¥ 12,174,917	¥ 13,067,528
Short-term Debt, Long-term Debt and Deposits*4					
Deposits*4	¥ 5,685,014	¥ 5,753,059	¥ 5,890,720	¥ 6,423,512	¥ 6,847,889
Policy Liabilities and Policy Account Balances					
Common Stock	1,668,636	1,564,758	1,511,246	1,521,355	1,591,475
Additional Paid-in Capital	220,469	220,524	220,961	221,111	221,111
ORIX Corporation Shareholders' Equity	257,629	268,138	267,291	257,625	257,638
Equity	2,310,431	2,507,698	2,682,424	2,897,074	2,993,608
Number of Issued Shares	1,324,058,828	1,324,107,328	1,324,495,728	1,324,629,128	1,324,629,128
Number of Outstanding Shares*5	1,309,514,020	1,302,587,061	1,280,000,872	1,279,961,352	1,254,471,656

	As of and for the Year Ended March 31,				
	2016	2017	2018	2019	2020
	(Yen and dollars, except ratios and number of employees)				
<b>Key ratios (%)*6:</b>					
Return on ORIX Corporation shareholders' equity ("ROE")	11.7	11.3	12.1	11.6	10.3
Return on assets ("ROA")	2.32	2.46	2.76	2.74	2.40
ORIX Corporation shareholders' equity ratio	21.0	22.3	23.5	23.8	22.9
Allowance/investment in direct financing leases and installment loans					
loans	1.6	1.5	1.4	1.3	0
Allowance/net investment in leases and installment loans	0	0	0	0	1.2

**Per share data and employees:**

ORIX Corporation shareholders' equity per share*7	¥1,764.34	¥1,925.17	¥2,095.64	¥2,263.41	¥2,386.35
Basic earnings per share for net income attributable to ORIX Corporation shareholders					
Corporation shareholders	198.73	208.88	244.40	252.92	237.38
Diluted earnings per share for net income attributable to ORIX Corporation shareholders					
Corporation shareholders	198.52	208.68	244.15	252.70	237.17
Dividends applicable to fiscal year per share	45.75	52.25	66.00	76.00	76.00
Dividends applicable to fiscal year per share*8	\$ 0.40	\$ 0.48	\$ 0.60	\$ 0.69	\$ 0.71
Number of employees	33,333	34,835	31,890	32,411	31,233

\*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. Accounting Standards Update 2016-02 (ASC 842 ("Leases")) (hereinafter, "New Lease Standard") has been adopted since April 1, 2019. 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 ¥94,327 million, ¥80,347 million, ¥71,974 million, ¥86,046 million and ¥111,430 million as of March 31, 2016, 2017, 2018, 2019 and 2020, respectively. These sums included: (i) investment in direct financing leases considered 90 days or more past due of ¥12,556 million, ¥11,600 million, ¥12,084 million and ¥14,807 million as of March 31, 2016, 2017, 2018 and 2019, respectively, and net investment in leases considered 90 days or more past due of ¥15,346 million as of March 31, 2020, (ii) installment loans (excluding loans individually evaluated for impairment) considered 90 days or more past due of ¥8,178 million, ¥9,722 million, ¥12,748 million, ¥12,412 million and ¥10,264 million as of March 31, 2016, 2017, 2018, 2019 and 2020, respectively, and (iii) installment loans individually evaluated for impairment of ¥73,593 million, ¥59,025 million, ¥47,142 million, ¥58,827 million and ¥85,820 million as of March 31, 2016, 2017, 2018, 2019 and 2020, respectively. See “Item 5. Operating and Financial Review and Prospects—Results of Operations—Year Ended March 31, 2020 Compared to Year Ended March 31, 2019—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 and excluded from the number of outstanding shares. The Board Incentive Plan Trust held 1,696,217 shares, 2,126,076 shares, 1,651,443 shares, 1,823,993 shares and 1,476,828 shares as of March 31, 2016, 2017, 2018, 2019 and 2020, 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. Allowance/net investment in leases and installment loans is the ratio as of the period end of the allowance for doubtful receivables on finance leases and probable loan losses to the sum of net investment in 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 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. Effects of COVID-19

Since the beginning of this year, coronavirus disease 2019 (“COVID-19”) has spread worldwide and the world economy and business activity have been adversely impacted by preventative measures instituted by governments across the globe, including restrictions on people’s movement and gatherings, such as stay-at-home orders and limitations on travel and immigration, and requests and orders limiting the operations of , or mandating the closure of, certain public and private facilities and businesses. In particular, these measures have significantly impacted businesses in industries that rely on consumer spending, such as those relating to travel and recreation, passenger transport, in-store dining and lodging.

We expect the spread of COVID-19 will lead to significant global economic downturn and that it will continue to be difficult to predict when the situation will return to normal.

As of the filing date of this annual report, the spread of COVID-19 cases is significantly impacting various business in the ORIX Group, including the following ones. In our Real Estate segment, demands from national and local governmental organizations to close facilities and other COVID-19-related factors are adversely impacting operating revenue of our businesses that operate hotels and Japanese-style inns and other recreational facilities. In our Investment and Operation segment, decreases in the number of flights and passengers due to reduced demand for air travel is adversely impacting operating revenue from our operation of airports in our concession business. In our Overseas Business segment, reduced demand for aircraft is adversely impacting our aircraft leasing business and may continue to do so as airline companies continue to request forbearance on lease fees leading to decreased revenue, among other effects. In addition, other businesses in the ORIX Group are experiencing decreased profits resulting from reduced revenue due to economic slowdown, increasing credit costs due to deterioration of borrowers’ business performance ,negative impact on asset values due to market volatility and increasing costs related to efforts to prevent the spread of COVID-19.

In order to prevent the spread of COVID-19, the ORIX Group has implemented various measures, including policies on working remotely and restrictions on face-to-face meetings and domestic and overseas business trips. The implementation of these and other measures may adversely impact our business activities and efficiency.

The ORIX Group operates various businesses in its global network that spans 37 countries and regions around the globe. For this and other reasons, if the global spread of COVID-19 continues, we expect it could have a multi-faceted and adverse impact on all businesses we operate.

If the COVID-19 pandemic is prolonged, it is possible that the businesses described above and others in the ORIX Group may experience increases in credit costs due to the deterioration of borrowers’ business performance and declines in assets under management, as well as decreased revenue and increased costs. Depending on developments in the spread of COVID-19, there may be increases in liquidity risk and funding costs and a heightening of the various risks described above and elsewhere in this annual report. In addition, it is

possible that the COVID-19 pandemic will adversely affect our business, management and financial results in ways that are currently unexpected or unknown to us. For further information, see “Item4. Information on the Company—Strategy—Operating Environment,” “Item4. Information on the Company—Business Segments,” “Item5. Operating and Financial Review and Prospects—Overview—Results Overview” and “Item5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

## **2. Risks Related to our External Environment (Risk Related to Unpredictable Events)**

### ***(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, Europe, Oceania and the Middle East. 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. Fluctuations or shifts in commodity market prices and consumer demand, trade disputes, political, social or economic instability 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 effects of such factors through, for example, improving our risk management procedures, global economic weakness and instability, or political turmoil could adversely affect our business activities, financial condition and results of operations.

### ***(2) Competition could affect market share and profitability***

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 natural disasters and other 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 extreme weather due to the effects of climate change, and natural events, such as earthquakes, storms, tsunamis, floods, fires and outbreaks of infectious diseases, and man-made events, such as accidents, war, terrorism, and insurgency. 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 26, 2019, and June 29, 2020, two 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.

### **3. Credit Risk**

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

We maintain an allowance for doubtful receivables on finance 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 industries, markets or customers. While we constantly strive to mitigate risk through 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.

### **4. Business Risk**

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

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 the 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 real estate, aircraft, ships 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.

In addition, due to our operation of asset management businesses, if there are changes in the market value of asset such as shares and other securities, it could affect the results of our asset management services, which could lead to reductions in our assets under management and related fees and negatively impact our revenue.

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.

## **5. 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 adversely 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 risk management strategy of using derivatives for hedging purposes may not be effective***

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.

## **6. Liquidity Risk**

***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. 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 due to reasons such as market turmoil or the worsening of our financial condition 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.

## **7. Compliance Risk**

Our efforts to implement and maintain thorough internal controls for appropriate compliance and legal risk management, as well as compliance education programs for our staff, in order 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.

## **8. 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 are subject to domestic and international laws, as well as regulatory oversight by government authorities who implement those laws, relating to the various sectors in which we operate and to our business operations generally. These include laws and regulations applicable to specific businesses and industries, such as financial instruments exchange, moneylending, installment sales, insurance, banking, trust services, real estate transactions and construction, as well as laws applicable more generally, such as the Companies Act of Japan, laws and regulations applicable due to our registration with the SEC, such as U.S. securities laws, and laws and regulations on antitrust and personal data protection and anti-bribery.

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 limit the activities of our customers, borrowers, invested companies and funding sources. Such enactment or changes may increase our compliance costs. In recent years, foreign laws and regulations on subject matters such as personal data protection, anti-corruption and antitrust have been enacted and strengthened such that they may directly apply to the activities of our domestic businesses. If such pattern continues and it becomes necessary for us to comply with different countries' regulations, in addition to significantly increasing the number of laws and regulations that we need to comply with, it may also significantly 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.

### ***(3) Contractual deficiencies may affect our business and other initiatives***

When engaging in business and other initiatives, our failure to take steps such as executing legally required or binding agreements or reflecting our understanding of parties' contractual obligations accurately in relevant agreements may lead to adverse events such as our being the target of infringement, breach of contract and other legal claims by contractual counterparties and third parties or disruption of our ability to obtain rights we expected as part of such initiatives. Such events may adversely affect our business activities, financial condition and results of operations.

## **9. Information Risk**

### ***(1) Risks relating to loss, damage or leakage of information***

We maintain various information 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. We also implement technical measures such as vulnerability countermeasures for our information systems and maintenance of 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 may be lost, damaged or leaked.

In such event, we could be subject to 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, cyber attack by a computer virus, hacking, unauthorized access, business interruption 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 loss, damage or leakage 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.

## **10. Operational Risk**

### ***(1) If our internal control over financial reporting is identified as being 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, we may incur additional costs to hire specialists or the quality of our products and services may decline, which could prevent us from continuing our business operation in a stable manner and adversely affect our business activities, financial condition and results of operations.

***(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 lack such capacity or fail to perform such operations 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.

## **11. 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 effect 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. Almost 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 effect 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 depository 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”) (All shares sold through a wholly-owned subsidiary ORIX USA in July 2019). 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.

In November 2018, ORIX acquired 30% shareholding of Avolon Holdings Limited (“Avolon”), a leading global aircraft leasing company located in Ireland.

In January 2019, ORIX made DAIKYO INCORPORATED (“DAIKYO”) a wholly-owned subsidiary due to the acquisition of common shares of DAIKYO through a tender offer.

## STRATEGY

### Operating Environment

During fiscal 2020, the global economy slowed, mainly due to the intensifying trade friction between the United States and China. However, U.S. monetary policy turned to aggressive monetary easing and expectations for easing trade frictions between the United States and China increased toward the end of 2019, leading to signs of an economic recovery. However, from the beginning of 2020, the spread of COVID-19 worldwide, and as a countermeasure against it, governments took measures such as restricting the movement and gatherings of people. As a result, the prices of risk assets experienced volatility and a significant downward adjustment globally due to demand and supply chain disruptions due to concerns over the effect of the pandemic and a potential sustained economic downturn. On the other hand, in response to the sharp deterioration in employment and the deterioration in corporate funding, caused by the COVID-19 outbreak and the measures taken in response thereto, monetary easing by monetary authorities in each country and bold fiscal policies undertaken by various governments around the world resulted in the prices of risk assets stabilizing moderately toward the end of fiscal 2020. Due to the spread of COVID-19, the global economy is expected to deviate greatly downward, and the situation is expected to remain unpredictable for the foreseeable future.

In fiscal 2020, while we believe the adverse financial impact to the ORIX Group from the spread of COVID-19 was not significant, there were signs there may be a deterioration in the business environment and a deterioration in profitability in several business areas in future periods. Depending on future developments in the global economy, ORIX Group's performance may be negatively affected in the next fiscal year and beyond.

As of the filing date of this annual report, Real Estate Segment was affected by a deterioration in operating revenues from hotels, Japanese-style inns and other facilities due to such facilities being closed at the request of the national and local governments and a decline in tourism. We also experienced a deterioration in operating revenues from the concession business in Investment and Operation Segment due to a decrease in the number of flights and passengers due to a decline in passenger demand, but the impact on fiscal 2020 was minimal due to a lag in settlement. Similarly, in our aircraft leasing business, requests for deferral of lease payments due to a deterioration in earnings of airlines, may contribute to decrease profits in the Overseas Business Segment in the future even though the impact on fiscal 2020 was minimal. We believe that the negative impact of COVID-19 on these three businesses is unlikely to be temporary in nature, but the extent and duration of such impact will depend on factors that are beyond our control.

In Corporate Financial Services Segment, Maintenance Leasing Segment, and Overseas Business Segment, which are engaged in finance leases, operating leases, and lending at subsidiaries in the United States and Asia, there is a possibility that our credit costs could increase in the future due to deterioration in the business and financial conditions of lessees and borrowers. Furthermore, in the real estate leasing business of Real Estate Segment, some tenants have requested deferral or reduction of rent payments, and these requests require close monitoring. In addition, as the prices of risky assets fluctuated significantly in the fourth quarter of fiscal 2020, the amount of assets under management in the asset management business operated by ORIX Corporation Europe N.V. (hereinafter, "ORIX Europe") decreased. If the recovery of the value of entrusted assets is delayed, our asset management revenues may decrease.

### Progress on Target Performance Indicators

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 credit ratings to indicate financial soundness. In October 2019, we revised our target for the three-year period from fiscal 2019 to fiscal 2021. Our net income target was ¥300 billion in fiscal 2020, our ROE target was 11% or more in the medium term, and we made every effort to maintain our credit rating of A grade. In fiscal 2020, net income attributable to ORIX Corporation shareholders was ¥302.7 billion, achieving the target of

¥300 billion in net income. ROE for fiscal 2020 declined from 11.6% in the previous fiscal year to 10.3% due to a decrease in net income and an increase in shareholders' equity. We continues to maintain a credit rating of A or higher (please refer to "Item5. Overview—Basic approach to financial and capital strategy" for details on credit ratings). Due to the spread of COVID-19, we recorded a total loss of segment profit of approximately ¥15 billion to ¥20 billion in the fourth quarter. Business outlook remains difficult to assess due to the global economic sharp slowdown caused by the spread of COVID-19. Under the circumstances, there are many uncertain factors affecting our business results, making it difficult for us to forecast with a high degree of certainty our consolidated business performance for the current fiscal year. Therefore, we have declined to publish net income attributable to ORIX Corporation shareholders targets for fiscal 2021 in our consolidated financial results filed with the Tokyo Stock Exchange.

In October 2019, we announced a stance of aiming for net income attributable to ORIX Corporation shareholders of ¥400 billion and ¥500 billion over the medium to long term by implementing our investment pipeline and replacing our asset portfolio. However, due to the impact of the spread of COVID-19, we believe it is necessary to revise the time horizon and process.

Three- year trends in performance indicators are as follows.

	<u>As of March 31,</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net income attributable to ORIX Corporation			
shareholders . . . . . (Millions of yen)	¥313,135	¥323,745	¥302,700
ROE <sup>(1)</sup> . . . . . (%)	12.1	11.6	10.3

<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.

### **Corporate Challenges to be Addressed**

ORIX Group believes it is important to constantly maintain and evolve a corporate structure that can adapt flexibly and quickly to the business environment. We are pursuing the following initiatives to achieve sustainable growth.

**Promoting Sustainability:** The Sustainability Promotion Team established the "Sustainability Policy," "Human Rights Policy," and "Sustainable Investment and Finance Policy." In addition to the selection of investment and loan projects and the goals of business divisions (KPIs), we have added sustainability elements to ensure that they are well established.

**Enhancing integrated risk management:** The ERM Headquarters, which was established in June 2017, promoted more sophisticated management of non-financial risks in addition to internal controls. In fiscal 2020, we expanded the scope of risk management by incorporating non-financial risk checks into the process of screening and monitoring investment projects.

**Strengthen information security and promote digital transformation:** In order to respond to cyber attack risks, which are becoming serious management risks, we established the Information Security Division in June 2018. The purpose of the division is to enhance security measures generally and to respond to changes in the business environment and to situations in which new technologies around the world threaten existing businesses. We are working to effectively utilize the vast amount of transaction data we have accumulated so far and to resolve issues through the use of artificial intelligence (AI) in order to develop new businesses and improve the profitability of existing businesses.

## PROFILE OF BUSINESS BY SEGMENT

For a discussion of the basis for the breakdown of segments, see Note 34 of “Item 18. Financial Statements.” The following table shows a breakdown of profits by segment for fiscal 2018, 2019 and 2020.

	Years ended March 31,		
	2018	2019	2020
	(Millions of yen)		
Corporate Financial Services .....	¥ 49,275	¥ 25,482	¥ 14,611
Maintenance Leasing .....	40,162	38,841	33,724
Real Estate .....	74,395	89,247	76,857
Investment and Operation .....	84,097	38,170	55,715
Retail .....	74,527	84,211	80,387
Overseas Business .....	106,622	125,444	156,433
Total segment profits .....	429,078	401,395	417,727
Difference between segment total and consolidated amounts .....	6,423	(5,665)	(5,166)
Total Consolidated Amounts .....	¥435,501	¥395,730	¥412,561

Each of our segments is briefly described below.

### BUSINESS SEGMENTS

ORIX Group 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 operations, operating environment and operating strategy for each of the six segments follows. However, the operating strategy of each business may change in the future due to developments relating to the spread of COVID-19, including the duration and extent to which preventative measures are maintained across the globe.

#### Corporate Financial Services Segment

##### *Overview of Operations*

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 (hereinafter, “SMEs”). Corporate Financial Services Segment is the contact point 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.

Yayoi, which we acquired in December 2014, is a business software services company that develops and sells a range of business software and provides after-sales support and services, particularly to small businesses. Yayoi has built a solid customer base on its strong product development capabilities and brand. Yayoi's business software supports sales management, payroll, customer management and small enterprise back office operations as well as accounting operations. Yayoi also supports customer back-office operations with a wide range of business consultation and employee benefit services that go beyond the framework of software after-sales service.

### ***Operating Environment***

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

### ***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 Operations***

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

In its automobile related business, we engage 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, robots, as well as drones. The rental business also offers a diverse range of services and engineering solutions including 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."

### ***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 Operations***

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."

#### ***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. We also develop technologically advanced logistic facilities that leverage the expansion of e-commerce by utilizing the land information acquired through the sales network and grasping customers' needs. In the real estate rental business, we intend to enhance our portfolio by selling properties at appropriate times and by regularly evaluating and promoting new investments in properties. 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 Group can add value through providing attractive accommodations that our customers are satisfied with and want to revisit.

Furthermore, we 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. We believe that through the integrated operation of ORIX's Real Estate Business and DAIKYO, our organization will be able to promptly pursue investment opportunities when the real estate industry enters a correction phase. The two businesses have already started collaborating on some projects, and we intend to increase opportunities to maximize and demonstrate the value of integrated operations from the standpoint of sharing information and collaborating in development, brokerage and construction supervision. We intend to move forward with real estate business integration.

As mentioned above, we intend to 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 our Group network.

## **Investment and Operation Segment**

### ***Overview of Operations***

In Investment and Operation Segment, ORIX Group 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 a globally leading vertically integrated geothermal power company.

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."

### ***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 accelerate the global expansion of our environment and energy business.

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.

As for concession business, we commenced to operate Kobe Airport with VINCI Airports and Kansai Airports in April 2018 and expect to 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 (hereinafter, "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 (hereinafter, "ORIX Bank") inherited the Real estate loans for consumer 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."

#### ***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 Real estate loans for consumer 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 739 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, Australia and Other. 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 Europe, a Dutch holding company of global asset management companies that became a consolidated subsidiary of ORIX Group in July 2013 (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."

### *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 asset management business through the acquisitions of multiple mortgage banking and loan servicing companies and asset management companies since 2010 as follows. Red Capital Group which provides loan structuring and servicing service's, Mariner Investment Group which offers fund management services, Boston Financial Investment Management LP which is a syndicator in the low income housing tax credit industry, 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, NXT Capital Group, LLC (hereinafter, "NXT Capital") which involves in loan origination and asset management operations, and Hunt Real Estate Capital (hereinafter, "HREC") which provides commercial real estate loan origination and servicing. Furthermore, we invest to infrastructure related companies and continuously expand those businesses by meeting demands in public infrastructure services in the United States.

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.

In Asia, Australia and Other, we will optimize our portfolio through a focus on key markets and businesses. In addition, each local subsidiary will focus on non-leasing businesses in diversifying its operations and establishing new businesses. At the same time, we will take new approaches other than the embedded management of a traditional leasing company.

## 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, 2020	
	Book Value <sup>(1)</sup>	Land Space <sup>(2)</sup>
	(Millions of yen)	(Thousands of m <sup>2</sup> )
Office building (Tachikawa, Tokyo) . . . . .	¥14,750	3
Office building (Shiba, Minato-ku, Tokyo) . . . . .	30,862	2
Office building (Osaka, Osaka) . . . . .	9,679	2
Thermal power station (Kitakyushu, Fukuoka) . . . . .	31,141	37
Thermal power station (Soma, Fukushima) . . . . .	35,477	63
Solar power station (Tsu, Mie) . . . . .	13,909	1,193
Solar power station (Niigata, Niigata) . . . . .	13,256	251
Solar power station (Tomakomai, Hokkaido) . . . . .	11,943	—
Hotel (Beppu, Oita) <sup>(3)</sup> . . . . .	13,199	166

(1) Right-of-use assets (hereinafter, “ROU”) are included in the book value.

(2) Land space is provided only for those facilities where we own the land.

(3) Book value of hotel (Beppu, Oita) includes advances for property under facility operations of ¥762 million.

We plan to make capital expenditures totaling approximately ¥683,100 million to support the growth and development of our operating lease business and power generation business during fiscal 2021. The following table shows a breakdown of planned capital expenditures and includes the estimated investment amounts and expected methods of financing the expenditures.

	Fiscal 2021	
	Estimated investment amounts	Expected methods of financing
	(Millions of yen)	
Operating lease equipment and property .....	¥670,000	Funds on hand, bank borrowings, etc.
Power generation equipment .....	13,100	Funds on hand, bank borrowings, etc.
Total .....	<u>¥683,100</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 ¥203,930 million as of March 31, 2020.

As of March 31, 2020, the acquisition cost of equipment we held for operating leases amounted to ¥1,931,309 million, consisting of ¥1,305,908 million of transportation equipment, ¥287,301 million of measuring and information-related equipment, ¥305,981 million of real estate and ¥32,119 million of others, before accumulated depreciation. Accumulated depreciation on equipment held for operating leases was ¥678,245 million. We also recognized ¥121,553 million of ROU assets of operating leases and ¥25,384 million of accrued rental receivables 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 the United States, Europe, Asia and Oceania, 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-corruption, anti-money laundering and terrorism financing, consumer and business taxation, foreign exchange controls, intellectual property and personal information protection. In recent years, there has been an increasing number of laws and regulations on antitrust, anti-corruption, anti-money laundering and terrorism financing, and personal data protection that can apply directly to business activities taking place outside of the jurisdiction that enacted such law or regulation (extraterritorial application). Given the need for ORIX and its group companies to deal with the laws and regulations of multiple countries on each legal topic, there has been a tendency for costs to increase as a result of the increasing number of laws and regulations that need to be assessed. In addition, there is an increasing number of cases where significant fines and penalties have been imposed for violations of such laws and regulations. For example, fines for violations of the European Union's General Data Protection Regulation can be up to 4 % of total global turnover and fines for violations of the U.S. Foreign Corrupt Practices Act can be up to twice the benefit sought, in addition to penalties such as disgorgement of profits and prejudgment interest.

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 finance 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 Regulatory 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 wholly-owned subsidiary, ORIX Capital Partners, LLC is a registered investment adviser regulated by the SEC. 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 a registered investment adviser regulated by the SEC. ORIX USA’s wholly-owned subsidiary, OREC Investment Management, 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 advisor and municipal securities broker dealer. 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 subsidiaries ORIX Capital Markets, LLC, and ORIX Growth Capital, LLC are licensed California Finance Lenders.

In May 2010, ORIX USA acquired RED Capital Group, LLC (“RED”), in September 2017, ORIX USA acquired Lancaster Pollard Holdings, LLC (“LPH”), and in January 2020, ORIX USA acquired Hunt Real Estate Capital, LLC (“HREC”). In January 2019, RED and LPH merged as ORIX Real Estate Capital Holdings, LLC (“ORECH”), and in April 2020, HREC merged into ORECH. The combined business is based in New York, New York and 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 (“Fannie Mae”), the Department of Housing and Urban Development, the United States Department of Agriculture, the Federal Housing Administration and the Federal Home Loan Mortgage Corporation (“Freddie Mac”). 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 Investment Management, LLC is a registered investment adviser regulated by the SEC, and OREC Securities, LLC is a registered broker-dealer, municipal advisor and municipal securities broker dealer regulated by the SEC and FINRA.

In March 2020, ORIX Capital Partners, LLC was approved by the SEC as a standalone registered investment adviser and no longer relies on Mariner’s registration with the SEC.

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 adviser and is headquartered in Harrison, New York, with locations in London, Tokyo, Connecticut, New Jersey, North Carolina, Pennsylvania, and Texas. In addition, Mariner is registered as a commodity pool operator with the U.S. Commodity Futures Trading Commission and a member of National Futures Association. In April 2020, a subsidiary of ORIX USA and certain members of Mariner’s management entered into an agreement to divest MGCM and ORIX USA’s majority-ownership interest back to such members of Mariner’s management, subject to customary closing conditions. In connection with the transaction, ORIX USA will retain Mariner’s leveraged credit business.

In July 2016, ORIX USA acquired Boston Financial Investment Management, LP (“BFIM”), a Boston, Massachusetts-based provider of syndication services and asset and portfolio management in the Federal Low

Income Housing Tax Credits (LIHTC) industry in connection with the financing of low income real estate. 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 limited partnership, BFIM monitors such compliance on behalf of the other limited partners.

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.

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.

Harbor Trust Company is a wholly owned subsidiary of Harbor Capital Advisors, Inc. and is registered with the New Hampshire Banking Commission (“NHBC”).

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 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 contrôle prudentiel et de résolution* (“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 Overseas Investment Fund Management (Shanghai) Limited Company, an indirect subsidiary of ORIX Europe, is licensed by the Asset Management Association of China (“AMAC”).

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.

#### Basic approach to financial and capital strategy

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 credit ratings to indicate financial soundness.

ORIX Group aim 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, we strive 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, we aim to act with 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.

Regarding funding activities, we strive to maintain a high ratio of long-term funds procured and stagger repayment periods, keeping in mind the diversification and balance of fund procurement methods and sources. We strive to ensure that liquidity on hand is at an appropriate level through stress testing and other means.

With regard to shareholders’ equity, we measure risk in all assets using our own method, and strive to control the ratio of use of shareholders’ equity at an appropriate level while considering the balance between flexibility and financial soundness for new investments.

In addition, when considering new investment projects, we set a cost of capital that takes into account the risk of each project, and by carefully selecting and executing projects that can earn returns that exceed the cost of capital, we aim to improve ROE by improving ROA and sustainably increase corporate value. And we aim to keep maximum effort to maintain A grade. ORIX is working to achieve its goals by measuring and evaluating its capital adequacy, financing conditions, and asset quality internally, and by regularly confirming evaluations from credit rating agencies.

The issuer ratings (or counterparty ratings) that the ORIX Group has obtained from rating agencies as of the filing date of this annual report are “A-” for S&P Global Ratings Japan, “A-” for Fitch Ratings Japan, “A3” for Moody’s Investors Service, and “AA-” for Rating and Investment Information, Inc. (R&I).

### **Major Use of funding**

The ORIX Group’s major uses of funding include purchases of leased assets, such as office equipment, automobiles, IT equipment, measuring equipment, real estate, and aircraft, loans to customers, investments in affiliates, acquisition of subsidiaries, purchases of investment securities, and purchases of business assets.

### **Results Overview**

In fiscal 2020, net income attributable to ORIX corporation shareholders was ¥302.7 billion, reaching our target of net income attributable to ORIX corporation shareholders of ¥300 billion and ROE was 10.3%.

Net income attributable to ORIX Corporation shareholders decreased 7% to ¥302.7 billion compared to the previous fiscal year as a result of a decrease in provision for income taxes in the previous fiscal year due to the reversal of the deferred tax liabilities previously recorded for undistributed earnings of DAIKYO, as well as a decrease in segment profit in Corporate Financial Services Segment, Maintenance Leasing Segment, Real Estate Segment and Retail Segment, despite an increase in segment profit in Investment and Operation Segment and Overseas Business Segment. Due to the spread of COVID-19, we recorded a total loss of segment profit of approximately ¥15 billion to ¥20 billion in the fourth quarter on a consolidated basis.

The following is a summary of the main factors behind the consolidated business results for fiscal 2020.

Corporate Financial Services Segment’s profit decreased.

In domestic sales, there was a decrease in fee income related to life insurance. However, we are currently working to diversify our products, such as focusing on sales of products other than life insurance. On the other hand, Yayoi, which sells and provides services for business software, increased the number of members providing paid-in support and sales of packaged products, and contributed. This segment’s profit was negatively affected by the adoption of the New Lease Standard.

Maintenance leasing Segment’s profit decreased.

ORIX Auto Corporation’s leasing revenue remained steady, while ORIX Rentec Corporation’s revenue rose due to strong IT-related replacement demand. However, this segment’s profit was also negatively affected by the adoption of the New Lease Standard.

Real Estate Segment’s profit decreased.

Despite a gain on sales of shares of a subsidiary which operates senior housings, a decline in service revenues due to the sale of a significant property under facility operation in the previous fiscal year and a decline in real estate sales due to a decrease in the number of units delivered in DAIKYO’s condominium business had a significant impact. In the fourth quarter, a loss of approximately two billion yen was attributable to a decline in the occupancy rate of hotels, inns, and other operating facilities, as well as to the discontinuation of those facilities, due to the impact of the spread of COVID-19.

Investment and Operation Segment's profit increased.

In Investment and Operation Unit, we recorded gains on sales of two private equity investments in Japan. In our airport concession business, we did not experience a negative impact on segment profitability during fiscal 2020 despite a significant decline in travelers through Kansai Airport primarily due to a three-months lag in the settlement. Accordingly, the impact of the spread of COVID-19 is expected to emerge in the first quarter of fiscal 2021 and continue until airport passengers return.

Retail Segment's profit decreased.

ORIX Life Insurance has expanded its lineup of products, including foreign-currency whole life insurance. As a result, the number of contracts has grown steadily, resulting in an increase in premium revenues. However, there was a decrease in investment return of our life insurance business due to the recording of significant gains on the sales of real estate property in the previous fiscal year.

Overseas Business Segment's profit increased.

Earnings from investees acquired in the previous fiscal year contributed significantly. In addition, gains on the sale of shares of Houlihan Lokey and other subsidiaries and affiliates, and gains on the sale of certain businesses of ORIX Europe were also recorded. In the fourth quarter, ORIX Europe's asset management revenue decreased due to a decrease in the assets under management in its asset management business. In addition, ORIX USA recognized the provision for doubtful receivables and probable loan losses of approximately three billion yen in the United States due to a decline in energy prices. The aircraft leasing business was not affected by the spread of COVID-19 in the fourth quarter results.

## **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.

In addition, we carefully considered the future outlook regarding the spread of the COVID-19. As of March 31, 2020, there was no significant impact on our accounting estimates. However, the outlook for future outbreaks of COVID-19 and the resulting global economic slowdown is uncertain and it may change rapidly. Therefore our accounting estimates may change over time.

## **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, certain 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, 2020:

	March 31, 2020			
	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 . . . . .	¥ 90,893	¥ 0	¥ 90,893	¥ 0
Trading debt securities . . . . .	7,431	0	7,431	0
Available-for-sale debt securities . . . . .	1,631,185	21,490	1,521,342	88,353
Equity securities . . . . .	375,174	58,400	232,873	83,901
Derivative assets . . . . .	39,690	202	20,258	19,230
Other assets . . . . .	18,206	0	0	18,206
Total . . . . .	<u>¥2,162,579</u>	<u>¥80,092</u>	<u>¥1,872,797</u>	<u>¥209,690</u>
<b>Financial Liabilities:</b>				
Derivative liabilities . . . . .	¥ 73,649	¥ 2,471	¥ 71,178	¥ 0
Policy Liabilities and Policy Account Balances . . . . .	300,739	0	0	300,739
Total . . . . .	<u>¥ 374,388</u>	<u>¥ 2,471</u>	<u>¥ 71,178</u>	<u>¥300,739</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, 2020, 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, 2020</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 . . . . .	¥ 88,353	1
Japanese prefectural and foreign municipal bond securities . . . . .	2,832	0
Corporate debt securities . . . . .	3,994	0
Other asset-backed securities and debt securities . . . . .	81,527	1
Equity securities . . . . .	83,901	1
Investment funds . . . . .	83,901	1
Derivative assets . . . . .	19,230	0
Options held/written and other . . . . .	19,230	0
Other assets . . . . .	18,206	0
Reinsurance recoverables . . . . .	18,206	0
Total Level 3 financial assets . . . . .	¥ 209,690	2
Total assets . . . . .	¥13,067,528	100

As of March 31, 2020, the amount of financial assets classified as Level 3 was ¥209,690 million, among financial assets that we measured at fair value on a recurring basis. Level 3 assets represent 2% of our total assets.

Investment funds, and Other asset-backed securities and debt securities classified as Level 3 were ¥83,901 million and ¥81,527 million, respectively, as of March 31, 2020, which are 40% and 39% of total Level 3 financial assets, respectively.

Investment funds classified as Level 3 are investments held by the investment companies which are owned by a certain overseas subsidiary, and certain investments in investment funds for which certain subsidiaries elected the fair value option. With respect to investments held by the investment companies which are owned by a certain overseas subsidiary, fair value measurement is based on the combination of discounted cash flow methodologies and market multiple valuation methods, and broker quotes. Discounted cash flow methodologies use future cash flows to be generated from investees, weighted average cost of capital (WACC) and others. Market multiple valuation methods use earnings before interest, taxes, depreciation and amortization (EBITDA) multiples based on actual and projected cash flows, comparable peer companies, and comparable precedent transactions and others. With respect to certain investments in investment funds for which certain subsidiaries elected the fair value option, the subsidiaries measure their fair value using discounting to net asset value based on inputs that are unobservable in the market.

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 NET INVESTMENT IN LEASES AND PROBABLE LOAN LOSSES**

The allowance for doubtful receivables on net investment in 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 net investment in leases and probable loan losses is a critical accounting estimate for all of our segments.

In developing the allowance for doubtful receivables on net investment in leases and probable loan losses, we 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.

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 net investment in leases, we 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.

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.

While management considers the allowance for credit losses is adequate based on the current available information, additional provisions may be required due to future uncertain factors.

We charge off doubtful receivables when the likelihood of any future collection is believed to be minimal considering debtor's 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 judges whether there are any facts that an impairment loss should be recognized, based primarily on objective factors.

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, growth rate. For example, determining the fair value of an asset management contract included in any indefinite-lived intangible assets involves the estimated balances of assets under management of the underlying investment funds that provides the asset management service, and estimates and assumptions regarding the weighted average cost of capital (WACC). Management believes that the assumptions used in estimating fair value used to determine impairment are reasonable, but we may charge additional losses to income 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.

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. Although management believes that the expected future cash flows and the calculations of fair value used to determine impairment are reasonable, 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 FINANCE 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 finance 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 finance 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**

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. 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, we use techniques including regression analysis and the cumulative dollar offset method.

The accounting estimates used to assess hedge effectiveness 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 2020 would decrease or increase, respectively, by approximately ¥2,198 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 2020 would decrease by approximately ¥2,482 million. If we were to assume a 1% decrease in the discount rate, and keep other assumptions constant, pension expense for fiscal 2020 would increase by approximately ¥2,369 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 tax loss carryforwards, before they expire. The valuation allowance is primarily recognized for deferred tax assets of consolidated subsidiaries with tax loss carryforwards. 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 2020.

## 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 2020, as well as the fair value as of the end of fiscal 2020.

Year ended March 31, 2020			
Carrying amount*1			
Balance at April 1, 2019	Change amount	Balance at March 31, 2020	Fair value at March 31, 2020*2
(Millions of yen)			
<u>¥329,970</u>	<u>¥(20,627)</u>	<u>¥309,343</u>	<u>¥381,219</u>

\*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 2020 were as follows:

Year Ended March 31, 2020		
Revenue*1	Expense*2	Net
<u>¥72,777</u>	<u>¥33,228</u>	<u>¥39,549</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 rental payment, 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 real estate loans for consumers, 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 finance 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, 2020 Compared to Year Ended March 31, 2019” and “Year Ended March 31, 2019 Compared to Year Ended March 31, 2018.”

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, 2020 COMPARED TO YEAR ENDED MARCH 31, 2019

### Performance Summary

#### *Financial Results*

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except ratios, per Share data and percentages)			
Total revenues	¥ 2,434,864	¥ 2,280,329	¥(154,535)	(6)
Total expenses	2,105,426	2,010,648	(94,778)	(5)
Income before Income Taxes	395,730	412,561	16,831	4
Net Income Attributable to ORIX Corporation				
Shareholders	323,745	302,700	(21,045)	(7)
Earnings per Share (Basic)	252.92	237.38	(15.54)	(6)
(Diluted)	252.70	237.17	(15.53)	(6)
ROE* <sup>1</sup>	11.6	10.3	(1.3)	—
ROA* <sup>2</sup>	2.74	2.40	(0.34)	—

\*<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 2020 decreased 6% to ¥2,280,329 million compared to fiscal 2019 as a result of a decrease in sales of goods and real estate due primarily to a decrease in related revenues from subsidiaries in the private equity business.

Total expenses for fiscal 2020 decreased 5% to ¥2,010,648 million compared to fiscal 2019 due primarily to a decrease in costs of goods and real estate sold in line with the aforementioned decrease in revenues.

Income before income taxes for fiscal 2020 increased 4% to ¥412,561 million compared to fiscal 2019 as a result of increases in equity in net income of affiliates and gains on sales of subsidiaries and affiliates and liquidation losses, net. On the other hand, net income attributable to ORIX Corporation shareholders decreased 7% to ¥302,700 million compared to fiscal 2019 as a result of a decrease in provision for income taxes during fiscal 2019 due to the reversal of the deferred tax liabilities previously recorded for undistributed earnings of DAIKYO.

There was no significant impact on the business performance for fiscal 2020 due to the spread of the COVID-19.

### *Balance Sheet data*

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen except ratios, per share and percentages)			
Total Assets	¥12,174,917	¥13,067,528	¥892,611	7
(Segment assets)	9,997,698	10,905,998	908,300	9
Total Liabilities	9,211,936	9,991,362	779,426	8
(Long- and Short-term debt)	4,495,771	4,616,186	120,415	3
(Deposits)	1,927,741	2,231,703	303,962	16
ORIX Corporation Shareholders' Equity	2,897,074	2,993,608	96,534	3
ORIX Corporation Shareholders' Equity per share	2,263.41	2,386.35	122.94	5
ORIX Corporation Shareholders' Equity ratio*	23.8%	22.9%	(0.9)%	—
D/E ratio (Debt-to-equity ratio) (Long- and Short-term debt (excluding deposits) / ORIX Corporation Shareholders' Equity)	1.6x	1.5x	(0.1)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 7% to ¥13,067,528 million compared to the balance as of March 31, 2019 due primarily to not only increases in installment loans and investment in securities, but also increases in investment in operating leases, property under facility operations and office facilities as a result of our adoption of the New Lease Standard. In addition, segment assets increased 9% to ¥10,905,998 million compared to the balance as of March 31, 2019.

Total liabilities increased 8% to ¥9,991,362 million compared to the balance as of March 31, 2019 due primarily to not only increases in long-term debt and deposits, but also an increase in other liabilities as a result of our adoption of the New Lease Standard.

Shareholders' equity increased 3% to ¥2,993,608 million compared to the balance as of March 31, 2019 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 regularly reviewed by the chief operating decision maker to make decisions about resource allocations and assess performance. The chief operating decision maker evaluates the performance of the segments based on income before income taxes, net income attributable to noncontrolling interests and net income attributable to redeemable noncontrolling interests before applicable tax effect. Tax expenses are excluded from the segment profits.

The New Lease Standard has been adopted since April 1, 2019. This adoption has resulted in a gross up of ROU assets of investment in operating leases and property under facility operations related to operating leases of land, office and equipment, where the Company is the lessee, as segment assets in all of our segments except for Retail segment. In addition, segment revenues and segment expenses mainly in Corporate Financial Service segment and Maintenance Leasing segment increased as a result of a gross up of revenues and expenses of certain lessor costs. For further information, see Note 1 of “Item 18. Financial Statements.”

For a description of the business activities of our segments, see “Item 4. Information on the Company—Business Segments.” See Note 34 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.

Since April 1, 2020, the operating segments regularly reviewed by the chief operating decision maker to make decisions about resource allocations and assess performance have been changed, therefore our reportable segments have been reorganized.

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except percentage data)			
<b>Segment Revenues:</b>				
Corporate Financial Services	¥ 95,212	¥ 97,007	¥ 1,795	2
Maintenance Leasing	288,211	336,438	48,227	17
Real Estate	529,064	466,639	(62,425)	(12)
Investment and Operation	615,151	451,197	(163,954)	(27)
Retail	428,904	454,751	25,847	6
Overseas Business	490,730	486,328	(4,402)	(1)
Segment Total	<u>2,447,272</u>	<u>2,292,360</u>	<u>(154,912)</u>	(6)
Difference between Segment Total and Consolidated				
Amounts	<u>(12,408)</u>	<u>(12,031)</u>	<u>377</u>	—
Consolidated Amounts	<u>¥ 2,434,864</u>	<u>¥ 2,280,329</u>	<u>¥(154,535)</u>	(6)

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Segment Profits:</b>				
Corporate Financial Services .....	¥ 25,482	¥ 14,611	¥ (10,871)	(43)
Maintenance Leasing .....	38,841	33,724	(5,117)	(13)
Real Estate .....	89,247	76,857	(12,390)	(14)
Investment and Operation .....	38,170	55,715	17,545	46
Retail .....	84,211	80,387	(3,824)	(5)
Overseas Business .....	125,444	156,433	30,989	25
Segment Total .....	401,395	417,727	16,332	4
Difference between Segment Total and Consolidated Amounts .....	(5,665)	(5,166)	499	—
Consolidated Amounts .....	¥ 395,730	¥ 412,561	¥ 16,831	4

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Segment Assets:</b>				
Corporate Financial Services .....	¥ 959,725	¥ 948,268	¥ (11,457)	(1)
Maintenance Leasing .....	873,775	889,615	15,840	2
Real Estate .....	720,221	749,694	29,473	4
Investment and Operation .....	733,612	847,082	113,470	15
Retail .....	3,571,437	4,183,894	612,457	17
Overseas Business .....	3,138,928	3,287,445	148,517	5
Segment Total .....	9,997,698	10,905,998	908,300	9
Difference between Segment Total and Consolidated Amounts .....	2,177,219	2,161,530	(15,689)	(1)
Consolidated Amounts .....	¥12,174,917	¥13,067,528	¥ 892,611	7

### ***Corporate Financial Services Segment***

This segment is involved in finance and fee business.

In this segment, we are engaged in highly competitive leasing and lending businesses with a focus on profitability, while also focusing on fee businesses by providing life insurance, environment and energy, and automobile leasing related products and services to domestic small- and medium-sized enterprise customers. We aim for profit growth by providing business succession support and creating new businesses taking advantage of our domestic sales network, as well as by expanding the customer base of Yayoi a software service provider in the group.

Segment revenues increased 2% to ¥97,007 million compared to the previous fiscal year due to an increase in services income of companies acquired in the previous fiscal year, an increase in revenues from finance leases as a result of our adoption of the New Lease Standard, and increases in both services income and sales of goods of Yayoi.

Segment profits decreased 43% to ¥14,611 million compared to the previous fiscal year due to a decrease in fee income related to life insurance, as well as an increase in selling, general and administrative expenses resulting from the adoption of the New Lease Standard which has changed the recognition of some lease related costs from deferred amortization to expensing as they incurred.

Despite there was an increase in investment in operating leases as a result of our adoption of the New Lease Standard, segment assets decreased 1% to ¥948,268 million compared to the end of the previous fiscal year due to decreases in net investment in leases and installment loans.

Asset efficiency declined compared to the previous fiscal year.

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
Finance revenues	¥ 28,829	¥ 28,522	¥ (307)	(1)
Gains on investment securities and dividends	(777)	121	898	—
Operating leases	23,522	22,918	(604)	(3)
Sales of goods and real estate	4,379	5,707	1,328	30
Services income	39,259	39,739	480	1
<b>Total Segment Revenues</b>	<b>95,212</b>	<b>97,007</b>	<b>1,795</b>	<b>2</b>
Interest expense	4,067	3,563	(504)	(12)
Costs of operating leases	14,319	15,063	744	5
Costs of goods and real estate sold	1,655	2,056	401	24
Services expense	10,100	13,405	3,305	33
Selling, general and administrative expenses	37,896	44,817	6,921	18
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	1,106	1,126	20	2
Other	(166)	3,690	3,856	—
<b>Total Segment Expenses</b>	<b>68,977</b>	<b>83,720</b>	<b>14,743</b>	<b>21</b>
<b>Segment Operating Income</b>	<b>26,235</b>	<b>13,287</b>	<b>(12,948)</b>	<b>(49)</b>
Equity in Net income (Loss) of Affiliates, and others	(753)	1,324	2,077	—
<b>Segment Profits</b>	<b>¥ 25,482</b>	<b>¥ 14,611</b>	<b>¥ (10,871)</b>	<b>(43)</b>

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
Investment in direct financing leases	¥ 403,639	¥ 0	¥(403,639)	(100)
Net investment in leases	0	367,117	367,117	100
Installment loans	364,818	343,090	(21,728)	(6)
Investment in operating leases	24,143	73,382	49,239	204
Investment in securities	31,522	22,778	(8,744)	(28)
Property under facility operations	16,973	18,928	1,955	12
Inventories	51	125	74	145
Advances for finance lease and operating lease	122	111	(11)	(9)
Investment in affiliates	16,276	18,328	2,052	13
Advances for property under facility operations	0	760	760	100
Goodwill, intangible assets acquired in business combinations	102,181	103,649	1,468	1
<b>Total Segment Assets</b>	<b>¥ 959,725</b>	<b>¥ 948,268</b>	<b>¥ (11,457)</b>	<b>(1)</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 are the mainstay of this segment, we aim to increase market share in small- and medium-sized enterprises and individual customers, as well as large corporate customers by enhancing our competitive advantages stemming from our industry-leading number of fleets under management and one-stop automobile-related services. Furthermore, we aim to develop new products and services to adapt to the changes in industrial structure and obtain new business opportunities. In the rental business operated by ORIX Rentec Corporation, we are strengthening our engineering solution businesses which have mainly covered test and measurement instruments and IT-related equipment by developing new services relating to robots and drones.

Segment revenues increased 17% to ¥336,438 million compared to the previous fiscal year due to increases in operating leases revenues and revenues from finance leases as a result of our adoption of the New Lease Standard.

Segment profits decreased 13% to ¥33,724 million compared to the previous fiscal year due to an increase in selling, general and administrative expenses resulting from the adoption of the New Lease Standard which has changed the recognition of some lease related costs from deferred amortization to expensing as they incurred.

Segment assets increased 2% to ¥889,615 million compared to the end of the previous fiscal year due to an increase in new business volumes of investment in operating leases.

Although asset efficiency declined compared to the previous fiscal year, we are maintaining stable profitability.

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 14,352	¥ 30,820	¥ 16,468	115
Operating leases	197,963	228,468	30,505	15
Services income	70,551	71,334	783	1
Other	5,345	5,816	471	9
<b>Total Segment Revenues</b>	<b>288,211</b>	<b>336,438</b>	<b>48,227</b>	<b>17</b>
Interest expense	3,026	2,837	(189)	(6)
Costs of operating leases	154,410	186,174	31,764	21
Services expense	40,575	41,987	1,412	3
Selling, general and administrative expenses	46,514	51,963	5,449	12
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	1,048	360	(688)	(66)
Other	4,891	19,379	14,488	296
<b>Total Segment Expenses</b>	<b>250,464</b>	<b>302,700</b>	<b>52,236</b>	<b>21</b>
<b>Segment Operating Income</b>	<b>37,747</b>	<b>33,738</b>	<b>(4,009)</b>	<b>(11)</b>
Equity in Net income (Loss) of Affiliates, and others	1,094	(14)	(1,108)	—
<b>Segment Profits</b>	<b>¥ 38,841</b>	<b>¥ 33,724</b>	<b>¥ (5,117)</b>	<b>(13)</b>

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases . . . . .	¥ 328,424	¥ 0	¥(328,424)	(100)
Net investment in leases . . . . .	0	319,417	319,417	100
Investment in operating leases . . . . .	525,392	551,289	25,897	5
Investment in securities . . . . .	506	486	(20)	(4)
Property under facility operations . . . . .	988	1,064	76	8
Inventories . . . . .	587	611	24	4
Advances for finance lease and operating lease . . . . .	669	182	(487)	(73)
Investment in affiliates . . . . .	33	19	(14)	(42)
Goodwill, intangible assets acquired in business combinations . . . . .	17,176	16,547	(629)	(4)
Total Segment Assets . . . . .	<u>¥ 873,775</u>	<u>¥ 889,615</u>	<u>¥ 15,840</u>	2

### ***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 in favorable markets while investing in real estate development projects that can generate added value. We are also building a revenue base that is less affected by volatility in the real estate market by expanding the scale of our asset management business, such as REIT and real estate investment advisory services. We aim to enhance mutually complementary aspects of the DAIKYO and ORIX real estate businesses, 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, facility operations, residential management, office building management, construction contracting, and real estate brokerage.

Segment revenues decreased 12% to ¥466,639 million compared to the previous fiscal year due to a decrease in services income, which is associated with a sale of a significant property under facility operations during the previous fiscal year, as well as a decrease in sales of real estate resulting from a decrease in condominium delivered by DAIKYO.

Although there was a recognition of gains on sales of shares of a subsidiary which operates senior housings, segment profits decreased 14% to ¥76,857 million compared to the previous fiscal year due to the above reasons.

Segment assets increased 4% to ¥749,694 million compared to the end of the previous fiscal year due to an increase in investment in operating leases resulting from the adoption of the New Lease Standard.

Asset efficiency declined compared to the previous fiscal year.

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 2,065	¥ 3,249	¥ 1,184	57
Operating leases	72,483	63,799	(8,684)	(12)
Sales of goods and real estate	141,489	122,230	(19,259)	(14)
Services income	313,059	277,501	(35,558)	(11)
Other	(32)	(140)	(108)	—
<b>Total Segment Revenues</b>	<b>529,064</b>	<b>466,639</b>	<b>(62,425)</b>	<b>(12)</b>
Interest expense	2,249	1,557	(692)	(31)
Costs of operating leases	25,950	24,895	(1,055)	(4)
Costs of goods and real estate sold	121,414	108,637	(12,777)	(11)
Services expense	261,064	237,973	(23,091)	(9)
Selling, general and administrative expenses	43,982	44,344	362	1
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	1,576	317	(1,259)	(80)
Other	753	606	(147)	(20)
<b>Total Segment Expenses</b>	<b>456,988</b>	<b>418,329</b>	<b>(38,659)</b>	<b>(8)</b>
<b>Segment Operating Income</b>	<b>72,076</b>	<b>48,310</b>	<b>(23,766)</b>	<b>(33)</b>
Equity in Net income (Loss) of Affiliates, and others	17,171	28,547	11,376	66
<b>Segment Profits</b>	<b>¥ 89,247</b>	<b>¥ 76,857</b>	<b>¥ (12,390)</b>	<b>(14)</b>

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 35,420	¥ 0	¥ (35,420)	(100)
Net investment in leases	0	35,523	35,523	100
Installment loans	316	0	(316)	(100)
Investment in operating leases	242,022	277,587	35,565	15
Investment in securities	8,038	7,272	(766)	(10)
Property under facility operations	146,100	148,724	2,624	2
Inventories	80,920	82,762	1,842	2
Advances for finance lease and operating lease	29,946	37,272	7,326	24
Investment in affiliates	107,072	91,835	(15,237)	(14)
Advances for property under facility operations	6,790	7,327	537	8
Goodwill, intangible assets acquired in business combinations	63,597	61,392	(2,205)	(3)
<b>Total Segment Assets</b>	<b>¥ 720,221</b>	<b>¥ 749,694</b>	<b>¥ 29,473</b>	<b>4</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 secured abundant solar power capacity and are operating many projects, making us one of the largest solar power producers in Japan. We intend to 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 increase investment in focused industries. 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 infrastructures other than airports.

Segment revenues decreased 27% to ¥451,197 million compared to the previous fiscal year due to a decrease in sales of goods by a subsidiary in the private equity business.

Segment profits increased 46% to ¥55,715 million compared to the previous fiscal year due to the recognition of gains on sales of subsidiaries in private equity business.

Segment assets increased 15% to ¥847,082 million compared to the end of the previous fiscal year due to an increase in property under facility operations resulted from the acquisition of wind power generation companies as wholly-owned subsidiaries in the environment and energy business, the execution of new investments in the private equity business, and the adoption of the New Lease Standard.

Asset efficiency improved compared to the previous fiscal year.

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues . . . . .	¥ 9,063	¥ 7,618	¥ (1,445)	(16)
Gains on investment securities and dividends . . . . .	78	(31)	(109)	—
Sales of goods and real estate . . . . .	436,044	266,271	(169,773)	(39)
Services income . . . . .	169,139	174,549	5,410	3
Other . . . . .	827	2,790	1,963	237
<b>Total Segment Revenues . . . . .</b>	<b>615,151</b>	<b>451,197</b>	<b>(163,954)</b>	<b>(27)</b>
Interest expense . . . . .	7,054	9,061	2,007	28
Costs of goods and real estate sold . . . . .	400,625	233,092	(167,533)	(42)
Services expense . . . . .	131,688	133,324	1,636	1
Selling, general and administrative expenses . . . . .	51,862	51,227	(635)	(1)
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities . . . . .	8	2,111	2,103	—
Other . . . . .	413	953	540	131
<b>Total Segment Expenses . . . . .</b>	<b>591,650</b>	<b>429,768</b>	<b>(161,882)</b>	<b>(27)</b>
<b>Segment Operating Income . . . . .</b>	<b>23,501</b>	<b>21,429</b>	<b>(2,072)</b>	<b>(9)</b>
Equity in Net income (Loss) of Affiliates, and others . . . . .	14,669	34,286	19,617	134
<b>Segment Profits . . . . .</b>	<b>¥ 38,170</b>	<b>¥ 55,715</b>	<b>¥ 17,545</b>	<b>46</b>

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases . . . . .	¥ 25,696	¥ 0	¥ (25,696)	(100)
Net investment in leases . . . . .	0	25,497	25,497	100
Installment loans . . . . .	47,573	36,451	(11,122)	(23)
Investment in operating leases . . . . .	5,474	15,104	9,630	176
Investment in securities . . . . .	25,786	23,460	(2,326)	(9)
Property under facility operations . . . . .	264,994	382,430	117,436	44
Inventories . . . . .	30,776	40,657	9,881	32
Advances for finance lease and operating lease . . . . .	1,340	1,861	521	39
Investment in affiliates . . . . .	161,966	150,856	(11,110)	(7)
Advances for property under facility operations . . . . .	11,291	12,474	1,183	10
Goodwill, intangible assets acquired in business combinations . . . . .	158,716	158,292	(424)	(0)
Total Segment Assets . . . . .	<u>¥ 733,612</u>	<u>¥ 847,082</u>	<u>¥ 113,470</u>	15

### ***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 real estate investment loans, which is the 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.

Segment revenues increased 6% to ¥454,751 million compared to the previous fiscal year due to an increase in life insurance premiums in line with an increase in new insurance contracts, and an increase in the interest revenue from real estate investment loans in the banking business.

Segment profits decreased 5% to ¥80,387 million compared to the previous fiscal year due to a decrease in investment return of our life insurance business, which is associated with significant gains recognized on a sale of real estate property during the previous fiscal year.

Segment assets increased 17% to ¥4,183,894 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 installment loans with the growth of the banking business.

Asset efficiency declined compared to the previous fiscal year.

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Finance revenues	¥ 76,693	¥ 81,089	¥ 4,396	6
Life insurance premiums and related investment income	348,255	369,154	20,899	6
Other	3,956	4,508	552	14
Total Segment Revenues	428,904	454,751	25,847	6
Interest expense	4,080	4,489	409	10
Life insurance costs	247,809	271,943	24,134	10
Selling, general and administrative expenses	78,655	81,396	2,741	3
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	11,541	11,971	430	4
Other	2,591	4,581	1,990	77
Total Segment Expenses	344,676	374,380	29,704	9
Segment Operating Income	84,228	80,371	(3,857)	(5)
Equity in Net income (Loss) of Affiliates, and others	(17)	16	33	—
Segment Profits	¥ 84,211	¥ 80,387	¥ (3,824)	(5)

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases	¥ 42	¥ 0	¥ (42)	(100)
Installment loans	2,049,980	2,336,067	286,087	14
Investment in operating leases	29,810	29,271	(539)	(2)
Investment in securities	1,474,750	1,801,260	326,510	22
Investment in affiliates	631	400	(231)	(37)
Goodwill, intangible assets acquired in business combinations	16,224	16,896	672	4
Total Segment Assets	¥ 3,571,437	¥ 4,183,894	¥ 612,457	17

### ***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 and scale by focusing on asset businesses such as corporate finance and investments in bonds, and on equity investment, as well as on fee businesses including servicing, asset management and fund management. ORIX Europe aims to expand the scale of assets under management for clients in the asset management business through investment in stocks, bonds, and so on, and is engaged in capturing wide range of business opportunities as the strategic business location of ORIX in Europe. In our aircraft-related operations, we are focusing on profit opportunities in operating lease, sales of used aircraft to domestic and overseas investors, and asset management services for third-party owned aircrafts. We also aim to further extend the functionality and expand profitable businesses of our overseas group companies.

Despite increases in finance revenues in the United States through NXT Capital Group, LLC (hereinafter, “NXT Capital”) acquired in the previous fiscal year and Hunt Real Estate Capital (hereinafter, “HREC”) acquired in this fiscal year, and in gains on investment securities through selling an investee in Asia, segment revenues decreased 1% to ¥486,328 million compared to the previous fiscal year due to exchange rate changes.

Segment profits increased 25% to ¥156,433 million compared to the previous fiscal year due to an increase in equity in net income of affiliates from Avolon Holdings Limited, a leading global aircraft leasing company located in Ireland whose shares were acquired in the previous fiscal year, an increase in gains on sales of shares of subsidiaries and affiliates in the United States, as well as gains recognized on a sale of a portion of the businesses of ORIX Europe.

Segment assets increased 5% to ¥3,287,445 million compared to the end of the previous fiscal year due to an increase in investment in installment loans in the United States by NXT Capital and HREC.

Asset efficiency increased compared to the previous fiscal year.

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
Finance revenues	¥ 111,634	¥ 126,352	¥ 14,718	13
Gains on investment securities and dividends	16,565	22,854	6,289	38
Operating leases	121,913	116,309	(5,604)	(5)
Services income	233,110	215,698	(17,412)	(7)
Other	7,508	5,115	(2,393)	(32)
<b>Total Segment Revenues</b>	<b>490,730</b>	<b>486,328</b>	<b>(4,402)</b>	<b>(1)</b>
Interest expense	62,821	68,010	5,189	8
Costs of operating leases	62,529	65,152	2,623	4
Services expense	66,543	56,202	(10,341)	(16)
Selling, general and administrative expenses	183,657	188,653	4,996	3
Provision for doubtful receivables and probable loan losses and write-downs of long-lived assets and securities	10,903	23,551	12,648	116
Other	8,610	1,775	(6,835)	(79)
<b>Total Segment Expenses</b>	<b>395,063</b>	<b>403,343</b>	<b>8,280</b>	<b>2</b>
<b>Segment Operating Income</b>	<b>95,667</b>	<b>82,985</b>	<b>(12,682)</b>	<b>(13)</b>
Equity in Net income (Loss) of Affiliates, and others	29,777	73,448	43,671	147
<b>Segment Profits</b>	<b>¥ 125,444</b>	<b>¥ 156,433</b>	<b>¥ 30,989</b>	<b>25</b>

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Investment in direct financing leases . . . . .	¥ 362,391	¥ 0	¥(362,391)	(100)
Net investment in leases . . . . .	0	333,356	333,356	100
Installment loans . . . . .	814,847	1,024,801	209,954	26
Investment in operating leases . . . . .	509,117	458,525	(50,592)	(10)
Investment in securities . . . . .	385,339	387,523	2,184	1
Property under facility operations and servicing assets . . .	44,149	69,016	24,867	56
Inventories . . . . .	3,161	1,684	(1,477)	(47)
Advances for finance lease and operating lease . . . . .	10,932	7,991	(2,941)	(27)
Investment in affiliates . . . . .	556,682	560,162	3,480	1
Goodwill, intangible assets acquired in business combinations . . . . .	452,310	444,387	(7,923)	(2)
Total Segment Assets . . . . .	<u>¥ 3,138,928</u>	<u>¥ 3,287,445</u>	<u>¥ 148,517</u>	5

### Revenues, New Business Volumes and Investments

#### Finance revenues

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except percentage data)			
<b>Finance revenues:</b>				
Finance revenues . . . . .	¥ 242,893	¥ 276,864	¥ 33,971	14

Note: New Lease Standard has been adopted since April 1, 2019. Certain lessor costs of finance lease, such as property taxes and insurance costs, previously had been deducted from “Finance revenues”, have changed to be included in “Other (income) and expense.”

Finance revenues increased 14% to ¥276,864 million for fiscal 2020 compared to fiscal 2019 primarily due to an increase in the average balance of installment loans and the above mentioned change in presentation.

#### Net investment in leases

	As of and for the year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except percentage data)			
<b>Net investment in leases:</b>				
New equipment acquisitions . . . . .	¥ 439,252	¥ 444,841	¥ 5,589	1
Japan . . . . .	254,613	244,087	(10,526)	(4)
Overseas . . . . .	184,639	200,754	16,115	9
Net investment in leases . . . . .	1,155,632	1,080,964	(74,668)	(6)

Note: New Lease Standard has been adopted since April 1, 2019, and the amounts of investment in direct financing leases have been reclassified to net investment in leases.

New equipment acquisitions related to net investment in leases increased 1% to ¥444,841 million compared to fiscal 2019. In Japan, new equipment acquisitions decreased 4% in fiscal 2020 compared to fiscal 2019 due to a decreasing trend in new acquisition including for auto leases. In overseas, new equipment acquisitions increased 9% in fiscal 2020 compared to fiscal 2019 due to increases in Asia.

Net investment in leases as of March 31, 2020 decreased 6% to ¥1,080,964 million compared to March 31, 2019 mainly due to decreases in assets in Japan.

As of March 31, 2020, no single lessee represented more than 1% of the balance of net investment in leases. As of March 31, 2020, 69% of our net investment in leases were to lessees in Japan, while 31% were to overseas lessees. 6% of our net investment in leases were to lessees in Malaysia. No other overseas country represented more than 5% of our total portfolio of net investment in leases.

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Net investment in leases by category:</b>				
Transportation equipment	¥ 495,605	¥ 457,405	¥ (38,200)	(8)
Industrial equipment	222,049	210,248	(11,801)	(5)
Electronics	143,209	134,775	(8,434)	(6)
Information-related and office equipment	101,504	104,218	2,714	3
Commercial services equipment	51,671	45,062	(6,609)	(13)
Other	141,594	129,256	(12,338)	(9)
Total	<u>¥ 1,155,632</u>	<u>¥ 1,080,964</u>	<u>¥ (74,668)</u>	<u>(6)</u>

For further information, see Note 7 and 8 of “Item 18. Financial Statements.”

#### *Installment loans*

	As of and for the year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Installment loans:</b>				
New loans added	¥ 1,462,009	¥ 1,529,175	¥ 67,166	5
Japan	1,047,720	1,134,586	86,866	8
Overseas	414,289	394,589	(19,700)	(5)
Installment loans	<u>3,277,670</u>	<u>3,740,486</u>	<u>462,816</u>	<u>14</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 ¥1,529,175 million compared to fiscal 2019. In Japan, new loans added increased 8% to ¥1,134,586 million in fiscal 2020 compared to fiscal 2019 mainly due to an increase in real estate loans for consumer. In Overseas, new loans added decreased 5% to ¥394,589 million compared to fiscal 2019 mainly due to decreased lending activity in Asia.

The balance of installment loans as of March 31, 2020 increased 14% to ¥3,740,486 million compared to March 31, 2019, mainly due to an increase of real estate loans in banking business and an increase in investment in installment loans in the United States by NXT Capital and HREC.

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Installment loans:</b>				
<b>Consumer borrowers in Japan</b>				
Real estate loans . . . . .	¥ 1,560,832	¥ 1,842,131	¥ 281,299	18
Card loans . . . . .	245,139	223,651	(21,488)	(9)
Other . . . . .	32,962	32,618	(344)	(1)
Subtotal . . . . .	<u>1,838,933</u>	<u>2,098,400</u>	<u>259,467</u>	14
<b>Corporate borrowers in Japan</b>				
Real estate companies . . . . .	288,851	300,984	12,133	4
Non-recourse loans . . . . .	53,067	48,566	(4,501)	(8)
Commercial, industrial and other companies . . . . .	266,675	255,309	(11,366)	(4)
Subtotal . . . . .	<u>608,593</u>	<u>604,859</u>	<u>(3,734)</u>	(1)
<b>Overseas</b>				
Real estate companies . . . . .	104,883	250,195	145,312	139
Non-recourse loans . . . . .	49,915	83,515	33,600	67
Commercial, industrial companies and other . . . . .	658,930	690,299	31,369	5
Subtotal . . . . .	<u>813,728</u>	<u>1,024,009</u>	<u>210,281</u>	26
Purchased loans* . . . . .	<u>16,416</u>	<u>13,218</u>	<u>(3,198)</u>	(19)
Total . . . . .	<u>¥ 3,277,670</u>	<u>¥ 3,740,486</u>	<u>¥ 462,816</u>	14

\* 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, 2020, ¥17,720 million, or 0.7%, 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, 2020, ¥551,179 million, or 15%, of the balance of installment loans were to real estate companies in Japan and overseas. Among these amounts, ¥15,992 million, or 0.4% were loans individually evaluated for impairment. We recognized an allowance of ¥859 million on these impaired loans.

The balance of installment loans to consumer borrowers in Japan as of March 31, 2020 increased 14% to ¥2,098,400 million compared to the balance as of March 31, 2019, primarily due to an increase in the balance of real estate loans for consumer. The balance of installment loans to corporate borrowers in Japan as of March 31, 2020 decreased 1% to ¥604,859 million compared to the balance as of March 31, 2019. The balance of installment loans in Overseas as of March 31, 2020 increased 26% to ¥1,024,009 million compared to the balance as of March 31, 2019 in line with the aforementioned increase in the United States.

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

*Asset quality*

*Net investment in leases*

	As of March 31,	
	2019	2020
	(Millions of yen, except percentage data)	
<b>90+ days past-due net investment in leases and allowances for net investment in leases:</b>		
90+ days past-due net investment in leases	¥14,807	¥15,346
90+ days past-due net investment in leases as a percentage of the balance of net investment in leases	1.28%	1.42%
Provision as a percentage of average balance of net investment in leases*	0.37%	0.29%
Allowance for net investment in leases	¥12,049	¥11,692
Allowance for net investment in leases as a percentage of the balance of net investment in leases	1.04%	1.08%
The ratio of charge-offs as a percentage of the average balance of net investment in leases*	0.19%	0.25%

Note: New Lease Standard has been adopted since April 1, 2019, and the amounts of investment in direct financing leases have been reclassified to net investment in leases.

\* 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 net investment in leases increased ¥539 million to ¥15,346 million as of March 31, 2020 compared to March 31, 2019. As a result, the ratio of 90+ days past-due net investment in leases increased 0.14% to 1.42% from March 31, 2019.

We believe that the ratio of allowance for doubtful receivables to the balance of investment in net investment in leases provides a reasonable indication that our allowance for doubtful receivables was appropriate as of March 31, 2020 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,	
	2019	2020
	(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	¥12,412	¥10,264
90+ days past-due loans not individually evaluated for impairment as a percentage of the balance of installment loans not individually evaluated for impairment	0.39%	0.28%
Provision as a percentage of average balance of installment loans not individually evaluated for impairment*	0.50%	0.43%
Allowance for probable loan losses on installment loans exclusive of those loans individually evaluated for impairment	¥32,231	¥31,697
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	1.00%	0.87%
The ratio of charge-offs as a percentage of the average balance of loans not individually evaluated for impairment*	0.44%	0.43%

\* 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 ¥2,148 million to ¥10,264 million as of March 31, 2020 compared to March 31, 2019.

	As of March 31,	
	2019	2020
	(Millions of yen)	
<b>90+ days past-due loans not individually evaluated for impairment:</b>		
Consumer borrowers in Japan		
Real estate loans	¥ 1,388	¥ 1,370
Card loans	1,671	1,708
Other	8,993	7,025
Subtotal	<u>12,052</u>	<u>10,103</u>
Consumer borrowers in Overseas		
Other	<u>360</u>	<u>161</u>
Total	<u>¥12,412</u>	<u>¥10,264</u>

We recognize allowance for real estate 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,	
	2019	2020
	(Millions of yen)	
<b>Loans individually evaluated for impairment:</b>		
Impaired loans	¥58,827	¥85,820
Impaired loans requiring an allowance	41,234	49,292
Allowance for loans individually evaluated for impairment*	13,731	13,447

\* 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 ¥3,201 million in fiscal 2019 and ¥6,201 million in fiscal 2020, and charge-off of impaired loans was ¥3,936 million in fiscal 2019 and ¥6,478 million in fiscal 2020. New provision for probable loan losses increased ¥3,000 million compared to fiscal 2019. Charge-off of impaired loans increased ¥2,542 million compared to fiscal 2019.

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. The balance of impaired loans of real estate companies and commercial, industrial companies and other in Overseas increased due to an increase in the United States.

	As of March 31,	
	2019	2020
	(Millions of yen)	
<b>Impaired loans:</b>		
Consumer borrowers in Japan		
Real estate loans	¥ 4,378	¥ 5,758
Card loans	3,945	3,932
Other	14,216	16,426
Subtotal	<u>22,539</u>	<u>26,116</u>
Corporate borrowers in Japan		
Real estate companies	1,540	3,501
Non-recourse loans	232	0
Commercial, industrial and other companies	7,103	12,480
Subtotal	<u>8,875</u>	<u>15,981</u>
Overseas		
Real estate companies	840	12,491
Non-recourse loans	4,216	2,466
Commercial, industrial companies and other	18,593	27,161
Subtotal	<u>23,649</u>	<u>42,118</u>
Purchased loans	3,764	1,605
Total	<u>¥58,827</u>	<u>¥85,820</u>

*Troubled debt restructuring*

There were certain payment deferral requests of financing receivables, which we accepted due to the spread of the COVID-19. A troubled debt restructuring is determined based on the definition of troubled debt

restructuring. 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. As of March 31, 2020, although we accepted payment deferral requests for financing receivables for which payment was deferral request for 3 to 6 months due to COVID-19, those receivables are not included in the troubled debt restructuring as we determined those receivables based on the definition of troubled debt restructuring.

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

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

We recognize provision for doubtful receivables and probable loan losses for net investment in leases and installment loans.

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Provision for doubtful receivables on net investment in leases and probable loan losses:</b>				
Beginning balance	¥ 54,672	¥ 58,011	¥ 3,339	6
Net investment in 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)
Provision (Reversal)	22,525	24,425	1,900	8
Net investment in leases	4,324	3,304	(1,020)	(24)
Loans not individually evaluated for impairment	15,000	14,920	(80)	(1)
Loans individually evaluated for impairment	3,201	6,201	3,000	94
Charge-offs (net)	(19,213)	(24,132)	(4,919)	26
Net investment in leases	(2,255)	(2,835)	(580)	26
Loans not individually evaluated for impairment	(13,022)	(14,819)	(1,797)	14
Loans individually evaluated for impairment	(3,936)	(6,478)	(2,542)	65
Other*	27	(1,468)	(1,495)	—
Net investment in leases	(109)	(826)	(717)	658
Loans not individually evaluated for impairment	14	(635)	(649)	—
Loans individually evaluated for impairment	122	(7)	(129)	—
Ending balance	58,011	56,836	(1,175)	(2)
Net investment in leases	12,049	11,692	(357)	(3)
Loans not individually evaluated for impairment	32,231	31,697	(534)	(2)
Loans individually evaluated for impairment	13,731	13,447	(284)	(2)

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

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

## Investment in Securities

	As of and for the year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investment in securities:</b>				
New securities added	¥ 623,172	¥ 765,589	¥ 142,417	23
Japan	504,515	653,228	148,713	29
Overseas	118,657	112,361	(6,296)	(5)
Investment in securities	1,928,916	2,245,323	316,407	16

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 23% to ¥765,589 million in fiscal 2020 compared to fiscal 2019. New securities added in Japan increased 29% in fiscal 2020 compared to fiscal 2019 primarily due to an increase in investments in government bond securities, municipal bond securities and corporate debt securities. New securities added overseas decreased 5% in fiscal 2020 compared to fiscal 2019.

The balance of our investment in securities as of March 31, 2020 increased 16% to ¥2,245,323 million compared to March 31, 2019.

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investment in securities by security type:</b>				
Equity securities	¥ 549,047	¥ 492,902	¥ (56,145)	(10)
Trading debt securities	1,564	7,431	5,867	375
Available-for-sale debt securities	1,264,244	1,631,185	366,941	29
Held-to-maturity debt securities	114,061	113,805	(256)	(0)
Total	¥ 1,928,916	¥ 2,245,323	¥ 316,407	16

Investments in equity securities as of March 31, 2020 decreased 10% to ¥492,902 million compared to March 31, 2019 primarily due to a decrease in the assets under management of variable annuity and variable life insurance contracts. Investments in trading debt securities as of March 31, 2020 increased to ¥7,431 million compared to March 31, 2019 due to an increase in investments in CMBS and RMBS in the Americas. Investments in available-for-sale debt securities as of March 31, 2020 increased 29% to ¥1,631,185 million compared to March 31, 2019 primarily due to an increase in investments in government bond securities, municipal 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 12 of "Item 18. Financial Statements."

### *Gains on investment securities and dividends*

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Gains on investment securities and dividends:</b>				
Net gains on investment securities .....	¥ 14,273	¥ 20,204	¥ 5,931	42
Dividends income .....	1,685	2,295	610	36
Total .....	¥ 15,958	¥ 22,499	¥ 6,541	41

- Note: 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. Unrealized changes in fair value of investments in equity securities have been included in “Net gains on investment securities”.

Gains on investment securities and dividends increased 41% to ¥22,499 million in fiscal 2020 compared to fiscal 2019 mainly due to an increase in net gains on investment securities. Net gains on investment securities increased 42% to ¥20,204 million in fiscal 2020 compared to fiscal 2019 due to a decrease in net unrealized holding gains on equity securities caused by declines in market prices of stocks, but an increase in gains on sales of shares. Dividends income increased 36% to ¥2,295 million in fiscal 2020 compared to fiscal 2019.

As of March 31, 2020, gross unrealized gains on available-for-sale debt securities, including those held in connection with our life insurance operations, were ¥36,017 million, compared to ¥35,034 million as of March 31, 2019. As of March 31, 2020, gross unrealized losses on available-for-sale debt securities, including those held in connection with our life insurance operations, were ¥41,712 million, compared to ¥10,530 million as of March 31, 2019.

### *Operating leases*

	As of and for the year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Operating leases:</b>				
Operating lease revenues .....	¥ 413,918	¥ 430,665	¥ 16,747	4
Costs of operating leases .....	257,321	289,604	32,283	13
New equipment acquisitions .....	544,715	493,666	(51,049)	(9)
Japan .....	233,721	234,188	467	0
Overseas .....	310,994	259,478	(51,516)	(17)
Investment in operating leases .....	1,335,959	1,400,001	64,042	5

- Note: New Lease Standard has been adopted since April 1, 2019. Certain lessor costs of operating lease, such as property taxes and insurance costs, previously had been deducted from “Operating lease revenues”, have changed to be included in “Costs of operating leases.”

Revenues from operating leases in fiscal 2020 increased 4% to ¥430,665 million compared to fiscal 2019 primarily due to an increase resulting from the adoption of New Lease Standard. In fiscal 2019 and 2020, gains from the disposition of operating lease assets were ¥62,883 million and ¥51,072 million, respectively.

Costs of operating leases increased 13% to ¥289,604 million in fiscal 2020 compared to fiscal 2019 primarily due to an increase resulting from the adoption of New Lease Standard.

New equipment acquisitions related to operating leases decreased 9% to ¥493,666 million in fiscal 2020 compared to fiscal 2019 primarily due to a decrease in purchases of aircraft overseas.

Investment in operating leases as of March 31, 2020 increased 5% to ¥1,400,001 million compared to March 31, 2019.

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investment in operating leases by category:</b>				
Transportation equipment	¥ 888,625	¥ 847,376	¥ (41,249)	(5)
Measuring and information-related equipment	105,179	125,897	20,718	20
Real estate	297,343	269,483	(27,860)	(9)
Other	12,890	10,308	(2,582)	(20)
Right-of-use assets	0	121,553	121,553	—
Accrued rental receivables	31,922	25,384	(6,538)	(20)
Total	¥ 1,335,959	¥ 1,400,001	¥ 64,042	5

Investment in transportation equipment operating leases as of March 31, 2020 decreased 5% to ¥847,376 million compared to March 31, 2019 primarily due to a decrease in new equipment acquisitions in the automobile leasing business and aircraft-related operations and depreciation of equipment held for operating leases. Investment in measuring and information-related equipment operating leases as of March 31, 2020 increased 20% to ¥125,897 million compared to March 31, 2019 primarily due to an increase in new equipment acquisitions in the rental business. Investment in real estate operating leases as of March 31, 2020 decreased 9% to ¥269,483 million compared to March 31, 2019 primarily due to sales of real estate in Japan. We recognized ¥121,553 million of ROU assets of operating leases resulting from the adoption of the New Lease Standard.

For further information, see Note 7 and 9 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	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Life insurance premiums and related investment income and life insurance costs:</b>				
Life insurance premiums	¥ 330,811	¥ 360,583	¥ 29,772	9
Life insurance-related investment income	16,325	7,195	(9,130)	(56)
Total	¥ 347,136	¥ 367,778	¥ 20,642	6
Life insurance costs	¥ 246,533	¥ 269,425	¥ 22,892	9

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Breakdown of life insurance-related investment income (loss):</b>				
Net income on investment securities . . . . .	¥ 10,756	¥ 8,674	¥(2,082)	(19)
Losses recognized in income on derivative . . . . .	(1,348)	(1,910)	(562)	42
Interest on loans, income on real estate under operating leases, and others . . . . .	6,917	431	(6,486)	(94)
Total . . . . .	<u>¥ 16,325</u>	<u>¥ 7,195</u>	<u>¥(9,130)</u>	(56)

Life insurance premiums and related investment income increased 6% to ¥367,778 million in fiscal 2020 compared to fiscal 2019.

Life insurance premiums increased 9% to ¥360,583 million in fiscal 2020 compared to fiscal 2019 due to an increase in the number of policies in force.

Life insurance-related investment income decreased 56% to ¥7,195 million in fiscal 2020 compared to fiscal 2019. Net income on investment securities decreased due to a decrease in investment income from assets under variable annuity and variable life insurance contracts, caused by the deterioration in the markets, although gains on sales of government bonds increased. In addition, interest on loans, income on real estate under operating leases, and others decreased due to recognition of gains on sales of real estate under operating leases in fiscal 2019.

Life insurance costs increased 9% to ¥269,425 million in fiscal 2020 compared to fiscal 2019 due to the aforementioned increase in the number of policies in force.

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Investments by life insurance operations:</b>				
Equity securities . . . . .	¥ 327,497	¥ 264,625	¥ (62,872)	(19)
Available-for-sale debt securities . . . . .	766,830	1,149,612	382,782	50
Held-to-maturity debt securities . . . . .	114,061	113,805	(256)	(0)
Total investment in securities . . . . .	<u>1,208,388</u>	<u>1,528,042</u>	<u>319,654</u>	26
Installment loans, real estate under operating leases and other investments . . . . .	41,630	46,991	5,361	13
Total . . . . .	<u>¥ 1,250,018</u>	<u>¥ 1,575,033</u>	<u>¥ 325,015</u>	26

Investment in securities as of March 31, 2020 increased 26% to ¥1,528,042 million compared to March 31, 2019 due to an increase in available-for-sale debt securities as a result of an increase in investments in government bond securities and corporate debt securities, although equity securities decreased due to a decrease in assets under variable annuity and variable life insurance contracts.

Installment loans, real estate under operating leases and other investments as of March 31, 2020 increased 13% to ¥46,991 million compared to March 31, 2019 due to an increase in investment in installment loans.

For further information, see Note 26 of “Item 18. Financial Statements.”

*Sales of goods and real estate, Inventories*

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Sales of goods and real estate, Inventories:</b>				
Sales of goods and real estate . . . . .	¥ 596,165	¥ 406,511	¥(189,654)	(32)
Costs of goods and real estate sold . . . . .	535,261	354,006	(181,255)	(34)
New real estate added . . . . .	97,397	82,442	(14,955)	(15)
Inventories . . . . .	115,695	126,013	10,318	9

Sales of goods and real estate decreased 32% to ¥406,511 million compared to fiscal 2019 due to a decrease in sales of goods.

Costs of goods and real estate sold decreased 34% to ¥354,006 million compared to fiscal 2019 due to a decrease in costs of goods sold. We recognized ¥703 million and ¥863 million of write-downs for fiscal 2019 and 2020, 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 15% to ¥82,442 million in fiscal 2020 compared to fiscal 2019.

Inventories as of March 31, 2020 increased 9% to ¥126,013 million compared to March 31, 2019.

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

*Services, Property under Facility Operations*

	As of and for the year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Services, Property under Facility Operations</b>				
Services income . . . . .	¥ 818,794	¥ 776,012	¥(42,782)	(5)
Services expense . . . . .	508,320	483,914	(24,406)	(5)
New assets added . . . . .	104,839	34,181	(70,658)	(67)
Japan . . . . .	103,939	33,312	(70,627)	(68)
Overseas . . . . .	900	869	(31)	(3)
Property under Facility Operations . . . . .	441,632	562,485	120,853	27

Services income decreased 5% to ¥776,012 million in fiscal 2020 compared to fiscal 2019 due to sales of subsidiaries and recognition of a significant gain on a sale of property under facility operations in fiscal 2019, although there was service expansion in the environment and energy business.

Services expense decreased 5% to ¥483,914 million in fiscal 2020 compared to fiscal 2019 due to sales of subsidiaries, despite an increase of expenses related to the environment and energy business, similar to the aforementioned decrease in services income.

New assets added for property under facility operations decreased 67% to ¥34,181 million in fiscal 2020 compared to fiscal 2019 due to a decrease in investments in electric power facilities.

Property under facility operations as of March 31, 2020 increased 27% to ¥562,485 million compared to March 31, 2019 due to making investees engaged in wind power generation into our subsidiaries and recognition

of ROU assets of property under facility operations resulting from the adoption of the New Lease Standard, despite a decrease in property under facility operations through a sale of a subsidiary which operated a facility operation business.

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

## **Expenses**

### **Interest expense**

Interest expense increased 6% to ¥99,138 million in fiscal 2020 compared to ¥93,337 million in fiscal 2019. Our total outstanding short-term debt, long-term debt and deposits as of March 31, 2020 increased 7% to ¥6,847,889 million compared to ¥6,423,512 million as of March 31, 2019.

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 2020 at 0.4% compared to 0.4% in fiscal 2019. 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 2020 at 3.3% compared to 3.3% in fiscal 2019. 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**

Other (income) and expense included a net expense of ¥1,301 million during fiscal 2019 and a net expense of ¥14,925 million during fiscal 2020. Foreign currency transaction losses (gains) included in other (income) and expense included losses of ¥1,679 million during fiscal 2020 compared to losses of ¥3,220 million during fiscal 2019. We recognized no impairment losses on goodwill and other intangible assets included in other (income) and expense during fiscal 2020 compared to ¥606 million of impairment losses on goodwill and other intangible assets during fiscal 2019. For further information on our goodwill and other intangible assets, see Note 16 of “Item 18. Financial Statements.”

In addition, New Lease Standard has been adopted since April 1, 2019, and expenses of ¥19,952 million are included in other (income) and expense during fiscal 2020. The certain lessor costs of finance lease, such as the property taxes and insurance costs previously had been deducted from “Finance revenues”, but they have changed to be included in “Other (income) and expense.”

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

	Year ended March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Selling, general and administrative expenses:</b>				
Personnel expenses . . . . .	¥ 248,519	¥ 256,931	¥ 8,412	3
Selling expenses . . . . .	79,015	75,860	(3,155)	(4)
Administrative expenses . . . . .	104,582	119,694	15,112	14
Depreciation of office facilities . . . . .	4,912	7,714	2,802	57
Total . . . . .	¥ 437,028	¥ 460,199	¥ 23,171	5

Employee salaries and other personnel expenses accounted for 56% of selling, general and administrative expenses in fiscal 2020, 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 2020 increased 5% year on year.

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

As a result of impairment reviews we performed in fiscal 2020 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 increased 26% to ¥3,043 million in fiscal 2020 compared to ¥2,418 million in fiscal 2019. These write-downs, which are reflected as write-downs of long-lived assets, consisted of impairment losses of ¥529 million on two commercial facilities other than office buildings, ¥236 million on four condominiums, ¥2,083 million on two pieces of land undeveloped or under construction and ¥195 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 2020 include a write-down of ¥109 million of one hotel. For further information, see Note 27 of “Item 18. Financial Statements.”

### ***Write-downs of securities***

Write-downs of securities in fiscal 2020 were in connection with non-marketable equity securities. Write-downs of securities increased to ¥11,969 million in fiscal 2020 compared to ¥1,382 million in fiscal 2019. For further information, see Note 12 of “Item 18. Financial Statements.”

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

Equity in net income of affiliates increased in fiscal 2020 to ¥67,924 million compared to ¥32,978 million in fiscal 2019 primarily due to the favorable profit in overseas affiliates. For further information, see Note 15 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 increased to ¥74,001 million in fiscal 2020 compared to ¥33,314 million in fiscal 2019, due to the favorable profit from sales in Japan, the Americas and the Europe. For further information, see Note 3 of “Item 18. Financial Statements.”

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

In fiscal 2020, we recognized bargain purchase gains of ¥955 million associated with two of the acquisitions executed in fiscal 2019 compared to no bargain purchase gain in fiscal 2019. For further information, see Note 3 of “Item 18. Financial Statements.”

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

Provision for income taxes increased to ¥105,837 million in fiscal 2020 compared to ¥68,691 million in fiscal 2019 primarily due to the reversal of the deferred tax liabilities previously recorded for undistributed earnings of DAIKYO. For further information, see Note 19 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 2020 was ¥3,640 million, compared to ¥2,890 million in fiscal 2019.

### ***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 2020 was ¥384 million, compared to ¥404 million in fiscal 2019. For further information, see Note 21 of “Item 18. Financial Statements.”

## 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 regularly reviewed by the chief operating decision maker to make decisions about resource allocations and assess performance. The chief operating decision maker evaluates the performance of the segments based on income before income taxes, net income attributable to noncontrolling interests and net income attributable to redeemable noncontrolling interests before applicable tax effect. Tax expenses are excluded from the segment profits.

In fiscal 2019, the Company made DAIKYO a wholly-owned subsidiary, to complement their respective real estate business and to jointly aim for medium- and long-term growth as a comprehensive real estate business. Accordingly, the segment classification of DAIKYO has been shifted from Investment and Operation segment to Real Estate segment since the previous fiscal year. As a result of this change, the segment data of the previous fiscal year has been retrospectively restated.

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 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 34 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)

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(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
Sales of goods and real estate	4,379	4,379	0	—
Services income	40,283	39,259	(1,024)	(3)
<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
Costs of goods and real estate sold	1,409	1,655	246	17
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	(5)	(166)	(161)	—
<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 aim 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
<b>Total Segment Revenues</b>	<b>275,933</b>	<b>288,211</b>	<b>12,278</b>	<b>4</b>
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
<b>Total Segment Expenses</b>	<b>235,568</b>	<b>250,464</b>	<b>14,896</b>	<b>6</b>
<b>Segment Operating Income</b>	<b>40,365</b>	<b>37,747</b>	<b>(2,618)</b>	<b>(6)</b>
Equity in Net income (Loss) of Affiliates, and others	(203)	1,094	1,297	—
<b>Segment Profits</b>	<b>¥ 40,162</b>	<b>¥ 38,841</b>	<b>¥ (1,321)</b>	<b>(3)</b>

	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 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 real estate investment 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 real estate investment 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
Total Segment Revenues	428,697	428,904	207	0
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)
Total Segment Expenses	354,177	344,676	(9,501)	(3)
Segment Operating Income	74,520	84,228	9,708	13
Equity in Net income (Loss) of Affiliates, and others	7	(17)	(24)	—
Segment Profits	¥ 74,527	¥ 84,211	¥ 9,684	13

	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	—
Total Segment Assets	¥ 3,174,505	¥ 3,571,437	¥ 396,932	13

### ***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
Total Segment Assets	¥ 2,608,819	¥ 3,138,928	¥ 530,109	20

### 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>	<u>(3)</u>

For further information, see Note 8 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 real estate loans for consumer. 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 real estate 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>				
Real estate 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* . . . . .	<u>18,933</u>	<u>16,416</u>	<u>(2,517)</u>	(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 real estate loans for consumer. 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 10 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		
Real estate 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	<u>422</u>	<u>360</u>
Total	<u>¥12,748</u>	<u>¥12,412</u>

We recognize allowance for real estate 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		
Real estate loans . . . . .	¥ 3,544	¥ 4,378
Card loans . . . . .	4,060	3,945
Other . . . . .	11,082	14,216
Subtotal . . . . .	18,686	22,539
Corporate borrowers in Japan		
Real estate companies . . . . .	1,598	1,540
Non-recourse loans . . . . .	254	232
Commercial, industrial and other companies . . . . .	9,174	7,103
Subtotal . . . . .	11,026	8,875
Overseas		
Non-recourse loans . . . . .	3,491	4,216
Commercial, industrial companies and other . . . . .	8,838	19,433
Subtotal . . . . .	12,329	23,649
Purchased loans . . . . .	5,101	3,764
Total . . . . .	¥47,142	¥58,827

For further information, see Note 11 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 11 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. 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 12 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. Unrealized changes in fair value of investments in equity securities have 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	¥ 1,344,926	¥ 1,335,959	¥ (8,967)	(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 9 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 . . . . .	¥ 351,590	¥ 347,136	¥ (4,454)	(1)
Life insurance costs . . . . .	¥ 255,070	¥ 246,533	¥ (8,537)	(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 . . . . .	¥ 52,270	¥ 16,325	¥(35,945)	(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 26 of “Item 18. Financial Statements.”

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

	<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>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**

Other (income) and expense 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 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 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 16 of “Item 18. Financial Statements.”

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

	Year ended March 31,		Change	
	2018	2019	Amount	Percent (%)
(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 . . . . .	¥ 431,594	¥ 437,028	¥ 5,434	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 27 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 12 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 15 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 19 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 21 of “Item 18. Financial Statements.”

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Funding Activities**

ORIX Group formulates funding policies that are designed to improve procurement efficiency and reduce liquidity risk. As a concrete measure to stabilize procurement efficiency while engaging in activities such as borrowing, capital market procurement and securitization of assets, we are diversifying our procurement methods and our country and investor base. To reduce liquidity risk we are prolonging our borrowings from financial

institutions and issuing long-term corporate bonds domestically and internationally with dispersed redemption periods. We are also holding cash and entering into committed credit facilities agreements. In order to maintain an appropriate level of liquidity at hand, we conduct stress tests from the perspective of both funding stability and financial efficiency and review the necessary levels accordingly. Also ORIX Group considers reducing procurement costs to be an important issue. For this reason, we place great importance on ratings by rating agencies and strive to maintain a certain level of rating. Furthermore, we believe that maintaining our ratings are effective not only in terms of minimizing procurement costs, but also facilitating capital procurement when in unstable financial market conditions.

Recently, financial conditions have become unstable due to circumstances such as COVID-19, and we expect that liquidity risk and procurement costs will both increase. Specifically, we may be unable to borrow new funds or roll-over existing funds; we maybe unable to issue bonds, MTNs and CP in the capital markets; or there may be an increase in the amount of interest we need to pay. ORIX Group is working to maintain stable procurement and reduce liquidity risk in accordance with the above policy. In addition, with respect to rising costs, we are working to maintain a high rating from rating agencies and to maintain good communication with the market so that we can raise funds at reasonable interest rates when refinancing our existing funding.

ORIX Group, from the perspective of liquidity risk reduction and financial efficiency including procurement costs, is primarily responsible for accessing liquidity for the ORIX Group and for managing the allocation of liquidity to its 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. The impact of COVID-19 will affect the funding of those group companies, but we believe that they are currently being managed properly.

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 domestic and overseas 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 obtains most of the funds it needs to operate its business through deposit taking. Although ORIX Bank provides loans to several companies 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 is restricted from making 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.

## **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, 2020, 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, 2019 and 2020, short-term debt from Japanese and foreign financial institutions were ¥268,488 million and ¥319,122 million, respectively, while long-term debt from financial institutions were ¥3,010,880 million and ¥3,094,474 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, 2019 and 2020 were ¥497,882 million and ¥569,862 million, respectively. Of these figures, the unused amount as of March 31, 2019 and 2020 were ¥346,609 million and ¥427,564 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. In fiscal 2020, we issued unsecured subordinated bonds with interest payment deferrable clauses and optional early redemption conditions (hybrid bonds) in Japan.

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

We regularly issue straight bonds and MTNs domestically and internationally and, in fiscal 2020, issued unsecured subordinated bonds with interest payment deferrable clauses and optional early redemption conditions (hybrid bonds), each to diversify our funding sources and maintain longer liability maturities.

The total balance of bonds and MTNs issued as of March 31, 2019 and 2020 were ¥997,542 million and ¥1,022,740 million, respectively, of which bonds and MTNs amounting to ¥62,699 million and ¥53,428 million, respectively, were issued by foreign subsidiaries.

As of March 31, 2019 and 2020, the balance of bonds issued by ORIX for domestic institutional investors were ¥214,510 million and ¥293,941 million, respectively, while the balance of bonds issued by ORIX for individual investors were ¥264,320 million and ¥234,564 million, respectively. The balance of bonds and MTNs issued outside Japan were ¥453,973 million and ¥438,776 million as of March 31, 2019 and 2020, respectively.

We plan to continue to issue bonds and MTNs in a balanced manner to institutional and individual investors both inside and outside Japan in line with our strategy of improving procurement efficiency and reducing liquidity risk.

#### ***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, 2019 and 2020 were ¥41,061 million and ¥17,710 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, 2019 and 2020 were ¥177,800 million and ¥162,140 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, 2019 and 2020 were ¥1,916,253 million and ¥2,221,930 million, respectively.

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

### Short-term Debt

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Short-term debt:</b>				
Borrowings from financial institutions	¥ 268,488	¥ 319,122	¥ 50,634	19
Commercial paper	41,061	17,710	(23,351)	(57)
Total short-term debt	¥ 309,549	¥ 336,832	¥ 27,283	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, 2019 and 2020 were ¥580 million and ¥6,030 million, respectively.

Short-term debt as of March 31, 2020 was ¥336,832 million. The ratio was 7% of total debt (excluding deposits) as of March 31, 2019 and 2020. As of March 31, 2020, 95% of short-term debt was borrowings from financial institutions.

### Long-term debt

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
(Millions of yen, except percentage data)				
<b>Long-term debt:</b>				
Borrowings from financial institutions	¥ 3,010,880	¥ 3,094,474	¥ 83,594	3
Bonds	807,460	845,938	38,478	5
Medium-term notes	190,082	176,802	(13,280)	(7)
Payable under securitized lease and loan receivables and investment in securities	177,800	162,140	(15,660)	(9)
Total long-term debt	¥ 4,186,222	¥ 4,279,354	¥ 93,132	2

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 and 2020 were ¥418,631 million and ¥464,904 million, respectively.

Long-term debt as of March 31, 2020 was ¥4,279,354 million. The ratio was 93% of total debt (excluding deposits) as of March 31, 2019 and 2020. Borrowings from financial institutions comprised 72% of the long-term debt as of March 31, 2020.

Approximately 43% of interest paid on long-term debt in fiscal 2020 was fixed rate interest, with the remainder being floating rate interest.

For information regarding the repayment schedule of our long-term debt and interest rates for long and short-term debt, see Note 17 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 29 of “Item 18. Financial Statements.”

### *Deposits*

	As of March 31,		Change	
	2019	2020	Amount	Percent (%)
	(Millions of yen, except percentage data)			
Deposits	¥ 1,927,741	¥ 2,231,703	¥ 303,962	16

Note: VIEs did not have any deposits as of March 31, 2019 and 2020.

For further information with respect to deposits, see Note 18 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 principal payments received under net investment in lease, costs of inventories and sales of inventories, and 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 and proceeds from sales of lease equipment, purchases of securities and proceeds from sales of securities, and 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 6 of “Item 18. Financial Statements.”

### **Year Ended March 31, 2020 Compared to Year Ended March 31, 2019**

Cash, cash equivalents and restricted cash decreased by ¥148,296 million to ¥1,135,284 million compared to March 31, 2019. New Lease Standard has been adopted since April 1, 2019. For further information, see Note 1 of “Item 18. Financial Statements.”

Cash flows provided by operating activities were ¥1,042,466 million during fiscal 2020, up from ¥587,678 million during fiscal 2019, primarily because the classification of cash flows from principal payments received under net investment in leases changed from cash flows from investing activities to cash flows from operating activities, starting from fiscal 2020.

Cash flows used in investing activities were ¥1,470,486 million during fiscal 2020, up from ¥873,951 million during fiscal 2019, primarily because the classification of cash flows from principal payments received under net investment in leases changed from cash flows from investing activities to cash flows from operating activities, starting from fiscal 2020.

Cash flows provided by financing activities were ¥288,703 million during fiscal 2020, up from ¥166,647 million during fiscal 2019. This change resulted primarily from an increase in deposit taking.

### **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.

### **COMMITMENTS FOR CAPITAL EXPENDITURES**

As of March 31, 2020, we had commitments for the purchase of equipment to be leased in the amount of ¥3,027 million. For information on commitments, guarantees and contingent liabilities, see Note 33 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 13 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 14 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, 2020.

	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 . . . . .	¥ 704,170	¥ 109,281	¥ 211,631	¥ 247,814	¥ 135,444
Committed credit lines and other . . . . .	456,379	200,946	67,770	29,309	158,354
Total commercial commitments . . . . .	<u>¥1,160,549</u>	<u>¥ 310,227</u>	<u>¥ 279,401</u>	<u>¥ 277,123</u>	<u>¥ 293,798</u>

A subsidiary in the United States is authorized to underwrite, originate, fund and service multi-family and senior housing loans without prior approval from Federal National Mortgage Association (“Fannie Mae”) under the Delegated Underwriting and Servicing program and Federal Home Loan Mortgage Corporation (“Freddie Mac”) under the Delegated Underwriting Initiative program. As part of these programs, Fannie Mae and Freddie Mac provide a commitment to purchase the loans.

Under these programs, the subsidiary guarantees the performance of the loans transferred to Fannie Mae and Freddie Mac 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 ¥355,452 million as of March 31, 2020.

The subsidiary makes certain representations and warranties in connection with the sale of loans through Fannie Mae and Freddie Mac, including among others, that: the mortgage meets Fannie Mae and Freddie Mac 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 and Freddie Mac for any related losses incurred. The subsidiary had no such repurchase claims during fiscal 2020.

For a discussion of commitments, guarantee and contingent liabilities, see Note 33 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, 2020.

	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 . . . . .	¥2,231,703	¥1,472,739	¥ 410,516	¥ 348,448	¥ 0
Long-term debt . . . . .	4,279,354	658,813	1,232,292	959,427	1,428,822
Unconditional purchase obligations of lease equipment . . . . .	3,027	7	3,020	0	0
Lease liabilities related to lessee leases . . . . .	287,556	45,788	58,551	46,460	136,757
Unconditional noncancelable contracts for computer systems . . . . .	5,911	3,183	2,344	383	1
<b>Interest rate swaps:</b>					
Notional amount (floating to fixed) . . . . .	502,537	39,839	107,821	34,801	320,076
Total contractual cash obligations . . . . .	<u>¥7,310,088</u>	<u>¥2,220,369</u>	<u>¥1,814,544</u>	<u>¥1,389,519</u>	<u>¥1,885,656</u>

Items excluded from the above table include short-term debt of ¥336,832 million, trade notes, accounts and other payable of ¥282,727 million and policy liabilities and policy account balances of ¥1,591,475 million as of March 31, 2020.

For information on pension plans and derivatives, see Notes 20 and 29 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 17 and 18 of “Item 18. Financial Statements.”

For information on lease liabilities, see Notes 7 of “Item 18. Financial Statements.”

## RECENT DEVELOPMENTS

### NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

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. Based on the Company and its subsidiaries’ assessment and best estimates to date, the allowance for credit losses for financial assets such as installment loans, net investment in leases and off-balance-sheet credit exposures such as financial guarantees and loan commitments are expected to increase due to the changes of the measurement of the allowance for credit losses. The effect of the adoption of these updates on the Company and its subsidiaries’ financial position at the adoption date will be an increase of approximately ¥32,000 million in the allowance for credit losses for financial assets, an increase of approximately ¥29,000 million in other liabilities related to off-balance sheet credit exposures and a decrease of approximately ¥44,000 million in retained earnings in the consolidated balance sheets as of April 1, 2020. The Company and its subsidiaries continue to improve internal controls relevant to the new current expected credit loss model. The Company and its subsidiaries will expand their disclosures that are required by these updates, primarily regarding credit quality information and estimates of the allowance for credit losses.

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 2018, Accounting Standards Update 2018-12 (“Targeted Improvements to the Accounting for Long-Duration Contracts”—ASC 944 (“Financial Services—Insurance”)) was issued, and related amendments which defer the effective date by one year were issued thereafter. These updates change the recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. These updates require 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). These updates also require market risk benefits to be measured at fair value, and simplify amortization of deferred acquisition costs. Furthermore, these updates require additional disclosures for long-duration contracts. These updates are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early application is permitted. For the

liability for future policy benefits and deferred acquisition costs, these updates are applied to contracts in force as of beginning of the earliest period presented (hereinafter, “the transition date” of these updates) on a modified retrospective basis, and an insurance entity may elect to apply retrospectively. For the market risk benefits, these updates are 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 these updates on April 1, 2022. The Company and its subsidiaries are currently evaluating 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 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.

In December 2019, Accounting Standards Update 2019-12 (“Simplifying the Accounting for Income Taxes”—ASC 740 (“Income Taxes”)) was issued. This update removes the exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment, the exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and other exceptions. This update also simplifies certain other elements of the accounting for the income taxes. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 and early adoption is permitted. The income tax simplifications related to changes in ownership of foreign equity method investments and foreign subsidiaries shall be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The other amendments in this update shall be applied on a retrospective basis to all periods presented, on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption, or on a prospective basis. 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 January 2020, Accounting Standards Update 2020-01 (“Clarifying the Interactions between Equity Securities, Equity Method and Joint Ventures, and Derivatives and Hedging”—ASC 321 (“Investments—Equity Securities”), ASC 323 (“Investments—Equity Method and Joint Ventures), and ASC 815 (“Derivatives and Hedging)) was issued. This update clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with ASC 321 (“Investments—Equity Securities”) immediately before applying or upon discontinuing the equity method. This update also clarifies the scope of considerations for forward contracts and purchased options on certain securities that do not meet the definition of a derivative. This update is effective prospectively for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, and early adoption is permitted. 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 March 2020, Accounting Standards Update 2020-04 (“Facilitation of the Effects of Reference Rate Reform on Financial Reporting”—ASC 848 (“Reference Rate Reform”)) was issued. This update provides companies with optional expedients and exceptions for applying generally accepted accounting principles to contract, hedging relationships and other transactions that reference London Interbank Offered Rate or another reference rate expected to be discontinued because of reference rate reform. This update is effective as of March 12, 2020 through December 31, 2022. We are currently in the process of identifying the potential effect on the Company and its subsidiaries’ results of operations or financial position by the adoption of this update.

## **RISK MANAGEMENT**

### **Group-Wide Risk Management System**

#### ***Risk Management System***

The allocation of management resources within ORIX Group is conducted taking into account group-wide risk preferences determined by management strategies and the business strategies of individual business units. We have established our risk management system to appropriately recognize risks relating to Group businesses on a global basis in order to realize allocations of management resources that are appropriate for the risks we face and report such risks to the board of directors, Audit Committee, Executive Committee and Investment and Credit Committee as the situation warrants. The board of directors and executive bodies comprehensively evaluate the performance of business units and the characteristics of such risks and implement necessary measures. Through this process, we are able to both control our balance sheet and allocate additional management resources to business units with strong potential for growth. To adequately assess group-wide risk, we have established an Enterprise Risk Management Headquarters to control and manage risk throughout ORIX Group and facilitate centralized risk management, and the internal control-related functions work together to analyze and manage risks.

The risk management system has been adopted by the board of directors as a part of our internal control system. The status of the operation of such internal control system is examined and reported to the board of directors annually. 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.”

### **Management of Principal Risks**

We recognize that external environment-related risk, credit risk (risk relating to unpredictable events), business risk, market risk, liquidity risk (risk relating to funding), compliance risk, legal risk, information 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 recovery of credit caused by the debtors' default or deterioration in their credit standing.

To analyze credit risk, we evaluate factors such as the adequacy of collateral and guarantees, and diversification of the customer's industry and business. 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 uncertainty regarding recovery of investments caused by businesses or investees, potential degradation or 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 new businesses and investments, we monitor business plans and operations using scenario analyses and stress tests when we first begin the business or investment. In addition to on-going monitoring, we also evaluate and verify the cost of withdrawal from a business, business area or investment.

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, and evaluate the sale of such properties and other assets depending on changes in market conditions.

We endeavor to minimize the risk related to fluctuation in market prices for real estate by sufficiently taking into account declines in market prices based on know-how we have developed to date, including through our experiences during financial crises.

### ***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 quantitative and qualitative analysis information on market risk, please see “Item 11. Quantitative and Qualitative Disclosures about Market Risk.”

### ***Liquidity Risk Management***

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 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, disadvantage or reputational damage resulting from a failure by ORIX Group to comply with laws and regulations applicable to ORIX Group’s business or company management and/or a failure to comply with ORIX Group’s corporate philosophy, internal rules and generally accepted standards of business conduct.

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 ORIX Group to formulate an annual compliance plan and monitors compliance risks within 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 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 ORIX Group Principles of Conduct, which sets forth ORIX Group's principles of compliance. In addition, as part of our internal control system, we have established internal and external whistleblower systems and developed preventative systems for reducing internal and external compliance risk.

### ***Legal Risk Management***

We define legal risk as limitations or other negative effects on our businesses or company management that could result from the enactment of or change in relevant laws and regulations or from contract deficiencies.

In addition to establishing internal rules necessary for ensuring compliance with laws and regulations, in order to comply appropriately with revisions in laws and regulations, we have also taken measures to understand the applicability of such laws and regulations to each business in ORIX Group and provide instructions to business units to which such laws and regulations apply.

To avoid, reduce and prevent transactional legal risk, we generally require that the credit department, the legal department and the compliance department each be involved in evaluating and/or executing transactions.

For transactional agreements relating to business transactions, we have established a contract review and approval process involving the legal department in accordance with our prescribed internal rules.

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. In addition, we have in place systems to prevent disputes and litigation such as a system for monitoring for trademark applications that could infringe on trademarks held by ORIX Group.

The legal department manages intellectual property rights and takes necessary protective measures immediately if an actual or potential infringement of ORIX Group's intellectual property rights is discovered.

### ***Information Risk Management***

We define information risk as the risk of loss caused by loss, damage or leakage of information or failure of our information systems.

ORIX Group has established internal rules on the proper handling of information and information systems about officers and employees, as well those on our information security management systems, basic policy and management standards. In addition, we have implemented technical measures such as vulnerability countermeasures for our information systems and maintenance of various network security measures to protect against or mitigate cyber-attacks.

The information security department endeavors to reduce the risk of system failure within 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 rules concerning our information security management systems, including our management system for protecting personal data, basic policy, management standards, education and audits.

### ***Operational Risk Management***

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

In order to clarify internal processes for business execution, we have established internal rules and conduct training to improve awareness of such rules. In addition, for compliance purpose, we are focused on developing and evaluating our internal control over financial reporting.

Among the external environment-related risks that we face such as those relating to the business environment, we are particularly focused on addressing our systems to address and manage risks related to natural disasters and other unexpected risks. We have established internal rules to manage risks associated with disasters, and implemented a framework for organizational implementation of basic principles to manage risks arising from events such as natural disasters, terrorism and infectious diseases, as well related activities. For example, we have established systems for confirming the safety and status of all employees in the event our offices are closed due to an event such as a disaster or the spread of an infectious disease. To prepare for situations where employees working from our offices is impossible or inadvisable, we have also introduced systems to permit employee to work remotely so that our business operations are not disrupted.

In order to reliably secure and retain diverse human resources, we have developed our human resource systems to take into account factors such as national and regional labor markets, market practices, compensation standards, laws and regulations, job duties and business characteristics. Through this practice, we have developed a work environment that respects diverse working patterns and allows each of our officers and employees to demonstrate their abilities and expertise to the fullest extent possible.

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***

Legal risk and credit risk are the main risks of Corporate Financial Services segment.

Due to the offering of various products and services by business units in our Corporate Financial Services Segment, the enactment of or revisions or changes to related laws, regulations and accounting standards may adversely affect the products and services we offer and lead to a decline in fee income. In order to reduce such risk, business units conduct information gathering and coordinate with the legal department with regard to information on changes in relevant laws and regulation, as well as reassessing their business strategies as necessary.

With regard to credit transactions, Corporate Financial Services segment regularly monitors the transactions' 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 value of leased property and adjust residual value estimates of leased property in new investment transactions accordingly.

Cost fluctuation is a risk when providing various services associated with operating leases. 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 provide services at a level that meets our clients' expectations and 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 and market risk are the main risks of Real Estate segment.

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.

In our condominium business (new and used), we monitor sales figures and profitability of individual businesses while keeping in mind the market environment, relevant interest rates and real estate-related taxation systems. Additionally, in our construction business, we seek to control costs such as those for materials, and construction periods, while also focusing on health and safety management.

### *Investment and Operation Segment*

Business risk, market risk and operation risk are the main risks of Investment and Operation segment.

In the environment and energy businesses, for renewable energy, energy conservation and resource recycling 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 financial condition 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 monitoring financial condition of a company 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 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 monitor business plans and operations on a regular basis and as the situation warrants. 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, when assessing potential loans, we not only assess and analyze various factors such as cash flow and collateral value but also draw on the know-how and expertise we have developed to date. After investing, we regularly assess our recovery strategy and assumptions and take various steps. We also 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.

### *Retail Segment*

The main risks in the life insurance business are business risk and market risk.

In insurance underwriting, we risk sustaining losses due to changes in the economic environment or insurance accident rates over time such that they differ significantly from the assumptions made when the insurance fees were set. However, we control for this through measures such as re-evaluating underwriting standards, developing new products and improving existing products. Furthermore, we employ reinsurance as one means of ensuring payments of insurance fees and the stability of our business management. When utilizing reinsurance, we determine standards for reinsurance and maintenance according to the characteristic of the transferred risk and effect of reinsurance. When choosing a reinsurance company, we focus on ensuring that there is a high probability we can recover the fees paid for reinsurance by taking into account underwriting capacity and financial health. To control market risk related to asset management, we establish monitoring items which

regard to assets that are managed as general account assets and conduct risk assessments and monitoring. In addition, from an asset liability management perspective we strive to limit interest rate risk through the purchase of policy reserve matching bonds.

The main risk of the Real estate investment loans business, the corporate loan business and the card loan business is credit risk.

Regarding each Real estate investment 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*

Our local subsidiaries in Asia, Oceania and the Middle East primarily operate leasing, loan, automobile leasing and investment businesses. The main risks those businesses face are credit risk, business risk and market risk.

In the leasing and loan businesses, comprehensive assessments of customers' business performance and collateral are conducted. Regular monitoring is conducted for purposes such as tracking unpaid amounts and preventing deviations in portfolios at the local subsidiary level and corrective action is taken when necessary. In the automobile leasing business, risk management is conducted taking into account factors that vary from country to country like lease taxation systems and characteristics of the used automobile market. In the investment business, investments are conducted in a manner similar to domestic investments, with an assessment of the transaction conducted initially and regular monitoring conducted after the transaction takes place. In cases where we have rights as a shareholder as a result of the transaction or have dispatched a director, we support sound management of the investee through our involvement in its board of directors.

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 Fannie Mae and Freddie Mac. 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.

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.

## **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 execution and supervision through a “Company with Nominating Committee, etc.” board model;

- Audit and Compensation Committees composed entirely of outside directors and Nominating Committee composed of a majority of outside directors, with the chairperson of each committee being appointed from among outside directors;
- all outside directors satisfying “Requirements for Independent Directors”; 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.

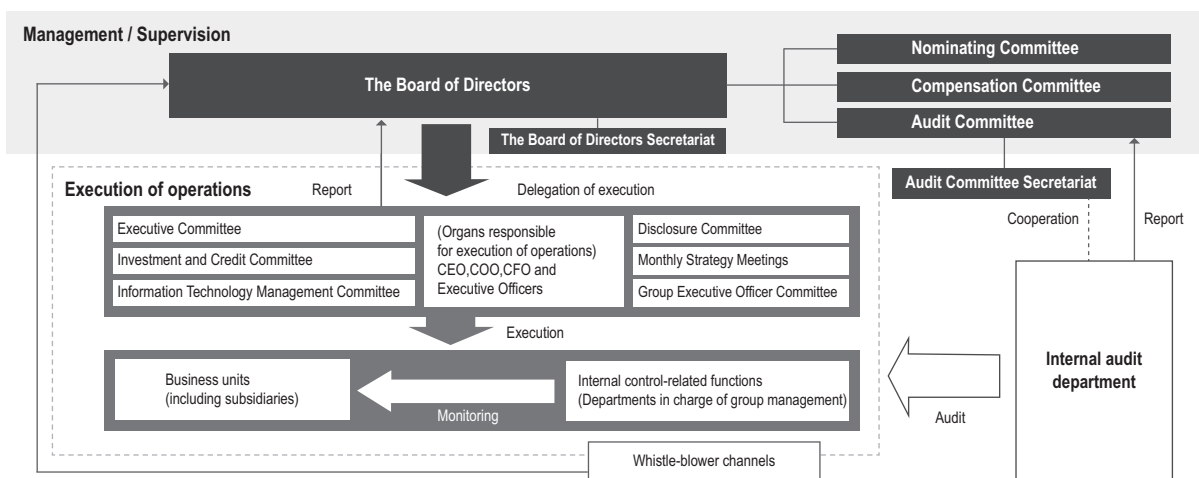
Oversight by directors is separate from the execution of operations within the three committees that form the heart of the board of directors. A majority of the members of the Nomination Committee are outside directors and all members of the Audit and Compensation Committees are outside directors, and 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”.)



## 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 primarily responsible for determining ORIX’s management plan, which is developed by taking into account ORIX’s basic policies on capital management, fund procurement and, personnel strategies, and basic policy on the internal control system, and monitoring them on a regular basis. Aside from such items, the board of directors delegates decision-making regarding operational execution to the representative executive officer 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 the representative executive officer. The representative executive officer makes decisions on management issues as delegated by the board of directors and executes the business of the Company. For example, the board may delegate to the representative executive officer 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, 2019 through March 31, 2020, the board of directors met nine times. The attendance rate of directors for these meetings was 96%.

The board of directors as of June 29, 2020 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 29, 2020, Audit and Compensation Committees composed entirely of outside directors and Nominating Committee composed of a majority of outside directors, with the chairperson of each committee being appointed from among 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 29, 2020	4 Members (Outside Directors: 3) Sakie Akiyama (Chairperson) Ryuji Yasuda Hiroshi Watanabe Makoto Inoue	3 Members (Outside Directors: 3) Aiko Sekine (Chairperson) Heizo Takenaka Hiroshi Watanabe	3 Members (Outside Directors: 3) Ryuji Yasuda (Chairperson) Michael Cusumano Aiko Sekine
Number of meetings held during fiscal 2020 (Attendance rate)	Five (5) meetings (95%)	Eight (8) meetings (96%)	Six (6) 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 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 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 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 Executive Committee ("EXCO"), the Investment and Credit Committee ("ICC") or other appropriate committees 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:

#### ***Executive Committee***

The EXCO, members of which include the CEO, COO and CFO ("top management"), executive officers and other appropriate members, discusses important matters related to the management of the Company. Matters considered crucial to our operations are reported to the board of directors as appropriate.

#### ***Investment and Credit Committee***

The ICC, which includes members of top management and the executive officer responsible for investment and credit, discusses regarding credit transactions and investments that exceed certain specified investment or credit amounts. Matters considered crucial to our operations are reported to the board of directors as appropriate after being discussed by the EXCO.

#### ***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 EXCO or 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***

To ensure timely and appropriate disclosure of information material to ORIX Group, the Disclosure Committee, which is chaired by the CFO and consists of the executive officers in charge of various departments, including: the corporate planning department, corporate communications department, treasury and accounting department, credit department, legal department, compliance department, human resources and corporate administration department and internal audit department, receives reports on material non-public information from persons in charge of ORIX Group company departments, and takes steps necessary to determine whether or not timely disclosure of such information is necessary, and the appropriate means of disclosing such information. As part of ORIX Group's corporate governance system, the Disclosure Committee plays a significant role in overseeing disclosure control and has a central role in the system for timely and appropriate disclosure of information to stakeholders.

### **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 Audit Committee also has access to external experts necessary to carry out its duties.

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. Aiko Sekine, chairperson of the Audit Committee, is qualified as a certified public accountant and has extensive knowledge in finance and accounting as a professional accountant. The number of meetings of the Audit Committee held and the attendance of each member in Fiscal 2020 are as follows.

<u>Name</u>	<u>Status of attendance at Audit Committee Meetings held in Fiscal 2020</u>
Eiko Tsujiyama . . . . .	Attended seven of eight meetings of the Audit Committee
Nobuaki Usui . . . . .	Attended eight of eight meetings of the Audit Committee
Heizo Takenaka . . . . .	Attended eight of eight meetings of the Audit Committee
Ryuji Yasuda . . . . .	Attended two of two meetings of the Audit Committee during his term as a member of the Audit Committee

In Fiscal 2020, the main items examined by the Audit Committee were the receipt of regular activity reports on the status of business execution from executive officers, the exchange of opinions with the CEO, the approval of the audit plan of the Group Internal Audit Department, the evaluation of the independent certified public accountants, the agreement on audit fees in cooperation with the independent certified public accountants, the reporting to the Board of Directors on the contents of deliberation by the Audit Committee, and the specific examination of qualitative and quantitative enhancement of the Audit Committee. In addition, the members of the Audit Committee attended Audit Committee meetings and deliberated on the above mentioned matters, shared information necessary for audit activities such as the current status of each business of ORIX Group, business strategy, project progress, etc. through site inspections and briefing sessions.

#### ***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 37 staff (as of the end of May 2020), 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 identifies and 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. KPMG AZSA LLC has continuously audited ORIX Group since 1985.

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 29, 2020 are as follows:

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience		Number of shares held (of which number of shares scheduled to be issued by share-based compensation plans) in the Company as of June 29, 2020
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	85,788 (445,948)
		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 Member of the Board of Directors, Representative Executive Officer, President, the Company	
		Jan. 2014	Chief Operating Officer	
		Jun. 2014	Co-Chief Executive Officer	
		Jan. 2017	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			
Shuji Irie (Mar. 14, 1963)	Member of the Board of Directors, Senior Managing Executive Officer, Head of Investment and Operation Headquarters	May 2001	Joined Mizuho Securities CO., Ltd.	2,936 (81,490)
		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	

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience	Number of shares held (of which number of shares scheduled to be issued by share-based compensation plans) in the Company as of June 29, 2020
		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	
		Jan. 2020 Assumed office of Member of the Board of Directors, Senior Managing Executive Officer, the Company	
Shoji Taniguchi (Jan. 11, 1964)	Member of the Board of Directors, Senior Managing Executive Officer, Responsible for Treasury and Accounting Headquarters, Responsible for Enterprise Risk Management Headquarters, Responsible for Corporate Planning Department, Responsible for Corporate Communications Department, Assistant to CEO	Apr. 1987 Joined the Company Apr. 1993 Joined Morgan Stanley & Co. LLC Jul. 2005 Co-head of Sales, Morgan Stanley Japan Ltd. Feb. 2010 Assumed office of 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. 2019 Assumed office of Member of the Board of Directors, Managing Executive Office, the Company Jan. 2020 Assumed office of Member of the Board of Directors, Senior Managing Executive Officer, the Company Responsible for Enterprise Risk Management Headquarters Responsible for Corporate Planning Department Responsible for Corporate Communications Department	25,000 (18,250)

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience		Number of shares held (of which number of shares scheduled to be issued by share-based compensation plans) in the Company as of June 29, 2020
Satoru Matsuzaki (Apr. 12, 1966)	Member of the Board of Directors, Senior Managing Executive Officer, Head of Corporate Business Headquarters Chairman, ORIX Auto Corporation Chairman, ORIX Rentec Corporation	Apr. 1989	Joined Crown Leasing Corporation	8,536 (76,420)
		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 Sales Administrative Headquarters	
		Jan. 2019	Head of Corporate Business Headquarters	
		Jun. 2019	Assumed office of Member of the Board of Directors, Managing Executive Officer, the Company	
		Jan. 2020	Assumed office of Member of the Board of Directors, Senior Managing Executive Officer, the Company Chairman, ORIX Auto Corporation Chairman, ORIX Rentec Corporation	
Yoshiteru Suzuki (Jan. 15, 1963)	Member of the Board of Directors, Senior Managing Executive Officer President and Chief Executive Officer, ORIX Corporation USA	Apr. 1985	Joined Orient Leasing Co., Ltd. (currently ORIX Corporation)	0 (27,295)
		Jul. 1999	Partner, KPMG LLP	
		Jun. 2002	Joined Cerberus Capital Management, L.P.	
		Jan. 2010	Assumed office of Representative Director and President, Cerberus Japan K.K.	
		Oct. 2015	Rejoined ORIX Corporation	
		Jan. 2018	Assumed office of Executive Officer, the Company	

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience	Number of shares held (of which number of shares scheduled to be issued by share-based compensation plans) in the Company as of June 29, 2020
		Assumed office of Deputy President, ORIX USA Corporation (currently ORIX Corporation USA)	
		Jan. 2019 Assumed office of Managing Executive Officer, the Company	
		Sep. 2019 Assumed office of President and Chief Executive Officer, ORIX Corporation USA	
		Jan. 2020 Assumed office of Senior Managing Executive Officer, the Company	
		Jun. 2020 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	<p>Oct. 1985 Joined SHEPPARD, MULLIN, RICHTER &amp; HAMPTON LLP</p> <p>Jan. 1993 Partner, GRAHAM &amp; JAMES LLP (currently Squire Patton Boggs LLP)</p> <p>Mar. 1997 Vice President, ORIX USA Corporation (currently ORIX Corporation USA)</p> <p>Mar. 1999 General Counsel, Vice President and Manager, ORIX USA Corporation (currently ORIX Corporation USA)</p> <p>Jan. 2004 Vice President and Associate General Counsel, KB HOME</p> <p>Jul. 2013 Joined the Company Global General Counsel of Global Business Headquarters</p> <p>Jun. 2017 Assumed office of Member of the Board of Directors, Managing Executive Officer, the Company Responsible for Enterprise Risk Management Global General Counsel</p> <p>Jun. 2018 Head of Enterprise Risk Management Headquarters</p> <p>Jan. 2019 Responsible for Enterprise Risk Management Headquarters</p>	2,000 (0)

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience		Number of shares held (of which number of shares scheduled to be issued by share-based compensation plans) in the Company as of June 29, 2020
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. President, Tokyo Woman's Christian University	Jun. 1991	Director, McKinsey & Company	0
		Jun. 1996	Chairman, A.T. Kearney, Asia	(10,500)
		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	
		Mar. 2020	Assumed office of Outside Director, Kansai Mirai Financial Group, Inc.	
			Assumed office of President, Tokyo Woman's Christian University	

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>		Business experience	Number of shares held (of which number of shares scheduled to be issued by share-based compensation plans) in the Company as of June 29, 2020
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. 1990	Assistant Professor, Faculty of Policy Management at Keio University	0 (7,500)
		Apr. 1996	Professor, Faculty of Policy Management at Keio University	
		Apr. 2001	Minister of State for Economic and Fiscal Policy	
		Sep. 2002	Minister of State for Financial Services and for Economic 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.	
		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.	

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience		Number of shares held (of which number of shares scheduled to be issued by share-based compensation plans) in the Company as of June 29, 2020
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 (1,500)
	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	
	Senior Specially Appointed Professor, Tokyo University of Science	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	
		Apr. 2020	Senior Specially Appointed Professor, Tokyo University of Science	
Sakie Akiyama (Dec. 1, 1962)	Member of the Board of Directors (Outside Director)	Apr. 1987	Joined Arthur Andersen & Co.	0 (1,500)
	Founder, Saki Corporation	Apr. 1994	Founded Saki Corporation Assumed office of Representative Director and Chief Executive Officer, Saki Corporation	
	Member of the Board of Directors (Outside Director), Sony Corporation	Oct. 2018	Assumed office of Founder, Saki Corporation	
	Board of Directors (Outside Director), JAPAN POST HOLDINGS Co., Ltd.	Jun. 2019	Assumed office of Member of the Board of Directors (Outside Director), the Company	
	Member of the Board (Outside Director), Mitsubishi Corporation		Assumed office of Member of the Board of Directors (Outside Director), Sony Corporation	
			Assumed office of Board of Directors (Outside Director), JAPAN POST HOLDINGS Co., Ltd.	
		Jun. 2020	Assumed office of Member of the Board (Outside Director), Mitsubishi Corporation	

Name (Date of birth)	Current positions and principal outside positions <sup>(1)</sup>	Business experience		Number of shares held (of which number of shares scheduled to be issued by share-based compensation plans) in the Company as of June 29, 2020
Hiroshi Watanabe (Jun. 26, 1949)	Member of the Board of Directors (Outside Director) President, Institute for International Monetary Affairs Director (Outside Director), Mitsubishi Materials Corporation	Apr. 1972	Joined the Ministry of Finance	0
		Jan. 2003	Director-General, International Bureau, Ministry of Finance	(0)
		Jul. 2004	Vice Minister of Finance for International Affairs, Ministry of Finance	
		Oct. 2007	Special Advisor, Japan Center for International Finance	
		Apr. 2008	Professor, Graduate School of Commerce and Management, Faculty of Commerce and Management at Hitotsubashi university	
		Oct. 2008	Assumed office of Deputy Governor, Japan Finance Corporation	
		Apr. 2012	Assumed office of Deputy Governor, Japan Bank for International Cooperation	
		Dec. 2013	Assumed office of Governor, Japan Bank for International Cooperation	
		Oct. 2016	Assumed office of President, Institute for International Monetary Affairs	
		Jun. 2017	Assumed office of Director (Outside Director), Mitsubishi Materials Corporation	
Jun. 2020	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		Number of shares held (of which number of shares scheduled to be issued by share-based compensation plans) in the Company as of June 29, 2020
Aiko Sekine (May 13, 1958)	Member of the Board of Directors (Outside Director) Advisor of Japanese Institute of Certified Public Accountants Audit & Supervisory Board Member (Outside), Sumitomo Riko Company Limited Audit & Supervisory Board Member (Outside), IHI Corporation	Apr. 1981	Joined Citibank, N.A., Tokyo Branch	0 (0)
		Oct. 1985	Joined Aoyama Audit Corporation	
		Mar. 1989	Certified as Public Accountant, Japan	
		Jul. 2001	Partner of Chuo Aoyama Audit Corporation	
		Sep. 2006	Partner of Aarata Audit Corporation (currently PricewaterhouseCoopers Aarata LLC)	
		Jul. 2007	Executive Board Member of Japanese Institute of Certified Public Accountants	
		Jan. 2008	Board Member of International Ethics Standards Board for Accountants, International Federation of Accountants	
		Jul. 2010	Assumed office of Deputy President of Japanese Institute of Certified Public Accountants	
		Jul. 2016	Assumed office of Chairman and President of Japanese Institute of Certified Public Accountants	
		Jan. 2019	Member of the Nominating Committee, International Federation of Accountants	
		Jul. 2019	Advisor of Japanese Institute of Certified Public Accountants	
		Jun. 2020	Assumed office of Member of the Board of Directors (Outside Director), the Company Assumed office of Audit & Supervisory Board Member (Outside), Sumitomo Riko Company Limited Assumed office of Audit & Supervisory Board Member (Outside), IHI Corporation	

- Notes: 1. All ORIX Member of the Board of Directors are engaged full-time except Ryuji Yasuda, Heizo Takenaka, Michael Cusumano, Sakie Akiyama, Hiroshi Watanabe and Aiko Sekine.  
2. Name on the family register of Aiko Sekine is Aiko Sano.

## EXECUTIVE OFFICERS

The executive officers of the ORIX Group as of June 29, 2020, excluding those who are also directors as listed above are as follows:

Name	Title	Areas of duties	Number of shares held (of which number of shares scheduled to be issued by share-based compensation plans) in the Company as of June 29, 2020
Kiyoshi Fushitani . . . . .	Senior Managing Executive Officer	East Asia Business Headquarters Global Transportations Services Headquarters	1,500 (81,550)
Yasuaki Mikami . . . . .	Managing Executive Officer	Group Human Resources and Corporate Administration Headquarters Secretariat of The Board of Directors Work Style Reform Project	1,622 (32,180)
Harukazu Yamaguchi . . . . .	Executive Officer	Group Strategy Business Unit Global Business Group	4,777 (38,130)
Hitomaro Yano . . . . .	Executive Officer	Treasury and Accounting Headquarters	5,100 (30,930)
Toyonori Takahashi . . . . .	Executive Officer	Group Kansai Representative MICE-IR Office Real Estate Sales Department Senior Managing Executive Officer, ORIX Real Estate Corporation	7,047 (31,830)
Yasuhiro Tsuboi . . . . .	Executive Officer	Credit and Investment Management Headquarters	1,505 (12,750)
Michio Minato . . . . .	Executive Officer	Group Strategy Business Unit President, ORIX Baseball Club Co., Ltd.	400 (12,750)
Tetsuya Kotera . . . . .	Executive Officer	Corporate Business Headquarters	1,016 (3,750)
Eiji Arita . . . . .	Executive Officer	Corporate Business Headquarters	1,600 (3,750)
Seiichi Miyake . . . . .	Executive Officer	Investment and Operation Headquarters	2,816 (3,750)
Hidetake Takahashi . . . . .	Executive Officer	Energy and Eco Services Business Headquarters	7,100 (3,750)
Tomoko Kageura . . . . .	Executive Officer	Enterprise Risk Management Headquarters	5,400 (3,750)
Nobuki Watanabe . . . . .	Executive Officer	Global General Counsel Office CEO's Office New Business Development Department	323 (3,750)

Name	Title	Areas of duties	Number of shares held (of which number of shares scheduled to be issued by share-based compensation plans) in the Company as of June 29, 2020
Toshinari Fukaya . . . . .	Group Managing Executive	President, ORIX Real Estate Corporation	4,200 (33,080)
Hiroko Yamashina . . . . .	Group Executive	President, ORIX Credit Corporation	32,700 (57,930)
Yuji Kamiyauchi . . . . .	Group Executive	President, ORIX Auto Corporation	4,205 (12,750)
Takaaki Nitanaï . . . . .	Group Executive	Senior Managing Executive Officer, ORIX Real Estate Corporation	0 (12,750)
Nobuhisa Hosokawa . . . . .	Group Executive	President, ORIX Rentec Corporation	2,800 (3,750)

- Notes: 1. Name on the family register of Tomoko Kageura is Tomoko Kanda.  
2. Name on the family register of Hiroko Yamashina is Hiroko Arai.

## **EMPLOYEES**

As of March 31, 2020, we had 31,233 full-time employees, compared to 32,411 as of March 31, 2019 and 31,890 as of March 31, 2018. We employ 2,518 staff in Corporate Financial Services segment, 3,021 staff in Maintenance Leasing segment, 8,674 staff in Real Estate segment, 3,768 staff in Investment and Operation segment, 3,466 staff in Retail segment, 7,778 staff in Overseas Business segment and 2,008 staff as part of our headquarters function as of March 31, 2020. As of March 31, 2020, we had 19,584 temporary employees. 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 ¥8,738 million, ¥8,733 million and ¥9,845 million in fiscal 2018, 2019 and 2020, respectively.

## **SHARE OWNERSHIP**

As of June 29, 2020, the directors, executive officers and group executives of the Company directly held an aggregate of 208,371 Shares, representing 0.01% 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 2020 was as follows (in millions of yen);

	Fixed compensation (Number of people)	Performance- linked compensation (Number of people)	share-based compensation (Number of people)	Total compensation
Non-Executive Director and Outside Director . . . . .	¥ 94 (8)	—	¥ 14 (8)	¥ 109 (8)
Executive Officer and Group Executive . . . . .	¥655 (34)	¥280 (34)	¥465 (34)	¥1,401 (34)
Total . . . . .	¥750 (42)	¥280 (34)	¥479 (42)	¥1,510 (42)

The above list is the amount paid in accordance with the policies for the compensation of directors and Executive Officers resolved by the Compensation Committee held on June 21, 2019.

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 2020 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 90%.

- Division performance indicator

We set the performance target for each division based on the company-wide performance target, and achieved 0% to 135% (median: 90%) by 25 Executive Officers and 9 group executives (based on the total evaluation including qualitative assessment).

Compensation for Makoto Inoue, Member of the Board of Directors, Representative Executive Officer, President and Chief Executive Officer of ORIX, for fiscal 2020 was ¥90 million in fixed compensation, ¥81 million in performance-linked compensation and ¥89 million in share-based compensation.

Compensation for Stan Koyanagi, Member of the Board of Directors, Managing Executive Officer of ORIX, for fiscal 2020 was ¥55 million (¥12 million from the Company and ¥43 million from ORIX Corporation USA) in fixed compensation and ¥54 million (¥54 million from ORIX Corporation USA) in performance-linked compensation.

The actual total amount of the share-based compensation paid in fiscal 2020 was ¥572 million paid to two directors and four executive officers (including those serving concurrently as directors and Executive Officers) who retired during fiscal 2020 and two Executive Officer who retired before the end of fiscal 2019. The following individuals retired during fiscal year 2020 and were paid share-based compensation totaling over ¥100 million. Compensation for Katsunobu Kamei, currently Chairman of ORIX Asset Management Corporation, as Group Senior Managing Executive of ORIX, for fiscal 2020 was ¥26 million in fixed compensation, ¥7 million in performance-linked compensation and ¥205 million in share-based compensation (¥80 million from the Company and ¥160 million from ORIX Auto Corporation). Compensation for Kazutaka

Shimoura, currently Advisor of ORIX, as Managing Executive Officer of ORIX, for fiscal 2020 was ¥21 million in fixed compensation, ¥8 million in performance-linked compensation and ¥105 million in share-based compensation. Compensation for Hideto Nishitani, as Managing Executive Officer of ORIX for fiscal 2020 was ¥15 million in fixed compensation, ¥1 million in performance-linked compensation and ¥86 million in share-based compensation (¥97 million from the Company and ¥5 million from ORIX Corporation USA).

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 26, 2020.

#### *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.

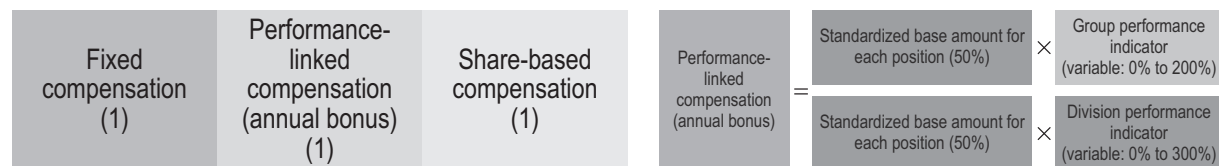
Fixed compensation is, in principal, a certain amount that is added to the compensation of the chairperson and member of each committee. For share-based compensation reflecting medium- to long-term performance, directors are granted a fixed amount of points on an annual basis for their period of service, 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 2020 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.



For the authority and discretion of Compensation Committee, refer to “Item 6. Directors, Senior Management and Employees—Structure and Activities of the Three Committees—*Compensation Committee*.”

The Compensation Committee during the current consolidated fiscal year were held 6 times in total in May, June, October, December 2019 and February (twice) 2020 during fiscal 2020.

All members of the Compensation Committee attended all the meetings, and the attendance rate was 100%.

The main agenda items of the Compensation Committee were as follows.

- Determination of performance evaluation and individual payment amount related to performance-linked compensation (annual bonus) for fiscal 2019
  - Determination of the compensation system for Directors and Executive Officers for fiscal 2020
  - Examination of the compensation level for Directors and Executive Officers based on the outcome of a third-party compensation research agency investigation
  - Examination of the compensation system for Directors and Executive Officers for fiscal 2021
- \* 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 to set the ratio fixed compensation, performance-linked compensation, and share-based compensation to 1:1:1. 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 2020 is equivalent to 320,250 points. Under this system, ¥572 million, which is equivalent to 446,805 points accumulated up to the end of tenure, was paid to executive officers who left their positions during fiscal 2020. As a result, the balance to directors, executive officers and group executives as of March 31, 2020 was 1,389,603 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 22 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 2020, no stock option plans were adopted for our directors, executive officers, employees, or those of our subsidiaries and affiliates.

## 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, 2020.

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 (Thousands)	Percentage of Issued shares (%)
Japan Trustee Services Bank, Ltd. (Trust Account) .....	106,417	8.47
The Master Trust Bank of Japan, Ltd. (Trust Account) .....	99,484	7.92
Japan Trustee Services Bank, Ltd. (Trust Account 9) .....	31,280	2.49
Japan Trustee Services Bank, Ltd. (Trust Account 7) .....	29,260	2.32
SSBTC CLIENT OMNIBUS ACCOUNT .....	27,184	2.16
Japan Trustee Services Bank, Ltd. (Trust Account 5) .....	25,145	2.00
CITIBANK, N.A. -N.Y , AS DEPOSITARY BANK FOR DEPOSITARY SHARE HOLDERS .....	23,515	1.87
BNYM AS AGT/CLTS 10 PERCENT .....	23,460	1.86
JP MORGAN CHASE BANK 385151 .....	22,440	1.78
State Street Bank West Client Treaty 505234 .....	19,732	1.57

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, 2020, the percentage of issued Shares held by overseas corporations and individuals was 46.62%. As of March 31, 2020, approximately 4,703,180 ADSs were outstanding (equivalent to 23,515,900 or approximately 1.78% of ORIX's issued Shares as of that date). As of March 31, 2020, all our ADSs were held by one record holder in the United States.

On May 19, 2020, Nomura Asset Management Co., Ltd. submitted a filing to the Kanto Local Finance Bureau indicating that Nomura Asset Management Co., Ltd. held 66,944,500 Shares, representing 5.05% of ORIX's outstanding Shares, as part of Nomura Asset Management Co., Ltd.'s assets under management.

On May 12, 2020, Asset Management One Co., Ltd. submitted a filing to the Kanto Local Finance Bureau indicating that Asset Management One Co., Ltd. held 56,933,700 Shares, representing 4.30% of ORIX's outstanding Shares, as part of Asset Management One Co., Ltd.'s assets under management.

On February 5, 2020, BlackRock Group submitted a filing to the Securities and Exchange Commission indicating that BlackRock Inc., primarily through BlackRock Japan Co., Ltd, held 80,836,581 Shares, representing 6.1% of ORIX's outstanding Shares, as part of BlackRock Group's assets under management.

On September 30, 2019, Mitsubishi UFJ Financial Group, Inc. submitted a filing to the Kanto Local Finance Bureau indicating that Mitsubishi UFJ Financial Group, Inc. held 67,707,139 Shares, representing 5.11% of ORIX's outstanding Shares, as part of Mitsubishi UFJ Financial Group, Inc.'s assets under management.

### RELATED PARTY TRANSACTIONS

To our knowledge, no individual beneficially owns 10% 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 ¥39,398 million as of March 31, 2020 and did not exceed ¥42,000 million at any time during fiscal 2020.

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 2020 and the aggregate amount outstanding as of March 31, 2020.

<u>Related Party</u>	<u>The largest aggregate amount outstanding during fiscal 2020</u>	<u>Aggregate amount outstanding as of March 31, 2020</u>	<u>Interest rate</u>
	(Millions of yen)		(%)
Kansai Airports	¥12,333	¥12,002	6.5
SORA Airlease Designated Activity Company	8,040	8,040	6.0 – 9.5
Meritix Airlease Limited	2,988	2,958	6.0 – 9.5
IOS II, LLC	3,309	2,708	6.3
Medical Corporation DIC	2,110	2,110	5.0
Shinko Medical Support Corporation	1,870	1,760	5.0
Meritix Airlease Dara Limited	2,577	1,740	6.0 – 9.5
California Proton Therapy Center, LLC	2,466	1,476	7.5 – 10.0
Imation Company, LLC	1,468	1,468	7.5
First Resort Co., Ltd	864	845	3.5
Wizard Acquisition	781	777	12.0
RAM Industries Acquisitions, LLC	683	645	13.0
Timber Parent, LLC	630	629	16.0
OCC-ART Investor Holdings, LLC	606	595	13.0
ALLIANCE ENVIRONMENTAL GROUP, LLC	448	445	12.0
LCR Parent, LLC	449	444	12.0
YM Lease Co., Ltd.	400	400	0.9

<u>Related Party</u>	<u>The largest aggregate amount outstanding during fiscal 2020</u>	<u>Aggregate amount outstanding as of March 31, 2020</u>	<u>Interest rate</u>
	(Millions of yen)		(%)
Junseikai Medical Corporation . . . . .	230	230	5.0
Tsubaki Marine S.A. . . . .	377	54	1.0
Pacific League Marketing Corporation . . . . .	85	49	2.9
Medical Corporation NIDC . . . . .	20	20	5.0
Kada Greenfarm Co., Ltd. . . . .	2	2	3.1
Flexible Energy Service Co., Ltd. . . . .	1	1	3.2
TAS Environmental Services, L.P. . . . .	1,247	0	12.0
Women’s Marketing Inc. . . . .	493	0	7.9 – 9.8
FSC Topco Holdings, LLC . . . . .	277	0	13.0
Magix Airlease Designated Activity Company . . . . .	246	0	9.0
Sazanka Marine S.A. . . . .	39	0	1.0
Torigin Leasing Co., Ltd . . . . .	15	0	0.8

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, 2020.

**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, 2020, approximately 4,703,180 ADSs were outstanding. This is equivalent to 23,515,900 or approximately 1.78% 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 24 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 or other organizations that are established under the laws of foreign countries or whose principal offices are located outside Japan, (iii) corporations of which 50% or more of their voting rights are held, directly or indirectly, by (i) and/or (ii) above, (iv) partnerships or similar organizations of which 50% or more of total capital contributions are attributable to nonresident, or a majority of general partners are exchange nonresidents, and (v) corporations or other organizations of which a majority of the officers (or officers having the power of representation) 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. 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 1% or more of the issued shares or voting rights of the relevant company, holds a certain percentage or more of the shares of such a company and consents to matters that could have a significant effect on the management of the business of the company, or acquires or succeeds to the business of a Japanese corporation by a business transfer, corporate split, or merger, the foreign investor is, in general, required to report such acquisition to the Minister of Finance and any other competent Ministers within 45 days following the date of such acquisition. In the case of certain designated types of business affecting Japan’s national security, etc., prior notification is required with respect to such an acquisition or other relevant actions. However, in certain cases it may be possible for a foreign investor to be exempted from the prior notification obligation for 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

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, 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
March 31, 2020	76.00	3.53

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 annual dividend for fiscal 2020 has been decided at 76.00 yen per share (interim dividend paid was 35.00 yen per share and year-end dividend has been decided at 41.00 yen per share) as well as 76.00 yen per share in the previous fiscal year ended March 31, 2019. The payout ratio for fiscal 2020 was 32.0%, up 2% from the previous fiscal year.

The interim dividend for the next fiscal year ending March 31, 2021 is forecasted at 35.00 yen per share. The dividend payout ratio for fiscal 2021 is targeted at 50.0%. This is only for the next fiscal year. The year-end dividend for fiscal 2021 is yet 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 are 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 net investment in 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, 2020 were: 3.6% for installment loans, 1.7% for investment in securities (floating and fixed rate), 1.6% for long- and short-term debt and 0.3% for deposits. As of March 31, 2020, the average payment rate of interest rate swaps was 2.1% and the average receipt rate was (0.1%). 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%. As of March 31, 2020, there was no material change in the balance or in the average interest rate of financial instruments from March 31, 2019. 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, 2020 Estimated Fair Value
	Years ending March 31,							
	2021	2022	2023	2024	2025	Thereafter		
	(Millions of yen)							
<b>Assets:</b>								
Installment loans (fixed rate) .....	¥ 298,261	¥123,823	¥ 95,860	¥ 68,118	¥ 54,213	¥ 428,248	¥1,068,523	¥1,059,759
Average interest rate .....	5.2%	7.4%	7.0%	6.8%	6.9%	4.3%	5.5%	—
Installment loans (floating rate) .....	¥ 280,804	¥228,674	¥254,918	¥187,364	¥193,663	¥1,513,322	¥2,658,745	¥2,581,523
Average interest rate .....	3.2%	3.9%	4.3%	3.5%	3.4%	2.1%	2.8%	—
Investment in securities (fixed rate) .....	¥ 35,282	¥ 39,676	¥ 41,327	¥ 63,439	¥115,854	¥1,342,413	¥1,637,991	¥1,680,087
Average interest rate .....	1.0%	1.5%	1.9%	1.3%	1.3%	1.6%	1.5%	—
Investment in securities (floating rate) .....	¥ 5,195	¥ 7,383	¥ 1,895	¥ 4,674	¥ 16,075	¥ 77,472	¥ 112,694	¥ 94,287
Average interest rate .....	6.2%	5.1%	4.8%	6.6%	4.8%	4.6%	4.8%	—
<b>Liabilities:</b>								
Short-term debt .....	¥ 336,832	¥ 0	¥ 0	¥ 0	¥ 0	¥ 0	¥ 336,832	¥ 336,832
Average interest rate .....	1.7%	—	—	—	—	—	1.7%	—
Deposits .....	¥1,472,739	¥181,385	¥229,131	¥ 56,387	¥292,061	¥ 0	¥2,231,703	¥2,233,451
Average interest rate .....	0.2%	0.2%	0.3%	0.3%	0.3%	—	0.3%	—
Long-term debt (fixed rate) .....	¥ 334,524	¥327,818	¥279,423	¥190,816	¥302,195	¥ 426,700	¥1,861,476	¥1,873,743
Average interest rate .....	1.5%	1.7%	1.4%	0.8%	2.3%	1.5%	1.6%	—
Long-term debt (floating rate) .....	¥ 324,289	¥304,722	¥320,329	¥248,085	¥218,331	¥1,002,122	¥2,417,878	¥2,417,954
Average interest rate .....	1.5%	1.9%	1.6%	1.5%	1.2%	1.6%	1.6%	—

**NONTRADING DERIVATIVE FINANCIAL INSTRUMENTS**

	Expected Maturity Date						Total	March 31, 2020 Estimated Fair Value
	Years ending March 31,							
	2021	2022	2023	2024	2025	Thereafter		
	(Millions of yen)							
<b>Interest rate swaps:</b>								
Notional amount (floating to fixed) ...	¥39,839	¥44,995	¥62,826	¥17,279	¥17,522	¥320,076	¥502,537	¥(44,002)
Average pay rate .....	2.9%	2.5%	2.0%	2.8%	2.8%	1.9%	2.1%	—
Average receive rate .....	0.4%	0.2%	0.2%	0.2%	0.4%	(0.2%)	(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, 2020 was ¥13,218 million.

Long-term debt (floating rate) in the table above includes the amount of ¥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 may be repaid after 5 years and 7 years, respectively.

Long-term debt (fixed rate) in the table above includes the amount of ¥100,000 million of unsecured subordinated bonds with interest payment deferrable clauses and optional early redemption conditions (hybrid bonds executed in fiscal 2020, whose maturity date is fiscal 2080), of which ¥60,000 million and ¥40,000 million may be redeemed after 5 years, and 10 years respectively.

We are also exposed to interest rate risks in our life insurance businesses, because revenues from life insurance related investment income fluctuate 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, there were no exchange losses in future earnings as of March 31, 2019. Exchange losses in future earnings were estimated to be ¥363 million as of March 31, 2020. The largest of such losses were estimated in scenarios where the U.S. dollar appreciated 10% against the Japanese yen from the rate in effect on March 31, 2020.

***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, 2019 and 2020, respectively, and under such circumstances estimate ¥4,018 million and ¥3,642 million decrease in the fair value of our equity securities as of March 31, 2019 and 2020.

**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:

Service	Fee
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 2020, this amount was \$95,258.

## 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, 2020, 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, 2020 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, 2020.

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, 2020, 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 Aiko Sekine is an "audit committee financial expert," within the meaning of the current rules of the U.S. Securities and Exchange Commission. Aiko Sekine is "independent" as required by Section 303A.06 of the New York Stock Exchange Listed Company Manual.

Name on the family register of Aiko Sekine is Aiko Sano.

#### **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 2019 and 2020, KPMG (including Japanese and overseas affiliates of KPMG AZSA LLC) billed us ¥3,106 million and ¥3,248 million, respectively, for direct audit fees.

##### **AUDIT-RELATED FEES**

In fiscal 2019 and 2020, KPMG billed us ¥175 million and ¥134 million, respectively, for audit-related services, including attestation, assurance and related services that are not reported under audit fees.

##### **TAX FEES**

In fiscal 2019 and 2020, KPMG billed us ¥301 million and ¥258 million, respectively, for tax-related services, including tax compliance and tax advice.

##### **ALL OTHER FEES**

In fiscal 2019 and 2020, KPMG billed us ¥10 million and ¥20 million, respectively, for other products and services, which primarily consisted of advisory services.



• Total number of shares repurchased	8,224,900 shares
• Total purchase price of shares repurchased	10,088,218,300 yen
• Repurchase period	From April 1, 2020 to May 8, 2020
• Method of share repurchase	Market purchases based on the discretionary dealing contract regarding repurchase of own shares

**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-137.

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, 2019 and 2020 (page F-6 to F-7);
- (b) Consolidated Statements of Income for the years ended March 31, 2018, 2019 and 2020 (page F-8 to F-9);
- (c) Consolidated Statements of Comprehensive Income for the years ended March 31, 2018, 2019 and 2020 (page F-10);
- (d) Consolidated Statements of Changes in Equity for the years ended March 31, 2018, 2019 and 2020 (page F-11 to F-12);
- (e) Consolidated Statements of Cash Flows for the years ended March 31, 2018, 2019 and 2020 (page F-13);
- (f) Notes to Consolidated Financial Statements (page F-14 to F-136);
- (g) Schedule II.—Valuation and Qualifying Accounts and Reserves (page F-137).

## 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 July 1, 2019.
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 Depositary, 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 (Incorporated by reference from the annual report on Form 20-F filed on June 25, 2019, commission file number 001-14856).
Exhibit 12.1	Certifications required by Rule 13a-14 (a) (17 CFR 240.13a-14 (a)) or Rule 15d-14 (a) (17 CFR 240.15d 14(a)).
Exhibit 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	Inline XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101	Inline XBRL Schema Document.
Exhibit 101	Inline XBRL Calculation Linkbase Document.
Exhibit 101	Inline XBRL Definition Linkbase Document.
Exhibit 101	Inline XBRL Labels Linkbase Document.
Exhibit 101	Inline XBRL Presentation Linkbase Document.
Exhibit 104	The cover page for the Company's Annual Report on Form 20-F for the year ended March 31, 2020, has been formatted in Inline XBRL

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.

**SIGNATURES**

The company hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**ORIX KABUSHIKI KAISHA**

By:                                 /s/ SHOJI TANIGUCHI                                  
Name:                               Shoji Taniguchi  
Title:                               Senior Managing Executive Officer

Date: June 29, 2020

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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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 Group) as of March 31, 2020 and 2019, 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, 2020, 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 Group as of March 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2020, 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 Group's internal control over financial reporting as of March 31, 2020, 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 29, 2020 expressed an unqualified opinion on the effectiveness of the Group's internal control over financial reporting.

### ***Basis for Opinion***

These consolidated financial statements are the responsibility of the Group'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 Group 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.

### ***Critical Audit Matters***

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### ***Assessment of the carrying value of the indefinite-lived intangible asset for asset management contract***

As discussed in Notes 1 and 16 to the consolidated financial statements, the Group performs an impairment test for indefinite-lived intangible assets at least annually and whenever events or changes in circumstances indicate that the asset might be impaired. As a result of the impairment test, if the carrying amount of an

intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The Group's indefinite-lived intangible assets balance as of March 31, 2020 was ¥214,582 million, of which ¥141,069 million represents asset management contracts. The fair values of the asset management contracts were determined utilizing a discounted cash flow model and the key inputs and assumptions to the valuation included the forecasted balances of assets under management (AuM) used to estimate the future cash flows and the weighted average cost of capital (WACC) as a discount rate.

We identified the assessment of the carrying value of the indefinite-lived intangible asset for a certain asset management contract held by a subsidiary in an overseas business segment as a critical audit matter. Changes in the key inputs and assumptions have a significant effect on the fair value of the asset management contract indicating a higher risk related to the impairment assessment and, therefore, required a high degree of auditor judgment. In addition, the forecasted balances of AuM were challenging to test as there was a high degree of uncertainty in forecasting future growth of AuM. Also, a high degree of auditor judgment was required to test the WACC due to the subjectivity in determining its inputs.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the impairment assessment process of the asset management contract including controls over the development of the key inputs and assumptions. We evaluated the Group's ability to accurately estimate forecasted balances of AuM by comparing the AuM balances forecasted in the prior year to the actual results. We performed a sensitivity analysis over the forecasted balances of AuM and the WACC to assess the impact to the Group's determination that the fair value of the asset management contract exceeded its carrying amount. In addition, we involved valuation professionals with specialized industry skills and knowledge and experience, who assisted in assessing the WACC by comparing it against a WACC range that was developed using publicly available market data and independently developed assumptions.

*Assessment of the fair value measurement of the investment funds categorized as Level 3 financial instruments in the fair value hierarchy*

As discussed in Notes 1 and 2 to the consolidated financial statements, certain overseas subsidiaries are determined as investment companies under ASC 946 (Financial Services-Investment Companies) and hold investment funds measured at fair value with changes in fair value recognized in earnings on a recurring basis. These investment funds are classified as Level 3 in the fair value hierarchy, because the Group measures their fair value using valuation techniques with key inputs that are unobservable. The Group's Level 3 financial assets measured at fair value on a recurring basis as of March 31, 2020 amounted to ¥209,690 million, which included ¥83,901 million of investment funds. The fair value measurement of the Level 3 investment funds held by a certain investment company were estimated based on the valuation methodology of the underlying equity investments using a combination of the income approach technique using discounted cash flows and the market approach technique utilizing market multiples. Key inputs and assumptions used for the valuation include earnings before interest, taxes, depreciation and amortization (EBITDA) multiples, projected cash flows and weighted average cost of capital (WACC).

We identified the assessment of the fair value measurement of the Level 3 investment funds held by the certain investment company as a critical audit matter. In addition to a high degree of subjectivity in determining the methodology and the key inputs and assumptions, minor changes in these key inputs and assumptions used for the valuation would have a significant effect on the Group's net income. Therefore, a high degree of challenging auditor judgment was required.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the fair value measurement process for Level 3 investment funds including controls over (1) the development of the methodology and (2) the determination of the key inputs and assumptions. We

evaluated the cash flow forecasts by comparing the forecasts made in the prior year to the actual results as well as trends in year-over-year forecasts. We involved valuation professionals with specialized industry skills and knowledge, who assisted in evaluating the:

- fair value measurement methodology in accordance with U.S. generally accepted accounting principles,
- selection of the EBITDA multiples through the comparison to independently developed EBITDA multiples, and
- determination of the WACC assumption through performing an assessment using publicly available market data and independently developed assumptions.

KPMG AZSA LLC

We have served as the Group's auditor since 1985.

Tokyo, Japan  
June 29, 2020

## 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 Group) internal control over financial reporting as of March 31, 2020, 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 Group maintained, in all material respects, effective internal control over financial reporting as of March 31, 2020, 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 Group as of March 31, 2020 and 2019, 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, 2020, and the related notes and financial statement schedule II (collectively, the consolidated financial statements), and our report dated June 29, 2020 expressed an unqualified opinion on those consolidated financial statements.*

### *Basis for Opinion*

The Group'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 Group'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 Group 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 29, 2020

**CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2019 AND 2020**

**ORIX Corporation and Subsidiaries**

	<u>Millions of yen</u>	
	<u>2019</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and Cash Equivalents . . . . .	¥ 1,161,032	¥ 982,666
Restricted Cash . . . . .	122,548	152,618
Investment in Direct Financing Leases . . . . .	1,155,632	0
Net investment in Leases . . . . .	0	1,080,964
Installment Loans . . . . .	3,277,670	3,740,486
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2019 . . . . .	¥38,671 million	
March 31, 2020 . . . . .	¥90,893 million	
Allowance for Doubtful Receivables on Finance Leases and Probable Loan Losses . . . . .	(58,011)	(56,836)
Investment in Operating Leases . . . . .	1,335,959	1,400,001
Investment in Securities . . . . .	1,928,916	2,245,323
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2019 . . . . .	¥27,367 million	
March 31, 2020 . . . . .	¥25,295 million	
Property under Facility Operations . . . . .	441,632	562,485
Investment in Affiliates . . . . .	842,760	821,662
Trade Notes, Accounts and Other Receivable . . . . .	280,590	312,744
Inventories . . . . .	115,695	126,013
Office Facilities . . . . .	108,390	203,930
Other Assets . . . . .	1,462,104	1,495,472
The amounts which are measured at fair value by electing the fair value option are as follows:		
March 31, 2019 . . . . .	¥12,449 million	
March 31, 2020 . . . . .	¥18,206 million	
Total Assets . . . . .	<u>¥12,174,917</u>	<u>¥13,067,528</u>

- Notes: 1. Accounting Standards Update 2016-02 (ASC 842 (“Leases”)) (hereinafter, “New Lease Standard”) has been adopted since April 1, 2019, and the amounts of investment in direct financing leases have been reclassified to net investment in leases. For further information, see Note 1 “Significant Accounting and Reporting Policies (ag) New accounting pronouncements.”
2. The assets of consolidated variable interest entities (VIEs) that can be used only to settle obligations of those VIEs are below:

	<u>Millions of yen</u>	
	<u>2019</u>	<u>2020</u>
Cash and Cash Equivalents . . . . .	¥ 4,437	¥ 7,117
Investment in Direct Financing Leases (Net of Allowance for Doubtful Receivables on Finance Leases and Probable Loan Losses) . . . . .	15,058	0
Net Investment in Leases (Net of Allowance for Doubtful Receivables on Finance Leases and Probable Loan Losses) . . . . .	0	3,377
Installment Loans (Net of Allowance for Doubtful Receivables on Finance Leases and Probable Loan Losses) . . . . .	185,988	218,268
Investment in Operating Leases . . . . .	82,405	75,904
Property under Facility Operations . . . . .	203,933	296,208
Investment in Affiliates . . . . .	52,079	51,456
Other . . . . .	100,101	136,641
	<u>¥ 644,001</u>	<u>¥ 788,971</u>

**CONSOLIDATED BALANCE SHEETS—(Continued)**  
**AS OF MARCH 31, 2019 AND 2020**

**ORIX Corporation and Subsidiaries**

		Millions of yen	
		2019	2020
<b>LIABILITIES AND EQUITY</b>			
Liabilities:			
Short-term Debt		¥ 309,549	¥ 336,832
Deposits		1,927,741	2,231,703
Trade Notes, Accounts and Other Payable		293,480	282,727
Policy Liabilities and Policy Account Balances		1,521,355	1,591,475
The amounts which are measured at fair value by electing the fair value option are as follows:			
March 31, 2019	¥360,198 million		
March 31, 2020	¥300,739 million		
Income Taxes:			
Current		42,010	28,203
Deferred		313,833	328,147
Long-term Debt		4,186,222	4,279,354
Other Liabilities		617,746	912,921
	Total Liabilities	9,211,936	9,991,362
	Redeemable Noncontrolling Interests	9,780	10,331
Commitments and Contingent Liabilities			
Equity:			
Common stock:		221,111	221,111
Authorized:	2,590,000,000 shares		
Issued:			
March 31, 2019	1,324,629,128 shares		
March 31, 2020	1,324,629,128 shares		
Additional Paid-in Capital		257,625	257,638
Retained Earnings		2,555,585	2,754,461
Accumulated Other Comprehensive Income (Loss)		(61,343)	(118,532)
Treasury Stock, at Cost:		(75,904)	(121,070)
March 31, 2019	44,667,776 shares		
March 31, 2020	70,157,472 shares		
	ORIX Corporation Shareholders' Equity	2,897,074	2,993,608
	Noncontrolling Interests	56,127	72,227
	Total Equity	2,953,201	3,065,835
	Total Liabilities and Equity	¥12,174,917	¥13,067,528

- Notes: 1. The Company's shares held through the Board Incentive Plan Trust (1,823,993 shares as of March 31, 2019 and 1,476,828 shares as of March 31, 2020) are included in the number of treasury stock shares as of March 31, 2019 and 2020.
2. New Lease Standard has been adopted since April 1, 2019. For further information, see Note 1 "Significant Accounting and Reporting Policies (ag) New accounting pronouncements."
3. The liabilities of consolidated VIEs for which creditors (or beneficial interest holders) do not have recourse to the general credit of the Company and its subsidiaries are below:

		Millions of yen	
		2019	2020
Short-Term Debt		¥ 580	¥ 6,030
Trade Notes, Accounts and Other Payable		7,339	3,140
Long-Term Debt		418,631	464,904
Other		16,480	45,671
		¥ 443,030	¥ 519,745

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

**CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED MARCH 31, 2018, 2019 AND 2020**

**ORIX Corporation and Subsidiaries**

	Millions of yen		
	2018	2019	2020
<b>Revenues:</b>			
Finance revenues	¥ 228,252	¥ 242,893	¥ 276,864
Gains on investment securities and dividends	43,302	15,958	22,499
Operating leases	379,665	413,918	430,665
Life insurance premiums and related investment income	351,590	347,136	367,778
Sales of goods and real estate	1,079,052	596,165	406,511
Services income	780,910	818,794	776,012
<b>Total revenues</b>	<b>2,862,771</b>	<b>2,434,864</b>	<b>2,280,329</b>
<b>Expenses:</b>			
Interest expense	76,815	93,337	99,138
Costs of operating leases	252,327	257,321	289,604
Life insurance costs	255,070	246,533	269,425
Costs of goods and real estate sold	1,003,509	535,261	354,006
Services expense	482,796	508,320	483,914
Other (income) and expense	429	1,301	14,925
Selling, general and administrative expenses	431,594	437,028	460,199
Provision for doubtful receivables and probable loan losses	17,265	22,525	24,425
Write-downs of long-lived assets	5,525	2,418	3,043
Write-downs of securities	1,246	1,382	11,969
<b>Total expenses</b>	<b>2,526,576</b>	<b>2,105,426</b>	<b>2,010,648</b>
<b>Operating Income</b>	<b>336,195</b>	<b>329,438</b>	<b>269,681</b>
Equity in Net Income of Affiliates	50,103	32,978	67,924
Gains on Sales of Subsidiaries and Affiliates and Liquidation Losses, net	49,203	33,314	74,001
Bargain Purchase Gain	0	0	955
<b>Income before Income Taxes</b>	<b>435,501</b>	<b>395,730</b>	<b>412,561</b>
Provision for Income Taxes	113,912	68,691	105,837
<b>Net Income</b>	<b>321,589</b>	<b>327,039</b>	<b>306,724</b>
Net Income Attributable to the Noncontrolling Interests	8,002	2,890	3,640
Net Income Attributable to the Redeemable Noncontrolling Interests	452	404	384
<b>Net Income Attributable to ORIX Corporation Shareholders</b>	<b>¥ 313,135</b>	<b>¥ 323,745</b>	<b>¥ 302,700</b>

- 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 adopted since fiscal 2019. The unrealized change in fair value of investment in equity securities has been included in “Gains on investment securities and dividends” since fiscal 2019 for this adoption.
3. New Lease Standard has been adopted since April 1, 2019, and the certain lessor costs of finance lease, such as the property taxes and insurance costs previously had been deducted from “Finance revenues”, but have changed to be included in “Other (income) and expense.” And the certain lessor costs of operating lease previously had been deducted from Revenue of “Operating leases”, but have changed to be included in “Costs of operating leases”. In addition, the presented amounts in the consolidated statements of income for the prior to the previous fiscal year have not been changed retrospectively to conform to the presentation for fiscal 2020 because of not applicable to the New Lease Standard. For further information, see Note 1 “Significant Accounting and Reporting Policies (ag) New accounting pronouncements.”

**CONSOLIDATED STATEMENTS OF INCOME—(Continued)**  
**FOR THE YEARS ENDED MARCH 31, 2018, 2019 AND 2020**

**ORIX Corporation and Subsidiaries**

	Yen		
	2018	2019	2020
Amounts per Share of Common Stock for Income Attributable to ORIX Corporation Shareholders:			
Basic:			
Net Income Attributable to ORIX Corporation Shareholders . . . . .	¥244.40	¥252.92	¥237.38
Diluted:			
Net Income Attributable to ORIX Corporation Shareholders . . . . .	¥244.15	¥252.70	¥237.17
Cash Dividends . . . . .	56.25	69.00	81.00

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, 2018, 2019 AND 2020**

**ORIX Corporation and Subsidiaries**

	Millions of yen		
	2018	2019	2020
Net Income .....	¥321,589	¥327,039	¥306,724
Other comprehensive income (loss), net of tax:			
Net change of unrealized gains (losses) on investment in securities .....	(22,834)	10,215	(22,456)
Net change of debt valuation adjustments .....	0	231	875
Net change of defined benefit pension plans .....	(2,962)	(7,346)	1,529
Net change of foreign currency translation adjustments .....	(1,955)	(11,537)	(31,664)
Net change of unrealized gains (losses) on derivative instruments .....	779	(4,118)	(8,556)
Total other comprehensive income (loss) .....	(26,972)	(12,555)	(60,272)
Comprehensive Income .....	294,617	314,484	246,452
Comprehensive Income Attributable to the Noncontrolling Interests .....	6,433	2,784	756
Comprehensive Income Attributable to the Redeemable Noncontrolling Interests .....	36	730	187
Comprehensive Income Attributable to ORIX Corporation Shareholders ....	¥288,148	¥310,970	¥245,509

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, 2018, 2019 AND 2020**

**ORIX Corporation and Subsidiaries**

Millions of yen

	ORIX Corporation Shareholders' Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total ORIX Corporation Shareholders' Equity	Noncontrolling Interests	Total Equity
<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
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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY—(Continued)**  
**FOR THE YEARS ENDED MARCH 31, 2018, 2019 AND 2020**

**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, 2019</b> .....	¥221,111	¥257,625	¥2,555,585	¥ (61,343)	¥ (75,904)	¥2,897,074	¥56,127	¥2,953,201
Contribution to subsidiaries .....						0	17,047	17,047
Transaction with noncontrolling interests .....		241		2		243	1,340	1,583
Comprehensive income, net of tax:								
Net income .....			302,700			302,700	3,640	306,340
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities .....				(22,390)		(22,390)	(66)	(22,456)
Net change of debt valuation adjustments .....				875		875	0	875
Net change of defined benefit pension plans .....				1,527		1,527	2	1,529
Net change of foreign currency translation adjustments .....				(28,917)		(28,917)	(2,550)	(31,467)
Net change of unrealized gains (losses) on derivative instruments .....				(8,286)		(8,286)	(270)	(8,556)
Total other comprehensive income (loss) .....						(57,191)	(2,884)	(60,075)
Total comprehensive income .....						245,509	756	246,265
Cash dividends .....			(103,824)			(103,824)	(3,043)	(106,867)
Acquisition of treasury stock .....					(45,720)	(45,720)	0	(45,720)
Disposal of treasury stock .....		(334)			554	220	0	220
Other, net .....		106				106	0	106
<b>Balance at March 31, 2020</b> .....	<u>¥221,111</u>	<u>¥257,638</u>	<u>¥2,754,461</u>	<u>¥(118,532)</u>	<u>¥(121,070)</u>	<u>¥2,993,608</u>	<u>¥72,227</u>	<u>¥3,065,835</u>

- Notes: 1. Changes in the redeemable noncontrolling interests are not included in this table. For further information, see Note 21 "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, 2018, 2019 AND 2020**

**ORIX Corporation and Subsidiaries**

	Millions of yen		
	2018	2019	2020
<b>Cash Flows from Operating Activities:</b>			
Net income	¥ 321,589	¥ 327,039	¥ 306,724
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	279,923	295,589	304,204
Principal payments received under net investment in leases	0	0	474,110
Provision for doubtful receivables and probable loan losses	17,265	22,525	24,425
Equity in net income of affiliates (excluding interest on loans)	(46,587)	(29,674)	(65,764)
Gains on sales of subsidiaries and affiliates and liquidation losses, net	(49,203)	(33,314)	(74,001)
Bargain purchase gain	0	0	(955)
Gains on sales of securities other than trading	(32,083)	(10,182)	(18,886)
Gains on sales of operating lease assets	(35,291)	(62,883)	(51,072)
Write-downs of long-lived assets	5,525	2,418	3,043
Write-downs of securities	1,246	1,382	11,969
Deferred tax provision	5,588	(35,128)	14,890
Decrease in trading securities	144,367	95,370	63,681
Decrease in inventories	10,609	6,852	11,938
Decrease (Increase) in trade notes, accounts and other receivable	(13,984)	(5,576)	12,348
Increase (Decrease) in trade notes, accounts and other payable	17,831	10,990	(3,853)
Increase (Decrease) in policy liabilities and policy account balances	(53,512)	10,109	70,120
Increase (Decrease) in income taxes payable	(74,241)	36,753	(33,318)
Other, net	69,749	(44,592)	(7,137)
Net cash provided by operating activities	<u>568,791</u>	<u>587,678</u>	<u>1,042,466</u>
<b>Cash Flows from Investing Activities:</b>			
Purchases of lease equipment	(971,163)	(998,073)	(948,445)
Principal payments received under direct financing leases	470,870	469,262	0
Installment loans made to customers	(1,396,724)	(1,460,336)	(1,527,000)
Principal collected on installment loans	1,184,298	1,239,385	1,134,142
Proceeds from sales of operating lease assets	285,954	429,295	339,504
Investment in affiliates, net	(110,547)	(278,027)	(44,140)
Proceeds from sales of investment in affiliates	74,742	56,423	79,950
Purchases of available-for-sale debt securities	(372,236)	(556,213)	(711,973)
Proceeds from sales of available-for-sale debt securities	395,629	221,824	249,427
Proceeds from redemption of available-for-sale debt securities	97,565	73,156	82,754
Purchases of equity securities other than trading	(67,147)	(66,959)	(53,616)
Proceeds from sales of equity securities other than trading	104,600	83,261	34,145
Purchases of property under facility operations	(80,095)	(62,221)	(44,466)
Acquisitions of subsidiaries, net of cash acquired	(66,034)	(119,105)	(134,894)
Sales of subsidiaries, net of cash disposed	43,278	56,584	91,835
Other, net	(32,110)	37,793	(17,709)
Net cash used in investing activities	<u>(439,120)</u>	<u>(873,951)</u>	<u>(1,470,486)</u>
<b>Cash Flows from Financing Activities:</b>			
Net increase (decrease) in debt with maturities of three months or less	50,900	(50,881)	16,182
Proceeds from debt with maturities longer than three months	1,488,259	1,123,923	924,779
Repayment of debt with maturities longer than three months	(1,396,531)	(932,676)	(832,881)
Net increase in deposits due to customers	143,318	169,830	304,182
Cash dividends paid to ORIX Corporation shareholders	(72,757)	(88,438)	(103,824)
Acquisition of treasury stock	(39,110)	(707)	(45,720)
Contribution from noncontrolling interests	4,740	22,760	23,994
Purchases of shares of subsidiaries from noncontrolling interests	(11,299)	(86,165)	(4,501)
Net increase (decrease) in call money	(18,000)	20,000	10,000
Other, net	(8,510)	(10,999)	(3,508)
Net cash provided by financing activities	<u>141,010</u>	<u>166,647</u>	<u>288,703</u>
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash	1,224	(1,911)	(8,979)
Net increase (decrease) in Cash, Cash Equivalents and Restricted Cash	<u>271,905</u>	<u>(121,537)</u>	<u>(148,296)</u>
Cash, Cash Equivalents and Restricted Cash at Beginning of Year	1,133,212	1,405,117	1,283,580
Cash, Cash Equivalents and Restricted Cash at End of Year	<u>¥ 1,405,117</u>	<u>¥ 1,283,580</u>	<u>¥ 1,135,284</u>

- Notes: 1. The prior-year amounts were 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 previously reported amounts were reclassified for this application.
3. New Lease Standard has been adopted since April 1, 2019, and the amounts of investment in direct financing leases have been reclassified to net investment in leases. For further information, see Note 1 "Significant Accounting and Reporting Policies (ag) New accounting pronouncements."

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, accounting for lessee’s lease 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 certain overseas subsidiary consolidates subsidiaries determined as investment companies under ASC 946 (“Financial Services—Investment Companies”). Investments held by the investment company subsidiaries are carried at fair value with changes in fair value recognized in earnings.

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 finance

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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 finance 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 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.

In addition, we carefully considered the future outlook regarding the spread of the COVID-19. As of March 31, 2020, there was no significant impact on our accounting estimates. However, the outlook for future outbreaks of COVID-19 and the resulting global economic slowdown is uncertain and it may change rapidly. Therefore our accounting estimates may change over time.

#### **(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. Monetary assets and liabilities in foreign currencies are recorded in the entity's functional currency based on the prevailing exchange rates at the end of each fiscal year.

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, 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.

Excluding the aforementioned policy, the policies as specifically described hereinafter are applied for each of revenue items.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

**Finance Revenues**—Finance revenues mainly include revenues from finance leases, installment loans, and financial guarantees.

#### (1) Revenues from finance leases

Lessor leases consist of leases for various equipment types, including office equipment, industrial machinery, transportation equipment and real estates. Net investment in leases includes sales-type leases and direct financing leases which are full-payout leases. Leases not qualifying as sales-type leases or direct financing leases are accounted for as operating leases. Interest income on net investment in leases is recognized over the life of each respective lease using the interest method. When lease payment is variable, it is accounted for as income in profit or loss in the period when the changes in facts and circumstances on which the variable payment is based occur. In providing leasing services, the Company and its subsidiaries execute supplemental businesses, such as handling taxes and paying insurance on leased assets on behalf of lessees. The estimated unguaranteed residual value represents estimated proceeds from the disposition of equipment at the time the lease is terminated. Estimates of residual values are determined 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. Initial direct costs of sales-type leases and direct financing leases 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 of sales-type leases and direct financing leases is reflected as a component of net investment in 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 net investment in leases when principal or interest is past-due 90 days or more, or earlier, if management determines

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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 net investment in leases or installment loans in the accompanying consolidated balance sheets and becomes subject to the allowance for doubtful receivables and probable loan loss process. Cash repayments received on non-accrual loans are applied first against past due interest and then any surpluses are applied to principal in view of the conditions of the contract and obligors. The Company and its subsidiaries return non-accrual loans and lease receivables to accrual status when it becomes probable that the Company and its subsidiaries will be able to collect all amounts due according to the contractual terms of these loans and receivables, as evidenced by continual payments from the debtors. The period of such continual payments before returning to accrual status varies depending on factors that we consider are relevant in assessing the 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. When lease payment is variable, it is accounted for as income in profit or loss in the period when the changes in facts and circumstances on which the variable payment is based occur. In providing leasing services, the Company and its subsidiaries execute supplemental businesses, such as handling taxes and paying insurance on leased assets on behalf of lessees. 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 5 years, measuring and information-related equipment is 4 years, real estate (other than land) is 32 years and other is 9 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. Initial direct costs of operating leases are being deferred and amortized as a straight-line basis over the life of the related lease. The unamortized balance of initial direct costs is reflected as investment in operating leases.

#### **(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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

The allowance for doubtful receivables on net investment in 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 net investment in 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 net investment in 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 net investment in 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 net investment in 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### (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, mega solar and other properties under facility operations, whenever events or changes in circumstances indicated that the assets might be impaired. The assets are considered not recoverable when the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of those assets. The carrying amount of assets not recoverable is reduced to fair value if lower than the carrying amount. The Company and its subsidiaries determine the fair value using appraisals prepared by independent third party appraisers or our own staff of qualified appraisers based on recent transactions involving sales of similar assets or other valuation techniques such as discounted cash flows methodologies using future cash flows estimated to be generated from operation of the existing assets or completion of development projects, as appropriate.

#### (i) Investment in securities

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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 amounts of existing assets and liabilities and their respective tax bases and for tax loss 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 in Japan 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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 estimated future net servicing cash flows, taking into consideration discount rates, prepayments and servicing costs. The internal valuation model is validated at least semiannually through third-party valuations.

#### (I) Derivative financial instruments

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

Starting from this fiscal year, the Company and its subsidiaries select either the amortization approach or the fair value approach, depending on the type of hedging activity, for the initial value of the component excluded from the assessment of effectiveness, and recognize it through the consolidated statements of income. When the amortization approach is adopted, the change in fair value is recognized in earnings using a systematic and rational method over the life of the hedging instrument and then any difference between the change in fair value and the amount recognized in earnings is recognized in other comprehensive income (loss), net of applicable income taxes. When the fair value approach is adopted, the change in the fair value is immediately recognized through the consolidated statements of income. In the past fiscal year, the change in fair value of the component excluded from the assessment of effectiveness and the ineffective portion of qualified hedges were immediately recognized through the consolidated statements of income.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

For all hedging relationships that are designated and qualified for hedge accounting, at the inception of the hedge, the Company and its subsidiaries formally document the details of the hedging relationship and the hedging 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.

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

In principle, 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, 2020 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### **(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 and training facilities) and environmental assets (including mega solar and thermal power stations), 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 2018, 2019 and 2020 were ¥25,444 million, ¥28,133 million and ¥27,147 million, respectively. Accumulated depreciation was ¥102,185 million and ¥105,433 million as of March 31, 2019 and 2020, respectively. Estimated useful lives range up to 50 years for buildings, up to 60 years for structures and up to 30 years for others.

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

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

#### **(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, 2019 and 2020, residential condominiums under development were ¥55,860 million and ¥56,156 million, respectively, and completed residential condominiums and merchandise for sale were ¥59,835 million and ¥69,857 million, respectively.

The Company and its subsidiaries recorded ¥936 million, ¥703 million and ¥863 million of write-downs principally on completed residential condominiums and merchandise for sale for fiscal 2018, 2019 and 2020, respectively, primarily resulting from a decrease in expected sales price. These write-downs were recorded in costs of goods and real estate sold and included in Real Estate segment, Investment and Operation segment and Corporate Financial Services 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

2018, 2019 and 2020 were ¥5,131 million, ¥4,912 million and ¥7,714 million, respectively. Accumulated depreciation was ¥54,499 million and ¥68,117 million as of March 31, 2019 and 2020, respectively. Estimated useful lives range up to 62 years for buildings and structures and up to 20 years for machinery and equipment.

#### (v) Right-of-use assets

The Company and its subsidiaries record the ROU assets recognized from the lessee's lease transaction as investment in operating leases, property under facility operations and office facilities. Lease liabilities are included in other liabilities.

ROU assets are consisted of the amount of the initial measurement of the lease liability and any lease payments made to the lessor at or before the commencement date and stated at cost less accumulated amortization. The initial measurement of the lease liability is at the present value of the lease payments not yet paid, discounted using the discount rate for the lease at lease commencement. ROU assets of finance leases are amortized mainly on a straight-line basis over the lease term. ROU assets of operating leases are amortized over the lease term by the fixed term operating cost minus the interest cost. Amortization of ROU assets of finance leases and operating leases expenses are included in costs of operating leases, services expense and selling, general and administrative expenses.

#### (w) 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.

#### (x) 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.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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.

#### **(y) 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.

#### **(z) Other Liabilities**

Other liabilities include primarily lease liabilities recognized from the lessee's lease transaction, 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### (aa) Capitalization of interest costs

The Company and its subsidiaries capitalized interest costs of ¥1,043 million, ¥940 million and ¥622 million in fiscal 2018, 2019 and 2020, respectively, primarily related to assets under construction such as specific environmental assets, long-term real estate development and ship projects.

#### (ab) Advertising

The costs of advertising are expensed as incurred. The total amounts charged to advertising expense in fiscal 2018, 2019 and 2020 were ¥26,083 million, ¥20,650 million and ¥16,480 million, respectively.

#### (ac) Earnings per share

Basic earnings per share is computed by dividing net income attributable to ORIX Corporation shareholders by the weighted average number of shares of outstanding common stock in each period. 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.

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

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

#### (ae) Redeemable noncontrolling interests

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

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

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

#### (ag) New accounting pronouncements

In February 2016, Accounting Standards Update 2016-02 (ASC 842 ("Leases")) 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. The Company and its subsidiaries adopted these updates, including Accounting Standards Update 2019-01, on April 1, 2019 and used the beginning of the fiscal year of adoption as the date of initial adoption. Consequently, financial information of comparative periods has not been updated and the disclosures required under the New Lease Standard are not provided for periods before April 1, 2019.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

The New Lease Standard provides a number of optional practical expedients in transition. The Company and its subsidiaries have elected 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 have elected other New Lease Standard’s available transitional practical expedients. The New Lease Standard also provides practical expedients for an entity’s ongoing accounting. The Company and its subsidiaries have elected 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 have not recognized 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 have elected the practical expedient to not separate lease and non-lease components for part of leases as lessors. The Company and its subsidiaries have expanded their disclosures regarding lessee and lessor.

The impact of the adoption of these updates has resulted in a gross up of ROU assets and corresponding lease liabilities principally for operating leases, such as land leases and office and equipment leases where it is the lessee. The effect of the adoption of these updates on the Company and its subsidiaries’ financial position at the adoption date were increases in ROU assets of ¥134,345 million in investment in operating leases, ¥77,989 million in property under facility operations, and ¥75,805 million in office facilities and lease liabilities of ¥284,867 million in other liabilities in the consolidated balance sheet as of April 1, 2019. ROU assets in investment in operating leases, property under facility operations and office facilities were ¥121,553 million, ¥73,226 million and ¥75,381 million, respectively, and lease liabilities in other liabilities were ¥266,790 million as of March 31, 2020. The impact of the adoption of these updates has resulted in a gross up of revenues and expenses of certain lessor costs, such as property taxes and insurance costs. The effect of the adoption of these updates on the Company and its subsidiaries’ results of operation was an increase in finance revenues by ¥19,953 million, an increase in revenues from operating leases by ¥24,157 million, an increase in costs of operating leases by ¥24,159 million and an increase in other (income) and expense by ¥19,952 million in the consolidated statement of income for the fiscal year. In the consolidated statements of cash flows, cash receipts from lessor’s finance leases have been reclassified from principal payments received under direct financing leases of cash flows from investing activities to principal payments received under net investment in leases of cash flows from operating activities.

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. Based on the Company and its subsidiaries’ assessment and best estimates to date, the allowance for credit losses for financial assets such as installment loans, net investment in leases and off-balance-sheet credit exposures such as financial guarantees and loan commitments are expected to increase due to the changes of the measurement of the allowance for credit losses. The effect of the adoption of these updates on the Company and its subsidiaries’ financial position at the adoption date will be an increase of approximately ¥32,000 million in the allowance for credit losses for financial assets, an increase of

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

approximately ¥29,000 million in other liabilities related to off-balance sheet credit exposures and a decrease of approximately ¥44,000 million in retained earnings in the consolidated balance sheets as of April 1, 2020. The Company and its subsidiaries continue to improve internal controls relevant to the new current expected credit loss model. The Company and its subsidiaries will expand their disclosures that are required by these updates, primarily regarding credit quality information and estimates of the allowance for credit losses.

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. The Company and its subsidiaries adopted these updates on April 1, 2019. The adoption of these updates had no 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, and related amendments which defer the effective date by one year were issued thereafter. These updates change the recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity. These updates require 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). These updates also require market risk benefits to be measured at fair value, and simplify amortization of deferred acquisition costs. Furthermore, these updates require additional disclosures for long-duration contracts. These updates are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early application is permitted. For the liability for future policy benefits and deferred acquisition costs, these updates are applied to contracts in force as of beginning of the earliest period presented (hereinafter, “the transition date” of these updates) on a modified retrospective basis, and an insurance entity may elect to apply retrospectively. For the market risk benefits, these updates are 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 these updates on April 1, 2022. The Company and its subsidiaries are currently evaluating the effect that the adoption of these updates will have on the Company and its subsidiaries’ results of operations or financial position, as well as changes in disclosures required by these updates.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

In 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.

In December 2019, Accounting Standards Update 2019-12 (“Simplifying the Accounting for Income Taxes”—ASC 740 (“Income Taxes”)) was issued. This update removes the exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment, the exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and other exceptions. This update also simplifies certain other elements of the accounting for the income taxes. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 and early adoption is permitted. The income tax simplifications related to changes in ownership of foreign equity method investments and foreign subsidiaries shall be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The other amendments in this update shall be applied on a retrospective basis to all periods presented, on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption, or on a prospective basis. 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 January 2020, Accounting Standards Update 2020-01 (“Clarifying the Interactions between Equity Securities, Equity Method and Joint Ventures, and Derivatives and Hedging” —ASC 321 (“Investments-Equity Securities”), ASC 323 (“Investments-Equity Method and Joint Ventures”), and ASC 815 (“Derivatives and Hedging”)) was issued. This update clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with ASC 321 (“Investments-Equity Securities”) immediately before applying or upon

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

discontinuing the equity method. This update also clarifies the scope of considerations for forward contracts and purchased options on certain securities that do not meet the definition of a derivative. This update is effective prospectively for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, and early adoption is permitted. 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 March 2020, Accounting Standards Update 2020-04 ("Facilitation of the Effects of Reference Rate Reform on Financial Reporting"—ASC 848 ("Reference Rate Reform")) was issued. This update provides companies with optional expedients and exceptions for applying generally accepted accounting principles to contract, hedging relationships and other transactions that reference London Interbank Offered Rate or another reference rate expected to be discontinued because of reference rate reform. This update is effective as of March 12, 2020 through December 31, 2022. We are currently in the process of identifying the potential effect on the Company and its subsidiaries' results of operations or financial position by the adoption of this update.

#### (ah) Reclassifications

Revenues from financial guarantees presented in the consolidated statements of income have been changed from "Services income" to "Finance revenues" starting from fiscal 2019.

This change aims to reflect revenue structure of the Company and its subsidiaries more appropriately accompanying the adoption of ASC 606 ("Revenue from Contracts with Customers"). Corresponding to this change, the presented amount in the consolidated statements of income for fiscal 2018 has also been reclassified retrospectively to conform to the presentation for fiscal 2019.

In the Company's consolidated statements of income for fiscal 2018, "Services income" in the amount of ¥14,148 million has 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, 2019 and 2020:

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>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2020

	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	¥ 90,893	¥ 0	¥ 90,893	¥ 0
Trading debt securities	7,431	0	7,431	0
Available-for-sale debt securities:	1,631,185	21,490	1,521,342	88,353
Japanese and foreign government bond securities*2	653,945	3,301	650,644	0
Japanese prefectural and foreign municipal bond securities	250,355	0	247,523	2,832
Corporate debt securities*3	596,477	18,189	574,294	3,994
CMBS and RMBS in the Americas	48,672	0	48,672	0
Other asset-backed securities and debt securities	81,736	0	209	81,527
Equity securities*4*5	375,174	58,400	232,873	83,901
Derivative assets:	39,690	202	20,258	19,230
Options held/written and other	21,346	0	2,116	19,230
Futures, foreign exchange contracts	13,265	202	13,063	0
Foreign currency swap agreements	5,079	0	5,079	0
Netting*6	(9,152)	0	0	0
Net derivative assets	30,538	0	0	0
Other assets:	18,206	0	0	18,206
Reinsurance recoverables*7	18,206	0	0	18,206
Total	<u>¥2,162,579</u>	<u>¥80,092</u>	<u>¥1,872,797</u>	<u>¥209,690</u>
Liabilities:				
Derivative liabilities:	¥ 73,649	¥ 2,471	¥ 71,178	¥ 0
Interest rate swap agreements	44,002	0	44,002	0
Options held/written and other	20,004	0	20,004	0
Futures, foreign exchange contracts	9,506	2,471	7,035	0
Foreign currency swap agreements	137	0	137	0
Netting*6	(9,152)	0	0	0
Net derivative Liabilities	64,497	0	0	0
Policy Liabilities and Policy Account Balances:	300,739	0	0	300,739
Variable annuity and variable life insurance contracts*8	300,739	0	0	300,739
Total	<u>¥ 374,388</u>	<u>¥ 2,471</u>	<u>¥ 71,178</u>	<u>¥300,739</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”), Federal Home Loan Mortgage Corporation (“Freddie Mac”) and institutional investors. Included in “Other (income) and expense” in the consolidated statements of income were a loss of ¥663 million, gains of ¥401 million and ¥5,220 million from the change in the fair value of the loans for fiscal 2018, 2019 and 2020,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

respectively. No gains or losses were recognized in earnings during fiscal 2018, 2019 and 2020 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. The amounts of aggregate unpaid principal balance and aggregate fair value of the loans held for sale as of March 31, 2020, were ¥84,906 million and ¥90,893 million, respectively, and the amount of the aggregate fair value exceeded the amount of aggregate unpaid principal balance by ¥5,987 million. As of March 31, 2019 and 2020, 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 were losses of ¥12 million, ¥19 million and ¥8 million from the change in the fair value of those investments for fiscal 2018, 2019 and 2020, respectively. The amounts of aggregate fair value elected the fair value option were ¥420 million and ¥780 million as of March 31, 2019 and 2020, respectively.
- \*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 were a loss of ¥181 million, gains of ¥784 million and ¥210 million from the change in the fair value of those investments for fiscal 2018, 2019 and 2020, respectively. The amounts of aggregate fair value elected the fair value option were ¥21,136 million and ¥18,189 million as of March 31, 2019 and 2020, respectively.
- \*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 were gains of ¥1,456 million, ¥1,141 million and ¥1,225 million from the change in the fair value of those investments for fiscal 2018, 2019 and 2020, respectively. The amounts of aggregate fair value elected the fair value option were ¥5,811 million and ¥6,326 million as of March 31, 2019 and 2020, respectively.
- \*5 The amounts of investment funds measured at net asset value per share which are not included in the above tables were ¥12,100 million and ¥11,631 million as of March 31, 2019 and 2020, respectively.
- \*6 It represents the amount offset under counterparty netting of derivative assets and liabilities.
- \*7 Certain subsidiaries elected the fair value option for certain reinsurance contracts held. The fair value of the reinsurance contracts elected for the fair value option in other assets were ¥12,449 million and ¥18,206 million as of March 31, 2019 and 2020, respectively. For the effect of changes in the fair value of those reinsurance contracts on earnings for fiscal 2018, 2019 and 2020, see Note 26 “Life Insurance Operations.”
- \*8 Certain subsidiaries elected the fair value option for the entire variable annuity and variable life insurance contracts held. The fair value of the variable annuity and variable life insurance contracts elected for the fair value option in policy liabilities and policy account balances were ¥360,198 million and ¥300,739 million as of March 31, 2019 and 2020, respectively. For the effect of changes in the fair value of the variable annuity and variable life insurance contracts on earnings for fiscal 2018, 2019 and 2020, see Note 26 “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 2018, 2019 and 2020:

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” 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.

\*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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

2019

Millions of yen

	Gains or losses (realized/unrealized)							Transfers in and/ or out of Level 3 (net)	Balance at March 31, 2019	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	Included in earnings*1	Included in other comprehensive income*2	Total	Purchases*3	Sales	Settlements*4			
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

2020

Millions of yen

	Gains or losses (realized/unrealized)							Transfers in and/ or out of Level 3 (net)	Balance at March 31, 2020	Change in unrealized gains or losses included in earnings for assets and liabilities still held at March 31, 2020*1
	Balance at April 1, 2019	Included in earnings *1	Included in other comprehensive income*2	Total	Purchases*3	Sales	Settlements*4			
Available-for-sale debt securities	¥100,447	¥ 1,291	¥(13,721)	¥(12,430)	¥41,270	¥ (3,925)	¥(34,018)	¥(2,991)	¥ 88,353	¥ 131
Japanese prefectural and foreign municipal bond securities	2,888	0	(56)	(56)	0	0	0	0	2,832	0
Corporate debt securities	7,158	0	(8)	(8)	900	0	(1,065)	(2,991)	3,994	0
Other asset-backed securities and debt securities	90,401	1,291	(13,657)	(12,366)	40,370	(3,925)	(32,953)	0	81,527	131
Equity securities	61,193	8,197	(1,641)	6,556	31,725	(10,108)	(5,465)	0	83,901	8,033
Investment funds	61,193	8,197	(1,641)	6,556	31,725	(10,108)	(5,465)	0	83,901	8,033
Derivative assets and liabilities (net)	5,272	10,402	(192)	10,210	3,748	0	0	0	19,230	10,402
Options held/written and other	5,272	10,402	(192)	10,210	3,748	0	0	0	19,230	10,402
Other asset	12,449	2,937	0	2,937	3,053	0	(233)	0	18,206	2,937
Reinsurance recoverables*5	12,449	2,937	0	2,937	3,053	0	(233)	0	18,206	2,937
Policy Liabilities and Policy Account Balances	360,198	4,802	1,215	6,017	0	0	(53,442)	0	300,739	4,802
Variable annuity and variable life insurance contracts*6	360,198	4,802	1,215	6,017	0	0	(53,442)	0	300,739	4,802

\*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” 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 and derivative assets and liabilities (net) 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.”

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

**ORIX Corporation and Subsidiaries**

\*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 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 cash flows from the security. In addition, 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.

In fiscal 2020, corporate debt securities totaling ¥2,991 million were transferred from Level 3 to Level 2, since the inputs became observable.

The following tables present recorded amounts of assets measured at fair value on a nonrecurring basis during fiscal 2019 and 2020. These assets are measured at fair value on a nonrecurring basis mainly to recognize impairment:

**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 . . . . .	2,897	0	0	2,897
	<u>¥26,267</u>	<u>¥ 0</u>	<u>¥3,839</u>	<u>¥22,428</u>

**2020**

	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 . . . . .	¥ 4,823	¥ 0	¥ 0	¥ 4,823
Real estate collateral-dependent loans (net of allowance for probable loan losses) . . . . .	12,557	0	0	12,557
Investment in operating leases and property under facility operations . . . . .	5,731	0	1,193	4,538
Certain investments in affiliates . . . . .	11,213	8,741	0	2,472
	<u>¥34,324</u>	<u>¥8,741</u>	<u>¥1,193</u>	<u>¥24,390</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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 Level 2, if 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. The loans held for sale in the Americas are classified as Level 3, if the Company and its subsidiaries measure their fair value based on discounted cash flow methodologies using inputs that are unobservable in the market.

#### *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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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.

Movable properties owned by a certain subsidiary are classified as Level 2, because fair value measurement is based on observable inputs other than quoted prices included within Level 1, such as prices for similar assets.

#### *Trading debt securities and available-for-sale debt 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. 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 benchmark 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 classified these securities that were measured at fair value based on the observable inputs such as trading price and/or bid price as Level 2. 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 and investment in affiliates*

If active market prices are available, fair value measurement is based on quoted active market prices and, accordingly, these securities are classified as Level 1. If active market prices are not available, fair value measurement is based on observable inputs other than quoted prices included within Level 1, such as prices for similar assets and accordingly these securities are classified as Level 2. In addition, a certain overseas subsidiary measures its investments held by the investment companies which are owned by the subsidiary at fair value. These investment funds and certain investments in affiliates are classified as Level 3, because fair value

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

measurement is based on the combination of discounted cash flow methodologies and market multiple valuation methods, and broker quotes. Discounted cash flow methodologies use future cash flows to be generated from investees, weighted average cost of capital (WACC) and others. Market multiple valuation methods use earnings before interest, taxes, depreciation and amortization (EBITDA) multiples based on actual and projected cash flows, comparable peer companies, and comparable precedent transactions and others. Furthermore, certain subsidiaries elected the fair value option for investments in some funds. These investment funds for which the fair value option is elected are classified as level 3, because the subsidiaries measure their fair value using discounting to net asset value based on inputs that are unobservable in the market.

#### *Derivatives*

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

#### *Reinsurance recoverables*

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

#### *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, 2019 and 2020.

March 31, 2019				
	Millions of yen			
	Fair value	Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
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

March 31, 2020

	Millions of	Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
	yen			
	Fair value			
Assets:				
Available-for-sale debt securities:				
Japanese prefectural and foreign municipal bond securities . . . . .	¥ 2,832	Discounted cash flows	Discount rate	8.5% (8.5%)
Corporate debt securities . . . . .	1,995	Discounted cash flows	Discount rate	0.4% – 2.5% (0.8%)
	1,999	Appraisals/Broker quotes	—	—
Other asset-backed securities and debt securities . . . . .	20,582	Discounted cash flows	Discount rate	1.0% – 51.2% (12.1%)
			Probability of default	1.9% (1.9%)
	60,945	Appraisals/Broker quotes	—	—
Equity securities:				
Investment funds . . . . .	5,714	Internal cash flows	Discount rate	0.0% (0.0%)
	54,898	Discounted cash flows	WACC	7.6% – 19.1% (16.5%)
			EV/Terminal EBITDA multiple	7.0x – 11.9x (9.3x)
		Market multiples	EV/Last twelve months EBITDA multiple	7.5x – 11.8x (9.4x)
			EV/Forward EBITDA multiple	6.5x – 10.3x (8.4x)
			EV/Precedent transaction last twelve months EBITDA multiple	7.5x – 12.1x (9.5x)
	23,289	Appraisals/Broker quotes	—	—
Derivative assets:				
Options held/written and other . . . . .	19,170	Discounted cash flows	Discount rate	12.0% – 33.0% (14.4%)
	60	Appraisals/Broker quotes	—	—
Other assets:				
Reinsurance recoverables . . . . .	18,206	Discounted cash flows	Discount rate	(0.2)% – 0.6% (0.2%)
			Mortality rate	0.0% – 100.0% (1.4%)
			Lapse rate	1.5% – 14.0% (7.1%)
			Annuitization rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (100.0%)
Total . . . . .	<u>¥209,690</u>			
Liabilities:				
Policy liabilities and Policy Account Balances:				
Variable annuity and variable life insurance contracts . . . . .	¥300,739	Discounted cash flows	Discount rate	(0.2)% – 0.6% (0.2%)
			Mortality rate	0.0% – 100.0% (1.3%)
			Lapse rate	1.5% – 30.0% (6.9%)
			Annuitization rate (guaranteed minimum annuity benefit)	0.0% – 100.0% (80.9%)
Total . . . . .	<u>¥300,739</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 2019 and 2020.

<b>2019</b>				
	<u>Millions of yen</u>		<u>Significant unobservable inputs</u>	<u>Range (Weighted average)</u>
	<u>Fair value</u>	<u>Valuation technique(s)</u>		
Assets:				
Real estate collateral-dependent loans (net of allowance for probable loan losses) . . .	¥ 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>			

<b>2020</b>				
	<u>Millions of yen</u>		<u>Significant unobservable inputs</u>	<u>Range (Weighted average)</u>
	<u>Fair value</u>	<u>Valuation technique(s)</u>		
Assets:				
Loans held for sale . . . . .	¥ 4,823	Discounted cash flows	Discount rate	5.7% – 7.7% (6.8%)
Real estate collateral-dependent loans (net of allowance for probable loan losses) . . .	12,557	Direct capitalization	Capitalization rate	5.6% – 7.0% (6.0%)
		Appraisals	—	—
Investment in operating leases and property under facility operations . . . . .	302	Direct capitalization	Capitalization rate	4.3% (4.3%)
		Discounted cash flows	Discount rate	4.1% (4.1%)
	4,236	Appraisals	—	—
Certain investments in affiliates . . . . .	359	Discounted cash flows	WACC	14.0% (14.0%)
		Market multiples	EV/Precedent transaction last twelve months EBITDA multiple	7.0x (7.0x)
			EV/Precedent transaction three year average EBITDA multiple	7.0x (7.0x)
	2,113	Appraisals	—	—
	<u>¥24,390</u>			

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

During fiscal 2020, the Company and its subsidiaries acquired entities for a total cost of the acquisition consideration of ¥190,119 million, which was paid mainly in cash. Goodwill initially recognized in these transactions amounted to ¥46,522 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 ¥20,437 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 did not recognize any bargain purchase gain during fiscal 2018 and 2019. As a result of the reassessment of the provisional purchase price allocation during fiscal 2020, the Company recognized bargain purchase gains of ¥955 million associated with two of its acquisitions executed during fiscal 2019. The bargain purchase gains were included in Corporate Financial Services segment.

The segment in which goodwill is allocated is disclosed in Note 16 “Goodwill and Other Intangible Assets.”

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

**ORIX Corporation and Subsidiaries**

**(2) Divestitures**

Gains on sales of subsidiaries and affiliates and liquidation losses, net for fiscal 2018, 2019 and 2020 amounted to ¥49,203 million, ¥33,314 million and ¥74,001 million, respectively. 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. Gains on sales of subsidiaries and affiliates and liquidation losses, net for fiscal 2020 mainly consisted of ¥39,663 million in Overseas Business segment, ¥17,995 million in Investment and Operation segment and ¥16,223 million in Real Estate segment.

During fiscal 2020, the Company sold ORIX Living Corporation (hereinafter, “ORIX Living”, which was a consolidated subsidiary of the Company and has changed its name to GOOD TIME LIVING Corporation on August 30, 2019). Gains on the sale of the subsidiary were included in Real Estate segment. Because the Company has determined to sell the subsidiary during fiscal 2019, the assets or debts of the subsidiary were mainly recognized as property under facility operations of ¥42,595 million and other liabilities of ¥23,078 million, which were classified as held for sale, in the Company’s consolidated balance sheets as of March 31, 2019. Neither gain nor loss was recognized as the related assets and liabilities were classified as held for sale. These related assets and liabilities were 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 and 2020. For further information about sales of goods, real estate sales and services income in fiscal 2018, see Note 5 “Sales of Goods and Real Estate Sales and Services Income.”

	Millions of yen	
	2019	2020
Goods or services category		
Sales of goods . . . . .	¥ 462,029	¥ 287,558
Real estate sales . . . . .	134,136	118,953
Asset management and servicing . . . . .	191,820	181,851
Automobile related services . . . . .	78,723	77,987
Facilities operation . . . . .	104,005	69,297
Environment and energy services . . . . .	132,243	141,532
Real estate management and brokerage . . . . .	103,062	104,110
Real estate contract work . . . . .	82,217	88,966
Other . . . . .	107,341	104,059
Total revenues from contracts with customers . . . . .	¥1,395,576	¥1,174,313
Other revenues* . . . . .	19,383	8,210
Total sales of goods and real estate and services income . . . . .	¥1,414,959	¥1,182,523

\* Other revenues are not in the scope of 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 and 2020. For further information about costs of goods sold, costs of real estate sold and services expenses in fiscal 2018, see Note 5 “Sales of Goods and Real Estate Sales and Services Income.”

	Millions of yen	
	2019	2020
Goods or services category		
Costs of goods sold . . . . .	¥ 419,001	¥247,036
Costs of real estate sold . . . . .	116,260	106,970
Asset management and servicing . . . . .	44,107	37,808
Automobile related services . . . . .	47,859	48,579
Facilities operation . . . . .	95,207	66,163
Environment and energy services . . . . .	105,414	110,899
Real estate management and brokerage . . . . .	94,869	94,119
Real estate contract work . . . . .	71,958	76,983
Other . . . . .	48,906	49,363
Total expenses of costs of goods and real estate sold and services expenses . . . . .	<u>¥1,043,581</u>	<u>¥837,920</u>

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 financing 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 34 “Segment Information.”

Revenue recognition criteria on each goods or services category are mainly as follows:

***Sales of goods***

The Company and its subsidiaries sell various goods such as precious metals, medical equipment, business management 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 condominium business. 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 assets under management 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 not in the scope of revenue from contracts with customers. These fees are accounted for servicing assets under which the benefits of servicing are expected to more than adequately compensate for performing the servicing, or servicing liabilities under which the benefits of servicing are not expected to adequately compensate for performing the servicing.

#### *Automobile related services*

Certain subsidiaries mainly provide 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, a multipurpose dome 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 a multipurpose dome, a certain subsidiary receives 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 included in services income are not in the scope of revenue from contracts with customers due to the gains are transfers of nonfinancial assets to counterparties that are not our customers.

#### *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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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.

#### *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' control 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 business management 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**

The following table provides information about balances from contracts with customers as of March 31, 2019 and 2020.

	Millions of yen	
	March 31, 2019	March 31, 2020
Trade Notes, Accounts and Other Receivable . . . . .	¥161,884	¥165,676
Contract assets (Included in Other Assets) . . . . .	2,277	3,811
Contract liabilities (Included in Other Liabilities) . . . . .	45,371	32,805

For fiscal 2019 and 2020, there were no significant changes in contract assets. For fiscal 2019, there were no significant changes in contract liabilities. For fiscal 2020, contract liabilities decreased due to deconsolidation of contract liabilities of ¥14,342 million related to facilities operation caused by the sale of ORIX Living.

For fiscal 2019, revenue amounted to ¥38,905 million was included in contract liabilities as of the beginning of the previous fiscal year. For fiscal 2020, revenue amounted to ¥31,908 million was included in contract liabilities as of the end of the previous fiscal year.

As of March 31, 2020, transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) is mainly related to automobile related services, real estate sales and amounted to ¥137,320 million. Remaining term for the obligations ranges up to 15 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 and 2020, assets recognized from the costs to obtain or fulfill contracts with customers were 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 2018. For further information about sales of goods, real estate sales, costs of goods sold and costs of real estate sold in fiscal 2019 and 2020, see Note 4 “Revenues from Contracts with Customers.”

	Millions of yen
	2018
Sales of goods . . . . .	¥ 954,807
Real estate sales . . . . .	124,245
Sales of goods and real estate . . . . .	¥1,079,052
Costs of goods sold . . . . .	¥ 896,515
Costs of real estate sold . . . . .	106,994
Costs of goods and real estate sold . . . . .	¥1,003,509

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

**ORIX Corporation and Subsidiaries**

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 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 2018. For further information about services income and services expense in fiscal 2019 and 2020, see Note 4 "Revenues from Contracts with Customers."

	<u>Millions of yen</u>
	<u>2018</u>
Revenues from asset management and servicing . . . . .	¥213,667
Revenues from automobile related business . . . . .	73,095
Revenues from facilities operation related business . . . . .	104,187
Revenues from environment and energy business . . . . .	112,821
Revenues from real estate management and contract work . . . . .	183,243
Other . . . . .	93,897
Services income . . . . .	<u>¥780,910</u>
Expenses from asset management and servicing . . . . .	¥ 49,848
Expenses from automobile related business . . . . .	44,599
Expenses from facilities operation related business . . . . .	90,623
Expenses from environment and energy business . . . . .	89,278
Expenses from real estate management and contract work . . . . .	166,487
Other . . . . .	41,961
Services expense . . . . .	<u>¥482,796</u>

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.

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

**ORIX Corporation and Subsidiaries**

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

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

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

**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, 2019 and 2020, respectively.

	Millions of yen	
	2019	2020
Cash and Cash Equivalents	¥1,161,032	¥ 982,666
Restricted Cash	122,548	152,618
Cash, Cash Equivalents and Restricted Cash	<u>¥1,283,580</u>	<u>¥1,135,284</u>

Cash payments during fiscal 2018, 2019 and 2020 are as follows:

	Millions of yen		
	2018	2019	2020
Cash payments:			
Interest	¥ 75,013	¥92,424	¥ 99,788
Income taxes, net	181,854	67,065	124,236

Non-cash activities in fiscal 2018, 2019 and 2020 are as follows.

In fiscal 2018 and 2019, real estate under operating leases of ¥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 was recognized with the corresponding amounts of installment loans being derecognized as a result of acquiring real estate collateral. In fiscal 2019 and 2020, other assets of ¥320 million and ¥29 million, respectively, were recognized with the corresponding amounts of installment loans being derecognized as a result of acquiring real estate collateral.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

In fiscal 2018, assets and liabilities decreased by ¥4,313 million and ¥2,304 million 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 derecognized liabilities mainly consist of long-term debt. In fiscal 2019, assets and liabilities decreased by ¥12,805 million and ¥12,265 million, 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. In fiscal 2020, assets and liabilities decreased by ¥1,281 million and ¥33 million 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 investment in securities, and the derecognized liabilities mainly consist of other liabilities. 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.

On April 1, 2019, the Company and its subsidiaries adopted New Lease Standard, which resulted in a gross up of ROU assets and corresponding lease liabilities. ROU assets obtained in exchange for lease liabilities were not included in cash flows from investing activities or financing activities because they did not involve cash transactions. For further information, see Note 1 "Significant Accounting and Reporting Policies (ag) New accounting pronouncements" and Note 7 "Leases."

#### 7. Leases

##### (1) Lessor

Lessor leases consist of leases for various equipment types, including office equipment, industrial machinery, transportation equipment and real estate. Net investment in leases includes sales-type leases and direct-financing leases. Interest income on net investment in leases is recognized over the life of each respective lease using the interest method. When lease payment is variable, it is accounted for as income in profit or loss in the period when the changes in facts and circumstances on which the variable payment is based occur. Sales-type leases and direct financing leases are full-payout leases. Leases not qualifying as sales-type leases or direct financing leases are accounted for as operating leases and related revenue is recognized on an equality over the lease term. In providing leasing services, the Company and its subsidiaries execute supplemental businesses, such as handling taxes and paying insurance on leased assets on behalf of lessees. The compensation for those lessor costs received from lessees are recognized as variable lease payments in finance revenues or operating lease revenues.

Some of the contracts include options to extend or to terminate the lease. The Company and its subsidiaries determine the lease term while taking such periods covered by options into account when determined the lease term when it is reasonably certain that it will exercise these options. The majority of the lease contracts do not contain bargain purchase options for customers.

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 determined 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. The Company and its subsidiaries may incur losses if the estimated residual amounts are unable to collect or need to recognize valuation losses when the estimates differ from actual trends in equipment valuation and the secondhand market. The risk of loss on leased assets relating to the estimated unguaranteed residual value of the leased assets is monitored through projections of the estimated unguaranteed residual value at lease origination and periodic review of estimated unguaranteed residual value.

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

**ORIX Corporation and Subsidiaries**

Initial direct costs of sales-type leases and direct financing leases are mainly 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 of sales-type leases and direct financing leases is reflected as net investment in leases. Initial direct costs of operating leases are mainly being deferred and amortized as a straight-line basis over the life of the related lease. The unamortized balance of initial direct costs is reflected as investment in operating leases.

When auto leases are bundled with maintenance contracts, considerations on contracts are allocated based upon the estimated standalone selling prices of the lease and non-lease components. Lease components generally include product and financing cost, and non-lease components generally consist of maintenance contracts.

A certain subsidiary is providing automobile related services, and applying practical expedients, to not separate non-lease components from the associated lease components. In this service, ASC 606 is applied to the entire contract because the consideration related to non-lease components accounts for the majority of contract consideration. Revenues from these operations are recognized over the customers' usage period of the services, since customers simultaneously receive and consume the benefits when the performance obligations are satisfied. The value transferred to customers is directly measured based on the usage period.

Lease income for fiscal 2020 is as follows:

	<b>Millions of yen</b>
	<b>Fiscal Year ended</b>
	<b>March 31, 2020</b>
Lease income – net investment in leases	
Interest income .....	¥ 72,663
Other .....	2,412
Lease income – operating leases* .....	430,665
Total lease income .....	¥505,740

\* Gains from the disposition of real estate under operating leases included in operating lease revenues are ¥30,154 million, and gains from the disposition of operating lease assets other than real estate included in operating lease revenues are ¥20,918 million for fiscal year 2020.

Lease income from net investment in leases is included in finance revenues in the consolidated statements of income. Gains and losses from the disposition of net investment in leases were not material for fiscal 2020.

Net investment in leases at March 31, 2020 consists of the following:

	<b>Millions of yen</b>
	<b>March 31, 2020</b>
Lease receivables .....	¥1,049,409
Unguaranteed residual value .....	27,868
Initial direct costs .....	3,687
Total .....	¥1,080,964

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

**ORIX Corporation and Subsidiaries**

Investment in operating leases at March 31, 2020 consists of the following:

	<u>Millions of yen</u> <u>March 31, 2020</u>
Transportation equipment .....	¥1,305,908
Measuring and information-related equipment .....	287,301
Real estate .....	305,981
Other .....	32,119
	1,931,309
Accumulated depreciation .....	(678,245)
Net .....	1,253,064
Right-of-use assets (operating leases) .....	121,553
Accrued rental receivables .....	25,384
Total .....	¥1,400,001

Costs of operating leases include depreciation and various expenses (insurance, property tax and other). Depreciation and various expenses for fiscal 2020 are as follows:

	<u>Millions of yen</u> <u>Fiscal Year ended</u> <u>March 31, 2020</u>
Depreciation expenses .....	¥209,586
Various expenses .....	80,018
Total .....	¥289,604

Remaining lease receivables of net investment in leases (including residual value guarantees) range up to 29 years at March 31, 2020. Remaining lease receivables of the operating lease contracts range up to 61 years at March 31, 2020. At March 31, 2020, the amounts due in each of the next five years and thereafter are as follows:

	<u>Millions of yen</u>	
<u>Years ending March 31,</u>	<u>Net investment in leases</u>	<u>Operating leases</u>
2021 .....	¥ 411,013	¥289,277
2022 .....	297,692	194,257
2023 .....	197,792	130,752
2024 .....	120,602	83,242
2025 .....	68,894	48,525
Thereafter .....	82,385	126,200
Total lease payments .....	1,178,377	¥872,253
Less imputed interest .....	(128,968)	
Total lease receivables .....	¥1,049,409	

**(2) Lessee**

The Company and its subsidiaries determine if an arrangement is a lease at inception of each contract. The Company and its subsidiaries have operating and finance leases for various assets including lands, office

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

**ORIX Corporation and Subsidiaries**

buildings, employees' accommodations, and vehicles. Some of the lease arrangements include options to extend or terminate lease term. The Company and its subsidiaries determine the lease term while taking such options into account when determined the lease term when it is reasonably certain that it will exercise these options. The Company and its subsidiaries' lease arrangements do not contain material residual value guarantees or material restrictive covenants. As a rate implicit in most of the leases cannot be readily determinable, the Company and its subsidiaries use incremental borrowing rate based on the information available at commencement to determine the present values of lease payments.

The component of lease expense for fiscal 2020 are as follows:

	<b>Millions of yen</b>
	<b>Year ended</b>
	<b>March 31, 2020</b>
Finance lease cost . . . . .	
Depreciation expenses of right-of-use assets . . . . .	¥ 743
Interest expenses of lease liabilities . . . . .	302
	1,045
Operating lease cost . . . . .	42,427
Short-term lease cost . . . . .	2,633
Variable lease cost . . . . .	948
Sublease income . . . . .	(3,688)
Total . . . . .	¥43,365

Supplemental cash flow information related to leases for fiscal 2020 are as follows:

	<b>Millions of yen</b>	
	<b>Year Ended March 31, 2020</b>	
	<b>Finance leases</b>	<b>Operating leases</b>
Cash paid for amounts included in the measurements of lease liabilities:		
Cash flows from operating activities . . . . .	¥302	¥44,610
Cash flows from financing activities . . . . .	494	0
Right-of-use assets obtained in exchange for lease liabilities: . . . . .	¥531	¥39,775

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

**ORIX Corporation and Subsidiaries**

Supplemental balance sheet information related to lessee leases at March 31, 2020 are as follows:

	<u>Millions of yen, except lease term and discount rate</u>	
	<u>March 31, 2020</u>	
	<u>Finance leases</u>	<u>Operating leases</u>
Investment in Operating Leases .....	¥ 0	¥121,553
Property under Facility Operations .....	2,241	73,226
Office Facilities .....	8	75,381
Total right-of-use assets .....	<u>2,249</u>	<u>270,160</u>
Other Liabilities .....	2,840	266,790
Total lease liabilities .....	<u>¥ 2,840</u>	<u>¥266,790</u>
Weighted average remaining lease term .....	9years	13years
Weighted average discount rate .....	<u>3.01%</u>	<u>1.08%</u>

At March 31, 2020, the amounts of lease liabilities related to lessee leases due in each of the next five years and thereafter are as follows:

	<u>Millions of yen</u>	
<u>Years ending March 31,</u>	<u>Finance leases</u>	<u>Operating leases</u>
2021 .....	¥ 485	¥ 45,303
2022 .....	484	30,701
2023 .....	482	26,884
2024 .....	477	23,861
2025 .....	473	21,649
Thereafter .....	848	135,909
Total lease payments .....	<u>3,249</u>	<u>284,307</u>
Less imputed interest .....	(409)	(17,517)
Total lease liabilities .....	<u>¥2,840</u>	<u>¥266,790</u>

**8. Investment in Direct Financing Leases**

Investment in direct financing leases at March 31, 2019 consists of the following:

	<u>Millions of yen</u>
	<u>2019</u>
Total Minimum lease payments to be received .....	¥1,312,418
Less : Estimated executory costs .....	(60,787)
Minimum lease payments receivable .....	1,251,631
Estimated residual value .....	37,655
Initial direct costs .....	6,337
Unearned lease income .....	(139,991)
	<u>¥1,155,632</u>

Included in finance revenues in the consolidated statements of income are direct financing leases revenues of ¥59,900 million and ¥58,246 million for fiscal 2018 and 2019, respectively.

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

**ORIX Corporation and Subsidiaries**

Gains and losses from the disposition of direct financing lease assets, which were included in finance revenues, were not material for fiscal 2018 and 2019.

For further information about net investment in leases for fiscal 2020, see Note 7 of “Leases.”

**9. Investment in Operating Leases**

Investment in operating leases at March 31, 2019 consists of the following:

	<b>Millions of yen</b>
	<b>2019</b>
Transportation equipment . . . . .	¥1,304,925
Measuring and information-related equipment . . . . .	266,436
Real estate . . . . .	336,002
Other . . . . .	31,152
	1,938,515
Accumulated depreciation . . . . .	(634,478)
Net . . . . .	1,304,037
Accrued rental receivables . . . . .	31,922
	<b>¥1,335,959</b>

For fiscal 2018 and 2019, gains from the disposition of real estate under operating leases included in operating lease revenues are ¥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 ¥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 2018 and 2019 are as follows:

	<b>Millions of yen</b>	
	<b>2018</b>	<b>2019</b>
Depreciation expenses . . . . .	¥195,047	¥202,858
Various expenses . . . . .	57,280	54,463
	<b>¥252,327</b>	<b>¥257,321</b>

For further information about investment in operating leases for fiscal 2020, see Note 7 of “Leases.”

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

**ORIX Corporation and Subsidiaries**

**10. Installment Loans**

The composition of installment loans by domicile and type of borrower at March 31, 2019 and 2020 is as follows:

	<u>Millions of yen</u>	
	<u>2019</u>	<u>2020</u>
Borrowers in Japan:		
Consumer—		
Real estate loans	¥1,560,832	¥1,842,131
Card loans	245,139	223,651
Other	32,962	32,618
	<u>1,838,933</u>	<u>2,098,400</u>
Corporate—		
Real estate companies	288,851	300,984
Non-recourse loans	53,067	48,566
Commercial, industrial and other companies	266,675	255,309
	<u>608,593</u>	<u>604,859</u>
Overseas:		
Real estate companies	104,883	250,195
Non-recourse loans	49,915	83,515
Commercial, industrial companies and other	658,930	690,299
	<u>813,728</u>	<u>1,024,009</u>
Purchased loans*	16,416	13,218
	<u>¥3,277,670</u>	<u>¥3,740,486</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, 2020, the contractual maturities of installment loans (except purchased loans) for each of the next five years and thereafter are as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>
2021	¥ 579,065
2022	352,497
2023	350,778
2024	255,482
2025	247,876
Thereafter	<u>1,941,570</u>
Total	<u>¥3,727,268</u>

Revenues from installment loans which are included in finance revenues in the consolidated statements of income are ¥134,211 million, ¥148,863 million and ¥166,966 million for fiscal 2018, 2019 and 2020, 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, 2019 and 2020 were ¥54,311 million and ¥127,194 million, respectively. There were ¥38,671 million and ¥90,893 million of loans held for sale as of March 31, 2019 and 2020, 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 ¥16,416 million and ¥13,218 million as of March 31, 2019 and 2020, respectively, and the fair value at the acquisition date of purchased loans acquired during fiscal 2019 and 2020 were ¥4,716 million and ¥2,983 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 ¥3,658 million and ¥1,497 million as of March 31, 2019 and 2020, respectively.

Changes in the allowance for uncollectible accounts relating to the purchased loans for fiscal 2018, 2019 and 2020 are as follows:

	Millions of yen		
	2018	2019	2020
Beginning balance . . . . .	¥ 6,061	¥4,292	¥ 3,186
Provision (Reversal) . . . . .	(539)	(331)	(24)
Charge-offs . . . . .	(1,375)	(822)	(1,789)
Recoveries . . . . .	152	126	77
Other* . . . . .	(7)	(79)	8
Ending balance . . . . .	<u>¥ 4,292</u>	<u>¥3,186</u>	<u>¥ 1,458</u>

\* Other includes foreign currency translation adjustments.

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

**ORIX Corporation and Subsidiaries**

**11. 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 net investment in 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 2018, 2019 and 2020:

	<b>March 31, 2018</b>					
	<b>Millions of yen</b>					
	<b>Loans</b>					
	<b>Corporate</b>			<b>Purchased loans*1</b>	<b>Direct financing leases</b>	<b>Total</b>
	<b>Consumer</b>	<b>Non-recourse loans</b>	<b>Other</b>			
<b>Allowance for credit losses:</b>						
Beginning balance . . . . .	¥ 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	—	260	152	32	1,101
Other*2 . . . . .	(198)	(59)	(2,103)	(7)	12	(2,355)
Ending balance . . . . .	<u>¥ 21,196</u>	<u>¥ 688</u>	<u>¥ 18,407</u>	<u>¥ 4,292</u>	<u>¥ 10,089</u>	<u>¥ 54,672</u>
Individually evaluated for impairment . .	3,020	149	8,295	2,880	—	14,344
Not individually evaluated for impairment . . . . .	18,176	539	10,112	1,412	10,089	40,328
<b>Financing receivables:</b>						
Ending balance . . . . .	<u>¥1,739,173</u>	<u>¥ 73,305</u>	<u>¥ 974,058</u>	<u>¥18,933</u>	<u>¥1,194,888</u>	<u>¥4,000,357</u>
Individually evaluated for impairment . .	18,911	3,745	19,385	5,101	—	47,142
Not individually evaluated for impairment . . . . .	1,720,262	69,560	954,673	13,832	1,194,888	3,953,215

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

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*3	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
March 31, 2020						
Millions of yen						
Loans						
Consumer	Corporate			Purchased loans*1	Net investment in leases	Total
	Non-recourse loans	Other				
<b>Allowance for credit losses :</b>						
Beginning balance	¥ 21,195	¥ 919	¥ 20,662	¥ 3,186	¥ 12,049	¥ 58,011
Provision (Reversal)	12,254	903	7,988	(24)	3,304	24,425
Charge-offs	(13,723)	(1)	(6,548)	(1,789)	(2,859)	(24,920)
Recoveries	554	0	133	77	24	788
Other*3	262	(35)	(877)	8	(826)	(1,468)
Ending balance	¥ 20,542	¥ 1,786	¥ 21,358	¥ 1,458	¥ 11,692	¥ 56,836
Individually evaluated for impairment	3,602	228	8,950	667	0	13,447
Not individually evaluated for impairment	16,940	1,558	12,408	791	11,692	43,389
<b>Financing receivables :</b>						
Ending balance	¥2,171,139	¥132,081	¥1,296,854	¥13,218	¥1,080,964	¥4,694,256
Individually evaluated for impairment	26,533	2,466	55,216	1,605	0	85,820
Not individually evaluated for impairment	2,144,606	129,615	1,241,638	11,613	1,080,964	4,608,436

Notes 1: Loans held for sale are not included in the table above.

2: New Lease Standard has been adopted since April 1, 2019, and the amounts of investment in direct financing leases have been reclassified to net investment in leases.

\*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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

\*2 Other mainly includes foreign currency translation adjustments and decrease in allowance related to sales of loans.

\*3 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 net investment in 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 net investment in 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 net investment in 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, 2019 and 2020:

		March 31, 2019		
		Millions of yen		
Portfolio segment	Class	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
	Real estate 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 than Non-recourse loans . . . .	Real estate companies in Japan	47	47	0
	Real estate companies in overseas	840	840	0
	Commercial, industrial and other companies in Japan	975	950	0
	Commercial, industrial and other companies in overseas	10,831	10,831	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
	Real estate 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 than Non-recourse loans . . . .	Real estate companies in Japan	1,493	1,480	419
	Real estate companies in overseas	0	0	0
	Commercial, industrial and other companies in Japan	6,129	5,748	3,703
	Commercial, industrial and other companies in overseas	7,137	7,136	4,154
<b>Purchased loans</b> . . . . .		3,658	3,658	1,917
<b>Total</b> . . . . .		<u>¥58,827</u>	<u>¥57,755</u>	<u>¥13,731</u>
<b>Consumer borrowers</b> . . . . .		<u>23,163</u>	<u>22,512</u>	<u>3,372</u>
	Real estate loans	<u>4,434</u>	<u>4,181</u>	<u>835</u>
	Card loans	<u>3,945</u>	<u>3,937</u>	<u>633</u>
	Other	<u>14,784</u>	<u>14,394</u>	<u>1,904</u>
<b>Corporate borrowers</b> . . . . .		<u>31,900</u>	<u>31,479</u>	<u>8,442</u>
Non-recourse loans . . . . .	Japan	<u>232</u>	<u>232</u>	<u>0</u>
	The Americas	<u>4,216</u>	<u>4,216</u>	<u>166</u>
Other than Non-recourse loans . . . .	Real estate companies in Japan	<u>1,540</u>	<u>1,527</u>	<u>419</u>
	Real estate companies in overseas	<u>840</u>	<u>840</u>	<u>0</u>
	Commercial, industrial and other companies in Japan	<u>7,104</u>	<u>6,698</u>	<u>3,703</u>
	Commercial, industrial and other companies in overseas	<u>17,968</u>	<u>17,967</u>	<u>4,154</u>
<b>Purchased loans</b> . . . . .		<u>3,764</u>	<u>3,764</u>	<u>1,917</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2020

Portfolio segment	Class	Millions of yen		
		Loans individually evaluated for impairment	Unpaid principal balance	Related allowance
<b>With no related allowance recorded *1</b> . . .		¥36,528	¥36,524	¥ 0
<b>Consumer borrowers</b> . . . . .		997	995	0
	Real estate loans	584	582	0
	Card loans	0	0	0
	Other	413	413	0
<b>Corporate borrowers</b> . . . . .		35,423	35,421	0
Non-recourse loans . . . . .	The Americas	1,705	1,705	0
Other than Non-recourse loans . . . .	Real estate companies in Japan	2,268	2,267	0
	Real estate companies in overseas	11,231	11,231	0
	Commercial, industrial and other companies in Japan	8,831	8,830	0
	Commercial, industrial and other companies in overseas	11,388	11,388	0
<b>Purchased loans</b> . . . . .		108	108	0
<b>With an allowance recorded *2</b> . . . . .		49,292	48,936	13,447
<b>Consumer borrowers</b> . . . . .		25,536	25,316	3,602
	Real estate loans	5,178	5,162	817
	Card loans	3,932	3,924	632
	Other	16,426	16,230	2,153
<b>Corporate borrowers</b> . . . . .		22,259	22,123	9,178
Non-recourse loans . . . . .	The Americas	761	761	228
Other than Non-recourse loans . . . .	Real estate companies in Japan	1,233	1,219	374
	Real estate companies in overseas	1,260	1,260	486
	Commercial, industrial and other companies in Japan	3,649	3,527	2,371
	Commercial, industrial and other companies in overseas	15,356	15,356	5,719
<b>Purchased loans</b> . . . . .		1,497	1,497	667
<b>Total</b> . . . . .		<u>¥85,820</u>	<u>¥85,460</u>	<u>¥13,447</u>
<b>Consumer borrowers</b> . . . . .		<u>26,533</u>	<u>26,311</u>	<u>3,602</u>
	Real estate loans	<u>5,762</u>	<u>5,744</u>	<u>817</u>
	Card loans	<u>3,932</u>	<u>3,924</u>	<u>632</u>
	Other	<u>16,839</u>	<u>16,643</u>	<u>2,153</u>
<b>Corporate borrowers</b> . . . . .		<u>57,682</u>	<u>57,544</u>	<u>9,178</u>
Non-recourse loans . . . . .	The Americas	<u>2,466</u>	<u>2,466</u>	<u>228</u>
Other than Non-recourse loans . . . .	Real estate companies in Japan	<u>3,501</u>	<u>3,486</u>	<u>374</u>
	Real estate companies in overseas	<u>12,491</u>	<u>12,491</u>	<u>486</u>
	Commercial, industrial and other companies in Japan	<u>12,480</u>	<u>12,357</u>	<u>2,371</u>
	Commercial, industrial and other companies in overseas	<u>26,744</u>	<u>26,744</u>	<u>5,719</u>
<b>Purchased loans</b> . . . . .		<u>1,605</u>	<u>1,605</u>	<u>667</u>

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 real estate 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 2018, 2019 and 2020:

		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
	Real estate 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 than Non-recourse loans . . . . .	Real estate companies in Japan	3,549	52	52
	Real estate companies in overseas	2,108	1	—
	Commercial, industrial and other companies in Japan	10,698	136	129
	Commercial, industrial and other companies in overseas	9,124	1	1
<b>Purchased loans</b> . . . . .		6,304	18	3
<b>Total</b> . . . . .		<u>¥ 54,764</u>	<u>¥ 624</u>	<u>¥ 499</u>
		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
	Real estate 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 than Non-recourse loans . . . . .	Real estate companies in Japan	1,606	38	38
	Real estate companies in overseas	876	0	0
	Commercial, industrial and other companies in Japan	5,943	106	95
	Commercial, industrial and other companies in overseas	13,858	138	136
<b>Purchased loans</b> . . . . .		4,678	88	87
<b>Total</b> . . . . .		<u>¥ 50,660</u>	<u>¥ 769</u>	<u>¥ 719</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

		March 31, 2020		
		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> . . . . .		¥ 24,721	¥ 446	¥ 403
	Real estate loans	5,077	141	137
	Card loans	3,926	57	50
	Other	15,718	248	216
<b>Corporate borrowers</b> . . . . .		37,103	121	119
Non-recourse loans . . . . .	Japan	137	2	2
	The Americas	2,954	0	0
Other than Non-recourse loans . . . . .	Real estate companies in Japan	1,621	30	30
	Real estate companies in overseas	5,785	0	0
	Commercial, industrial and other companies in Japan	6,754	76	75
	Commercial, industrial and other companies in overseas	19,852	13	12
<b>Purchased loans</b> . . . . .		3,108	139	139
<b>Total</b> . . . . .		¥ 64,932	¥ 706	¥ 661

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, 2019 and 2020:

		March 31, 2019				
		Millions of yen				
		Non-performing			Subtotal	Total
Portfolio segment	Class	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
	Real estate 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 than Non-recourse loans . . . . .	Real estate companies in Japan	287,311	1,540	0	1,540	288,851
	Real estate companies in overseas	65,358	840	0	840	66,198
	Commercial, industrial and other companies in Japan	259,572	7,104	0	7,104	266,676
	Commercial, industrial and other companies in overseas	562,200	17,968	0	17,968	580,168
<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> . . . . .		¥4,292,945	¥58,827	¥27,219	¥86,046	¥4,378,991

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2020

Portfolio segment	Class	Millions of yen				
		Performing	Non-performing		Subtotal	Total
			Loans individually evaluated for impairment	90+ days past-due loans not individually evaluated for impairment		
<b>Consumer borrowers</b> . . . . .		¥2,134,342	¥26,533	¥10,264	¥ 36,797	¥2,171,139
	Real estate loans	1,877,227	5,762	1,370	7,132	1,884,359
	Card loans	218,011	3,932	1,708	5,640	223,651
	Other	39,104	16,839	7,186	24,025	63,129
<b>Corporate borrowers</b> . . . . .		1,371,253	57,682	0	57,682	1,428,935
Non-recourse loans . . . . .	Japan	48,566	0	0	0	48,566
	The Americas	81,049	2,466	0	2,466	83,515
Other than Non-recourse loans . . . . .	Real estate companies in Japan	297,483	3,501	0	3,501	300,984
	Real estate companies in overseas	119,403	12,491	0	12,491	131,894
	Commercial, industrial and other companies in Japan	242,831	12,480	0	12,480	255,311
	Commercial, industrial and other companies in overseas	581,921	26,744	0	26,744	608,665
<b>Purchased loans</b> . . . . .		11,613	1,605	0	1,605	13,218
<b>Net investment in leases</b> . . . . .		1,065,618	0	15,346	15,346	1,080,964
	Japan	741,636	0	5,971	5,971	747,607
	Overseas	323,982	0	9,375	9,375	333,357
<b>Total</b> . . . . .		<u>¥4,582,826</u>	<u>¥85,820</u>	<u>¥25,610</u>	<u>¥111,430</u>	<u>¥4,694,256</u>

Notes 1: Loans held for sale are not included in the table above.

2: New Lease Standard has been adopted since April 1, 2019, and the amounts of investment in direct financing leases have been reclassified to net investment in leases.

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 real estate loans, card loans and other, which are not restructured and net investment in 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, 2019 and 2020:

		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
	Real estate 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 than Non-recourse loans					
	Real estate companies in Japan	0	552	552	288,851	552
	Real estate companies in overseas	2	0	2	66,198	840
	Commercial, industrial and other companies in Japan	78	4,656	4,734	266,676	4,656
	Commercial, industrial and other companies in overseas	1,955	6,088	8,043	580,168	18,113
<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>

		March 31, 2020				
		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>		¥ 6,604	¥13,607	¥20,211	¥2,171,139	¥13,607
	Real estate loans	1,863	2,469	4,332	1,884,359	2,469
	Card loans	595	2,114	2,709	223,651	2,114
	Other	4,146	9,024	13,170	63,129	9,024
<b>Corporate borrowers</b>		3,365	26,999	30,364	1,428,935	44,622
	Non-recourse loans					
	Japan	0	0	0	48,566	0
	The Americas	0	2,466	2,466	83,515	2,466
	Other than Non-recourse loans					
	Real estate companies in Japan	0	586	586	300,984	586
	Real estate companies in overseas	1	12,386	12,387	131,894	12,491
	Commercial, industrial and other companies in Japan	226	2,409	2,635	255,311	2,409
	Commercial, industrial and other companies in overseas	3,138	9,152	12,290	608,665	26,670
<b>Net investment in leases</b>		13,702	15,346	29,048	1,080,964	15,346
	Japan	2,755	5,971	8,726	747,607	5,971
	Overseas	10,947	9,375	20,322	333,357	9,375
<b>Total</b>		<u>¥23,671</u>	<u>¥55,952</u>	<u>¥79,623</u>	<u>¥4,681,038</u>	<u>¥73,575</u>

Notes 1: Loans held for sale are not included in the table above.

2: New Lease Standard has been adopted since April 1, 2019, and the amounts of investment in direct financing leases have been reclassified to net investment in leases.

**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 net investment in 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 2018, 2019 and 2020:

		<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
	Real estate 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 .....	The Americas	3,460	3,460
Other than Non-recourse loans ...	Commercial, industrial and other companies in Japan	111	—
Other than Non-recourse loans ...	Commercial, industrial and other companies in overseas	4,412	4,412
<b>Total</b> .....		<u>¥17,615</u>	<u>¥14,887</u>
		<b>March 31, 2019</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> .....		¥13,280	¥ 9,294
	Real estate loans	222	105
	Card loans	2,106	1,393
	Other	10,952	7,796
<b>Corporate borrowers</b> .....		6,002	6,001
Other than Non-recourse loans ...	Commercial, industrial and other companies in overseas	6,002	6,001
<b>Total</b> .....		<u>¥19,282</u>	<u>¥15,295</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

		March 31, 2020	
		Millions of yen	
Portfolio segment	Class	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
<b>Consumer borrowers</b> .....		¥12,041	¥ 9,025
	Real estate loans	19	17
	Card loans	1,899	1,396
	Other	10,123	7,612
<b>Corporate borrowers</b> .....		4,785	4,779
Non-recourse loans .....	The Americas	751	751
Other than Non-recourse loans .....	Commercial, industrial and other companies in overseas	4,034	4,028
<b>Total</b> .....		<u>¥16,826</u>	<u>¥13,804</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.

As of March 31, 2020, due to the spread of the COVID-19, although the Company and its subsidiaries accepted payment deferral requests other than the above mentioned troubled debt restructuring, those financing receivables are not included in the above mentioned troubled debt restructuring as the Company and its subsidiaries determined those receivables based on the definition of troubled debt restructuring.

**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 than Non-recourse loans .....	Commercial, industrial other companies in overseas	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 following table provides information about financing receivables modified as troubled debt restructurings within the previous 12 months from March 31, 2020 and for which there was a payment default during fiscal 2020:

<u>Portfolio segment</u>	<u>March 31, 2020</u>	
	<u>Class</u>	<u>Millions of yen Recorded investment</u>
<b>Consumer borrowers</b> .....		¥1,687
	Card loans	22
	Other	1,665
<b>Consumer borrowers</b>		25
Other than Non-recourse loans .....	Commercial, industrial and other companies in overseas	25
<b>Total</b> .....		<u>¥1,712</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.

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

**ORIX Corporation and Subsidiaries**

As of March 31, 2019 and 2020, 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 ¥251 million and ¥109 million as of March 31, 2019 and 2020, respectively.

**12. Investment in Securities**

Investment in securities as of March 31, 2019 and 2020 consists of the following:

	Millions of yen	
	2019	2020
Equity securities* .....	¥ 549,047	¥ 492,902
Trading debt securities .....	1,564	7,431
Available-for-sale debt securities .....	1,264,244	1,631,185
Held-to-maturity debt securities .....	114,061	113,805
Total .....	¥1,928,916	¥2,245,323

\* The amount of assets under management of variable annuity and variable life insurance contracts included in equity securities were ¥324,220 million and ¥254,853 million as of March 31, 2019 and 2020, respectively. The amount of investment funds that are accounted for under the equity method included in equity securities were ¥75,923 million and ¥70,129 million as of March 31, 2019 and 2020, respectively. The amount of investment funds elected for the fair value option included in equity securities were ¥5,811 million and ¥6,326 million as of March 31, 2019 and 2020, respectively.

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 25 “Gains on Investment Securities and Dividends” and Note 26 “Life Insurance Operations.” Net unrealized holding gains (losses) on equity securities held as of March 31, 2019 and 2020 were losses of ¥56 million and ¥19,910 million for fiscal 2019 and 2020, respectively, which did not include net unrealized holding gains (losses) on the both investment funds above mentioned.

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

**ORIX Corporation and Subsidiaries**

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 tables provide information about impairment and upward or downward adjustments resulting from observable price changes as of March 31, 2019 and 2020 and for fiscal 2019 and 2020.

	Millions of yen				
	March 31, 2019			2019	
	Carrying value	Accumulated impairments and downward adjustments	Accumulated upward adjustments	Impairments and downward adjustments	Upward adjustments
Equity securities measured using the measurement alternative . . . . .	¥35,431	¥ (1,688)	¥ 18	¥ (159)	¥18

	Millions of yen				
	March 31, 2020			2020	
	Carrying value	Accumulated impairments and downward adjustments	Accumulated upward adjustments	Impairments and downward adjustments	Upward adjustments
Equity securities measured using the measurement alternative . . . . .	¥35,968	¥(13,428)	¥112	¥(11,971)	¥94

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 25 “Gains on Investment Securities and Dividends” and Note 26 “Life Insurance Operations.” Net unrealized holding gains (losses) on trading securities held as of March 31, 2018 were gains of ¥14,497 million for fiscal 2018.

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 and 2020 were gains of ¥156 million and ¥491 million for fiscal 2019 and 2020, respectively.

During fiscal 2018, the Company and its subsidiaries sold available-for-sale securities for aggregate proceeds of ¥456,270 million, resulting in gross realized gains of ¥31,312 million and gross realized losses of ¥596 million. During fiscal 2019 and 2020, the Company and its subsidiaries sold available-for-sale debt securities for aggregate proceeds of ¥221,824 million and ¥249,427 million, respectively, resulting in gross realized gains of ¥5,134 million and ¥9,274 million, respectively, and gross realized losses of ¥101 million and ¥264 million, respectively. The cost of the available-for-sale securities or 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 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 and 2020, these investments were fair valued at ¥5,811 million and ¥6,326 million, respectively.

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

**ORIX Corporation and Subsidiaries**

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 and 2020, these investments were fair valued at ¥420 million and ¥780 million, respectively.

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 and 2020, these investments were fair valued at ¥21,136 million and ¥18,189 million, respectively.

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 and 2020 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>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2020

	Millions of yen			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale debt securities:				
Japanese and foreign government bond securities . . . . .	¥ 640,197	¥21,063	¥ (7,315)	¥ 653,945
Japanese prefectural and foreign municipal bond securities . . . . .	251,738	2,031	(3,414)	250,355
Corporate debt securities . . . . .	595,625	8,727	(7,875)	596,477
CMBS and RMBS in the Americas . . . . .	56,957	929	(9,214)	48,672
Other asset-backed securities and debt securities . . . . .	92,363	3,267	(13,894)	81,736
	<u>1,636,880</u>	<u>36,017</u>	<u>(41,712)</u>	<u>1,631,185</u>
Held-to-maturity debt securities:				
Japanese government bond securities and other . . . . .	113,805	29,384	0	143,189
	<u>¥1,750,685</u>	<u>¥65,401</u>	<u>¥(41,712)</u>	<u>¥1,774,374</u>

The following tables provide 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 and 2020:

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>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2020

	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 . . . . .	¥116,967	¥ (2,881)	¥165,642	¥ (4,434)	¥282,609	¥ (7,315)
Japanese prefectural and foreign municipal bond securities . . . . .	143,563	(3,413)	219	(1)	143,782	(3,414)
Corporate debt securities . . . . .	260,738	(4,643)	22,631	(3,232)	283,369	(7,875)
CMBS and RMBS in the Americas . . . . .	30,830	(7,486)	5,768	(1,728)	36,598	(9,214)
Other asset-backed securities and debt securities . . . . .	26,612	(3,759)	22,727	(10,135)	49,339	(13,894)
	<u>¥578,710</u>	<u>¥(22,182)</u>	<u>¥216,987</u>	<u>¥(19,530)</u>	<u>¥795,697</u>	<u>¥(41,712)</u>

The number of investment securities that were in an unrealized loss position as of March 31, 2019 and 2020 were 199 and 678, respectively. The gross unrealized losses on these debt 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.

The unrealized loss associated with debt securities are primarily due to changes in the market interest rates, currency exchange rates 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, 2020.

The other-than-temporary impairment losses recognized in other comprehensive income (loss) and earnings for fiscal 2018, 2019 and 2020 are as follows:

	Millions of yen		
	2018	2019	2020
Total other-than-temporary impairment losses . . . . .	¥1,246	¥1,359	¥0
Portion of loss recognized in other comprehensive income (before taxes) . . . . .	0	(136)	0
Net impairment losses recognized in earnings . . . . .	<u>¥1,246</u>	<u>¥1,223</u>	<u>¥0</u>

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

**ORIX Corporation and Subsidiaries**

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.

For debt securities held as of March 31, 2018, 2019, and 2020, roll-forwards of the amount of accumulated other-than-temporary impairments related to credit losses for fiscal 2018, 2019 and 2020 are as follows. The amount mainly consists of CMBS and RMBS in the Americas and foreign municipal bond securities:

	Millions of yen		
	2018	2019	2020
Beginning .....	¥1,220	¥1,021	¥2,102
Addition during the period:			
Credit loss for which an other-than-temporary impairment was not previously recognized .....	0	1,103	0
Reduction during the period:			
For securities sold or redeemed .....	0	(22)	0
Due to change in intent to sell or requirement to sell .....	(199)	0	0
Ending .....	<u>¥1,021</u>	<u>¥2,102</u>	<u>¥2,102</u>

In addition, the non-credit loss component on the other-than-temporary impaired debt securities above mentioned is recognized in other comprehensive income (loss), net of applicable income taxes. 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. Unrealized gains and unrealized losses recorded in accumulated other comprehensive income (loss) on these debt securities as of March 31, 2019 and 2020 were not material.

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, 2020:

**Available-for-sale debt securities held as of March 31, 2020**

	Millions of yen	
	Amortized cost	Fair value
Due within one year .....	¥ 40,477	¥ 39,425
Due after one to five years .....	290,323	284,489
Due after five to ten years .....	540,516	529,643
Due after ten years .....	765,564	777,628
	<u>¥1,636,880</u>	<u>¥1,631,185</u>

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

**ORIX Corporation and Subsidiaries**

**Held-to-maturity debt securities held as of March 31, 2020**

	Millions of yen	
	Amortized cost	Fair value
Due after five to ten years . . . . .	¥ 7,021	¥ 8,343
Due after ten years . . . . .	106,784	134,846
	¥113,805	¥143,189

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 ¥15,756 million, ¥14,745 million and ¥13,657 million for fiscal 2018, 2019 and 2020, respectively.

**13. Transfer of Financial Assets**

The Company and its subsidiaries have securitized and transferred financial assets such as installment loans (commercial mortgage loans, real estate loans for consumer 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.

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 2018, 2019 and 2020, the amount of installment loans that has been derecognized due to new securitization and transfer of loans were ¥394,688 million, ¥475,904 million and ¥643,422 million, respectively.

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

**ORIX Corporation and Subsidiaries**

For fiscal 2018, 2019 and 2020, gains (losses) from the securitization and transfer of loans were ¥12,702 million, ¥16,342 million and ¥20,635 million, respectively, which is included in finance revenues in the consolidated statements of income.

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 2019 and 2020 are as follows:

	Millions of yen	
	2019	2020
Beginning balance . . . . .	¥28,756	¥31,572
Increase mainly from loans sold with servicing retained* . . . . .	6,275	33,061
Decrease mainly from amortization . . . . .	(4,728)	(6,229)
Increase (Decrease) from the effects of changes in foreign exchange rates . . . . .	1,269	(699)
Ending balance . . . . .	¥31,572	¥57,705

\* Increase mainly from loans sold with servicing retained includes increases in connection with acquisitions of subsidiaries.

The fair value of the servicing assets as of March 31, 2019 and 2020 are as follows:

	Millions of yen	
	March 31, 2019	March 31, 2020
Beginning balance . . . . .	¥35,681	¥39,846
Ending balance . . . . .	¥39,846	¥60,419

**14. 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
- 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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, 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 finance 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>

**March 31, 2020**

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 . . . . .	2,546	2	0	0
(c) VIEs for acquisition of real estate for the Company and its subsidiaries' real estate-related business . . . . .	80,385	17,941	21,970	5,153
(d) VIEs for corporate rehabilitation support business . . . . .	465	9	0	0
(e) VIEs for investment in securities . . . . .	82,098	28	0	0
(f) VIEs for securitizing financial assets such as finance lease receivable and loan receivable . . . . .	267,548	159,181	267,548	0
(g) VIEs for securitization of loan receivable originated by third parties . . . . .	2,358	3,037	2,358	0
(h) VIEs for power generation projects . . . . .	393,797	284,772	355,107	40,111
(i) Other VIEs . . . . .	163,948	66,411	141,988	0
Total . . . . .	<u>¥993,145</u>	<u>¥531,381</u>	<u>¥788,971</u>	<u>¥45,264</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, 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 finance 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>

**March 31, 2020**

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 . . . . .	¥ 8,508	¥ 0	¥ 991	¥ 991
(b) VIEs for acquisition of real estate and real estate development projects for customers . . . . .	51,746	0	4,542	4,542
(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 . . . . .	3,820,403	0	55,645	72,527
(f) VIEs for securitizing financial assets such as finance lease receivable and loan receivable . . . . .	0	0	0	0
(g) VIEs for securitization of loan receivable originated by third parties . . . . .	1,239,325	0	15,663	15,668
(h) VIEs for power generation projects . . . . .	25,037	0	1,719	1,719
(i) Other VIEs . . . . .	200,325	2,837	10,523	13,476
Total . . . . .	<u>¥5,345,344</u>	<u>¥2,837</u>	<u>¥89,083</u>	<u>¥108,923</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 cash and cash equivalents and 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 and other liabilities. The Company and certain subsidiaries have commitment agreements by which the Company and the subsidiaries may be required to make additional investment or execute loans in certain such consolidated VIEs.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

#### **(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 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 have the majority of the investment share of them, and have 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 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 finance lease receivable and loan receivable**

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

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

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

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

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

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

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

The Company and its subsidiaries may use VIEs in power generation projects. VIEs receive the funds from the Company and its subsidiaries, construct solar power stations, thermal power stations and wind 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 trade notes, accounts and other payable, long-term debt, and other liabilities. The Company and certain subsidiaries have commitment agreements by which the Company and the subsidiaries 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

non-recourse loan from one or more financial institutions. The kumiai investors (and any lenders to the kumiai structure) retain all of the economic risks and rewards in connection with purchasing and leasing activities of the kumiai structure, and all related gains or losses are recorded on the financial statements of the investors in the kumiai. The Company and its subsidiaries are responsible for the arrangement and marketing of these products and may act as servicer or administrator in kumiai transactions. The fee income for the arrangement and administration of these transactions is recognized in the Company's consolidated statements of income. In some cases, the Company and its subsidiaries make investments in the kumiai or its related SPE, and these VIEs are consolidated because the Company and its subsidiaries have a responsibility to absorb any significant potential loss through the investments and have the power to direct the activities that most significantly impact their economic performance. In other cases, the Company and its subsidiaries are not considered to be the primary beneficiary of the VIEs or kumiais because the Company and its subsidiaries did not make significant investments or guarantee or otherwise undertake any significant financial commitments or exposure with respect to the kumiai or its related SPE.

The Company may use VIEs 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 and other liabilities.

With respect to variable interests of 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 and investment in affiliates 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.

#### 15. Investment in Affiliates

Investment in affiliates at March 31, 2019 and 2020 consists of the following:

	Millions of yen	
	2019	2020
Shares .....	¥789,638	¥770,750
Loans and others .....	53,122	50,912
	<u>¥842,760</u>	<u>¥821,662</u>

Certain affiliates are listed on stock exchanges. The aggregate investment in and quoted market value of those affiliates amounted to ¥168,569 million and ¥188,456 million, respectively, as of March 31, 2019 and ¥153,868 million and ¥166,296 million, respectively, as of March 31, 2020.

In fiscal 2018, 2019 and 2020, the Company and its subsidiaries received dividends from affiliates of ¥47,688 million, ¥17,334 million and ¥38,372 million, respectively.

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

**ORIX Corporation and Subsidiaries**

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 ¥87,424 million and ¥81,182 million as of March 31, 2019 and 2020, respectively. The differences mainly consist of goodwill and fair value adjustments for fixed assets.

A company comprising a significant portion of investment in affiliates was Avolon Holdings Limited (30% of equity share) as of March 31, 2019. Companies comprising a significant portion of investment in affiliates were Avolon Holdings Limited (30% of equity share) and Kansai Airports (40% of equity share) as of March 31, 2020.

Combined and condensed information relating to the affiliates for fiscal 2018, 2019 and 2020 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		
	2018	2019	2020
Operations:			
Total revenues .....	¥1,871,156	¥ 1,606,565	¥ 1,674,184
Income before income taxes .....	245,408	187,203	206,637
Net income .....	210,443	114,271	140,540
Financial position:			
Total assets .....	¥9,391,445	¥11,473,689	¥12,499,794
Total liabilities .....	6,717,326	7,542,997	8,428,007
Total equity .....	2,674,119	3,930,692	4,071,787

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

16. Goodwill and Other Intangible Assets

Changes in goodwill by reportable segment for fiscal 2018, 2019 and 2020 are as follows:

	Millions of yen						
	Corporate Financial Services	Maintenance Leasing	Real Estate	Investment and Operation	Retail	Overseas Business	Total
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)
	55,366	9,270	16,383	89,178	15,424	245,058	430,679
Acquired . . . . .	1,299	0	0	26,705	672	17,846	46,522
Impairment . . . . .	0	0	0	0	0	0	0
Other (net)* . . . . .	0	0	(111)	(22,172)	0	(11,100)	(33,383)
Balance at March 31, 2020							
Goodwill . . . . .	57,502	9,270	16,272	93,750	16,096	255,176	448,066
Accumulated impairment losses . . . . .	(837)	0	0	(39)	0	(3,372)	(4,248)
	¥56,665	¥9,270	¥16,272	¥ 93,711	¥16,096	¥251,804	¥443,818

Note: The Company changed the segment classification of DAIKYO from Investment and Operation segment to Real Estate segment from 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.

The Company and its subsidiaries recognized no impairment loss on goodwill during fiscal 2018, 2019 and 2020.

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

**ORIX Corporation and Subsidiaries**

Other intangible assets at March 31, 2019 and 2020 consist of the following:

	Millions of yen	
	2019	2020
Indefinite-lived intangible assets:		
Trade names	¥ 78,252	¥ 69,321
Asset management contracts	146,981	141,069
Others	3,847	4,192
	229,080	214,582
Intangible assets subject to amortization:		
Software	111,767	119,666
Customer relationships	130,971	137,923
Others	92,306	88,189
	335,044	345,778
Accumulated amortization	(137,026)	(155,868)
Net	198,018	189,910
	¥ 427,098	¥ 404,492

The aggregate amortization expenses for intangible assets are ¥30,959 million, ¥31,752 million and ¥32,189 million in fiscal 2018, 2019 and 2020, respectively.

The estimated amortization expenses for each of five succeeding fiscal years are ¥29,076 million in fiscal 2021, ¥26,273 million in fiscal 2022, ¥21,713 million in fiscal 2023, ¥18,004 million in fiscal 2024 and ¥14,924 million in fiscal 2025, respectively.

Intangible assets subject to amortization increased during fiscal 2020 are ¥47,909 million. They mainly consist of ¥16,603 million of software and ¥15,179 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 17 years, respectively.

As a result of the impairment test, 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. The Company and its subsidiaries recognized an impairment loss of ¥329 million on intangible assets included in Corporate Financial Services segment during fiscal 2020. These impairment losses for fiscal 2018 and 2019 are included in other (income) and expense in the consolidated statements of income, and the impairment loss for fiscal 2020 is included in selling, general and administrative expenses 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**

**17. 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, 2019 and 2020 are as follows:

**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

**March 31, 2020**

	<u>Millions of yen</u>	<u>Weighted average rate</u>
Short-term debt in Japan, mainly from banks . . . . .	¥131,822	1.0%
Short-term debt outside Japan, mainly from banks . . . . .	187,300	2.2
Commercial paper in Japan . . . . .	12,998	0.1
Commercial paper outside Japan . . . . .	4,712	2.6
	<u>¥336,832</u>	1.7

The composition of long-term debt, the weighted average contract interest rate on long-term debt and the repayment due dates at March 31, 2019 and 2020 are as follows:

**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

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

**ORIX Corporation and Subsidiaries**

**March 31, 2020**

	<b>Due (Fiscal Year)</b>	<b>Millions of yen</b>	<b>Weighted average rate</b>
Banks:			
Fixed rate .....	2021~2037	¥ 463,599	1.2%
Floating rate .....	2021~2077	1,957,105	1.5
Insurance companies and others:			
Fixed rate .....	2022~2037	336,821	1.2
Floating rate .....	2021~2077	336,949	1.8
Unsecured bonds .....	2022~2080	845,938	1.7
Unsecured notes under medium-term note program .....	2021~2027	176,802	3.1
Payables under securitized lease receivables .....	2021~2021	4,322	0.2
Payables under securitized loan receivables and investment in securities .....	2022~2039	157,818	2.2
		¥4,279,354	1.6

The repayment schedule for the next five years and thereafter for long-term debt at March 31, 2020 is as follows:

<b>Years ending March 31,</b>	<b>Millions of yen</b>
2021 .....	¥ 658,813
2022 .....	632,540
2023 .....	599,752
2024 .....	438,901
2025 .....	520,526
Thereafter .....	1,428,822
Total .....	¥4,279,354

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), of which ¥60,000 million and ¥34,000 million may be repaid after 5 years, and 7 years respectively.

Unsecured bonds include the amount of ¥100,000 million of unsecured subordinated bonds with interest payment deferrable clauses and optional early redemption conditions (hybrid bonds executed in fiscal 2020, whose maturity date is fiscal 2080), of which ¥60,000 million and ¥40,000 million may be redeemed after 5 years, and 10 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 2018, 2019 and 2020, 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 ¥957 million, ¥1,005 million and ¥989 million, respectively.

Total committed credit lines for the Company and its subsidiaries were ¥497,882 million and ¥569,862 million at March 31, 2019 and 2020, respectively, and, of these lines, ¥346,609 million and ¥427,564 million were available at March 31, 2019 and 2020, respectively. Of the available committed credit lines, ¥303,309 million and ¥293,424 million were long-term committed credit lines at March 31, 2019 and 2020, 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 14 “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, 2020:

	<b>Millions of yen</b>
Lease payments, loans and investment in operating leases . . . . .	¥198,160
Investment in securities . . . . .	167,800
Property under facility operations . . . . .	28,275
Other assets and other . . . . .	26,982
	¥421,217

As of March 31, 2020, debt liabilities was secured by shares of subsidiaries of ¥166,888 million, which were eliminated through consolidation adjustment, and debt liabilities of affiliates were secured by investment in affiliates of ¥60,104 million. As of March 31, 2020, debt liabilities were secured by loans to subsidiaries, which were eliminated through consolidation adjustment, of ¥10,587 million. In addition, ¥69,313 million was pledged primarily by investment in securities for collateral deposits and deposit for real estate transaction as of March 31, 2020.

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, 2020.

**18. Deposits**

Deposits at March 31, 2019 and 2020 consist of the following:

	<b>Millions of yen</b>	
	<b>2019</b>	<b>2020</b>
Time deposits . . . . .	¥1,409,158	¥1,752,755
Other deposits . . . . .	518,583	478,948
Total . . . . .	¥1,927,741	¥2,231,703

The balances of time deposits and certificates of deposit issued in amounts of ¥10 million or more were ¥952,970 million and ¥1,064,398 million at March 31, 2019 and 2020, respectively.

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

**ORIX Corporation and Subsidiaries**

The maturity schedule of time deposits at March 31, 2020 is as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>
2021 .....	¥ 997,891
2022 .....	177,285
2023 .....	229,131
2024 .....	56,387
2025 .....	292,061
Thereafter .....	<u>0</u>
Total .....	<u>¥1,752,755</u>

**19. Income Taxes**

Income before income taxes and the provision for income taxes in fiscal 2018, 2019 and 2020 are as follows:

	<u>Millions of yen</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
Income before income taxes:			
Japan .....	¥296,577	¥254,352	¥223,327
Overseas .....	<u>138,924</u>	<u>141,378</u>	<u>189,234</u>
	<u>¥435,501</u>	<u>¥395,730</u>	<u>¥412,561</u>
Provision for income taxes:			
Current—			
Japan .....	¥ 85,514	¥ 83,995	¥ 55,577
Overseas .....	<u>22,810</u>	<u>19,824</u>	<u>35,370</u>
	<u>108,324</u>	<u>103,819</u>	<u>90,947</u>
Deferred—			
Japan .....	5,960	(51,795)	9,643
Overseas .....	<u>(372)</u>	<u>16,667</u>	<u>5,247</u>
	<u>5,588</u>	<u>(35,128)</u>	<u>14,890</u>
Provision for income taxes .....	<u>¥113,912</u>	<u>¥ 68,691</u>	<u>¥105,837</u>

In fiscal 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 and 2020, 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 2018, 2019 and 2020 are as follows:

	Millions of yen		
	2018	2019	2020
Income before income taxes . . . . .	¥435,501	¥395,730	¥412,561
Tax provision computed at statutory rate . . . . .	¥138,054	¥124,655	¥129,957
Increases (reductions) in taxes due to:			
Change in valuation allowance . . . . .	(6,971)	(329)	2,505
Nondeductible expenses . . . . .	3,000	4,431	4,319
Nontaxable income . . . . .	(4,464)	(15,176)	(3,612)
Effect of lower tax rates on certain subsidiaries . . . . .	(5,713)	(17,950)	(24,862)
Effect of investor taxes on earnings of subsidiaries . . . . .	3,831	(26,756)	3,039
Effect of the tax law and rate changes . . . . .	(16,232)	(1,264)	(6,642)
Other, net . . . . .	2,407	1,080	1,133
Provision for income taxes . . . . .	¥113,912	¥ 68,691	¥105,837

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 tax law changes, including the tax reforms as discussed in the following paragraph.

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 in fiscal 2019.

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

**ORIX Corporation and Subsidiaries**

Total income taxes recognized in fiscal 2018, 2019 and 2020 was allocated as follows:

	Millions of yen		
	2018	2019	2020
Provision for income taxes	¥113,912	¥68,691	¥105,837
Income taxes allocated to other comprehensive income (loss):			
Net change of unrealized gains (losses) on investment in securities	(11,084)	4,013	(7,016)
Net change of debt valuation adjustments	0	90	340
Net change of defined benefit pension plans	(911)	(2,864)	448
Net change of foreign currency translation adjustments	(1,517)	729	10,276
Net change of unrealized gains (losses) on derivative instruments	139	(1,258)	(2,163)
Direct adjustments to shareholders' equity	(2)	0	0
Total income taxes	<u>¥100,537</u>	<u>¥69,401</u>	<u>¥107,722</u>

The tax effects of temporary differences giving rise to the deferred tax assets and liabilities at March 31, 2019 and 2020 are as follows:

	Millions of yen	
	2019	2020
<b>Assets:</b>		
Net operating loss carryforwards	¥ 14,246	¥ 22,471
Allowance for doubtful receivables on finance leases and probable loan losses	16,336	14,557
Investment in securities	5,045	11,305
Accrued expenses	21,498	18,978
Investment in operating leases	13,134	11,654
Property under facility operations	8,642	8,091
Installment loans	4,737	4,353
Unrealized losses on investment in securities	0	4,877
Lease liabilities	0	78,697
Other	58,689	56,169
	<u>142,327</u>	<u>231,152</u>
Less: valuation allowance	(13,156)	(15,369)
	129,171	215,783
<b>Liabilities:</b>		
Investment in direct financing leases	10,819	0
Net investment in Leases	0	8,594
Investment in operating leases	97,653	105,667
Unrealized gains on investment in securities	6,971	4,687
Deferred insurance policy acquisition costs	56,132	62,321
Policy liabilities and policy account balances	38,227	42,949
Property under facility operations	11,594	17,352
Other intangible assets	97,426	97,383
Undistributed earnings	42,329	47,878
Prepaid benefit cost	8,932	8,837
Advances paid	7,681	10,218
Right-of-use assets	0	79,642
Other	31,278	31,318
	<u>409,042</u>	<u>516,846</u>
Net deferred tax liability	<u>¥279,871</u>	<u>¥301,063</u>

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

**ORIX Corporation and Subsidiaries**

Net deferred tax assets and liabilities at March 31, 2019 and 2020 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen	
	2019	2020
Other assets .....	¥ 33,962	¥ 27,084
Income taxes: Deferred .....	313,833	328,147
Net deferred tax liability .....	¥279,871	¥301,063

The valuation allowance is primarily recognized for deferred tax assets of consolidated subsidiaries with tax loss carryforwards. 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, 2020. 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 decreases of ¥28,811 million in fiscal 2018, decreases of ¥1,520 million in fiscal 2019, and increases of ¥2,213 million in fiscal 2020. The decrease in the total valuation allowance recognized in earnings due to the utilization of net operating loss carryforwards were ¥8,303 million in fiscal 2018, ¥2,648 million in fiscal 2019 and ¥890 million in fiscal 2020. 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 ¥2,029 million in fiscal 2018 (increases of ¥2,677 million and decreases of ¥648 million on a gross basis), net increases of ¥728 million in fiscal 2019 (increases of ¥1,044 million and decreases of ¥316 million on a gross basis), and net decreases of ¥576 million in fiscal 2020 (increases of ¥942 million and decreases of ¥1,518 million on a gross basis), respectively.

The Company and certain subsidiaries have net operating loss carryforwards of ¥171,725 million at March 31, 2020, which expire as follows:

Years ending March 31,	Millions of yen
2021 .....	¥ 12,549
2022 .....	5,656
2023 .....	8,847
2024 .....	16,888
2025 .....	10,882
Thereafter .....	90,681
Indefinite period .....	26,222
Total .....	¥171,725

The unrecognized tax benefits as of March 31, 2019 and 2020 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, 2020.

## 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, 2019 and 2020, and in the consolidated statements of income for the fiscal 2018, 2019 and 2020 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 2019, and its major domestic subsidiaries are no longer subject to ordinary tax examination for the tax years prior to fiscal 2016, respectively.

Subsidiaries in the United States remain subject to a tax examination for the tax years after fiscal 2013. Subsidiaries in the Netherlands remain subject to a tax examination for the tax years after fiscal 2014.

#### **20. 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, 2019 and 2020 are as follows:

	Millions of yen			
	Japanese plans		Overseas plans	
	2019	2020	2019	2020
Change in benefit obligation:				
Benefit obligation at beginning of year	¥104,593	¥110,661	¥100,782	¥107,812
Service cost	5,526	5,879	3,186	3,566
Interest cost	721	585	2,002	1,634
Actuarial loss (income)	4,051	(3,935)	8,060	(2,465)
Foreign currency exchange rate change	0	0	(4,392)	(4,172)
Plan participant's contributions	0	0	0	392
Benefits paid	(3,178)	(4,111)	(1,452)	(1,788)
Business combinations	0	1,399	0	0
Divestitures	(684)	0	0	(237)
Plan amendments	(368)	(11)	(374)	(1,126)
Benefit obligation at end of year	<u>110,661</u>	<u>110,467</u>	<u>107,812</u>	<u>103,616</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	121,269	123,628	93,338	96,837
Actual return on plan assets	1,383	(2,790)	7,023	3,114
Employer contribution	3,633	3,821	1,920	2,333
Plan participant's contributions	0	0	0	392
Benefits paid	(2,657)	(3,429)	(1,346)	(1,683)
Business combinations	0	1,550	0	0
Divestitures	0	0	0	(187)
Foreign currency exchange rate change	0	0	(4,098)	(3,812)
Fair value of plan assets at end of year	<u>123,628</u>	<u>122,780</u>	<u>96,837</u>	<u>96,994</u>
The funded status of the plans	<u>¥ 12,967</u>	<u>¥ 12,313</u>	<u>¥(10,975)</u>	<u>¥ (6,622)</u>
Amount recognized in the consolidated balance sheets consists of:				
Prepaid benefit cost included in other assets	¥ 25,590	¥ 24,521	¥ 12	¥ 11
Accrued benefit liability included in other liabilities	<u>(12,623)</u>	<u>(12,208)</u>	<u>(10,987)</u>	<u>(6,633)</u>
Net amount recognized	<u>¥ 12,967</u>	<u>¥ 12,313</u>	<u>¥(10,975)</u>	<u>¥ (6,622)</u>

Amount recognized in accumulated other comprehensive income (loss), pre-tax, at March 31, 2019 and 2020 consisted of:

	Millions of yen			
	Japanese plans		Overseas plans	
	2019	2020	2019	2020
Net prior service credit	¥ 1,364	¥ 545	¥ 594	¥ 1,446
Net actuarial loss	(28,389)	(28,863)	(14,711)	(12,293)
Net transition obligation	0	0	—	0
Total recognized in accumulated other comprehensive loss, pre-tax	<u>¥(27,025)</u>	<u>¥(28,318)</u>	<u>¥(14,117)</u>	<u>¥(10,847)</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 2021 are a gain of ¥158 million and a loss of ¥1,323 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 2021 are a gain of ¥293 million, losses of ¥187 million and ¥1 million, respectively.

The accumulated benefit obligations for all Japanese defined benefit pension plans were ¥97,819 million and ¥98,964 million, respectively, at March 31, 2019 and 2020. The accumulated benefit obligations for all overseas defined benefit pension plans were ¥95,879 million and ¥96,959 million, respectively, at March 31, 2019 and 2020.

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 ¥20,739 million, ¥20,427 million and ¥8,116 million, respectively, at March 31, 2019 and ¥20,337 million, ¥20,095 million and ¥8,129 million, respectively, at March 31, 2020. 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 ¥7,076 million, ¥7,012 million and ¥5,758 million, respectively, at March 31, 2019 and ¥6,553 million, ¥6,498 million and ¥5,355 million, respectively, at March 31, 2020.

Net pension cost of the plans for fiscal 2018, 2019 and 2020 consists of the following:

	Millions of yen		
	2018	2019	2020
Japanese plans:			
Service cost	¥ 5,339	¥ 5,526	¥ 5,879
Interest cost	778	721	585
Expected return on plan assets	(2,627)	(2,723)	(2,806)
Amortization of prior service credit	(912)	(897)	(820)
Amortization of net actuarial loss	856	844	1,156
Amortization of transition obligation	45	—	0
Net periodic pension cost	<u>¥ 3,479</u>	<u>¥ 3,471</u>	<u>¥ 3,994</u>
Overseas plans:			
Service cost	¥ 3,455	¥ 3,186	¥ 3,566
Interest cost	1,994	2,002	1,634
Expected return on plan assets	(4,217)	(4,407)	(4,262)
Amortization of prior service credit	(123)	(174)	(208)
Amortization of net actuarial loss	38	75	739
Amortization of transition obligation	4	7	1
Net periodic pension cost	<u>¥ 1,151</u>	<u>¥ 689</u>	<u>¥ 1,470</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 2018, 2019 and 2020 are summarized as follows:

	Millions of yen		
	2018	2019	2020
<b>Japanese plans:</b>			
Current year actuarial gain (loss) . . . . .	¥(1,005)	¥(5,078)	¥(1,629)
Amortization of net actuarial loss . . . . .	856	844	1,156
Prior service credit due to amendments . . . . .	(5)	20	0
Amortization of prior service credit . . . . .	(912)	(897)	(820)
Amortization of transition obligation . . . . .	45	—	0
Total recognized in other comprehensive income (loss), pre-tax . . . . .	<u>¥(1,021)</u>	<u>¥(5,111)</u>	<u>¥(1,293)</u>
<b>Overseas plans:</b>			
Current year actuarial gain (loss) . . . . .	¥(2,417)	¥(5,553)	¥ 1,117
Amortization of net actuarial loss . . . . .	38	75	739
Prior service credit due to amendments . . . . .	0	50	1,097
Amortization of prior service credit . . . . .	(123)	(174)	(208)
Amortization of transition obligation . . . . .	4	7	1
Foreign currency exchange rate change . . . . .	(354)	496	524
Total recognized in other comprehensive income (loss), pre-tax . . . . .	<u>¥(2,852)</u>	<u>¥(5,099)</u>	<u>¥ 3,270</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>2018</b>	<b>2019</b>	<b>2020</b>
Weighted-average assumptions used to determine benefit obligations at March 31:			
Discount rate . . . . .	0.7%	0.5%	0.6%
Rate of increase in compensation levels . . . . .	4.6%	4.4%	4.0%
Weighted-average assumptions used to determine net periodic pension cost for years ended March 31:			
Discount rate . . . . .	0.8%	0.7%	0.5%
Rate of increase in compensation levels . . . . .	4.5%	4.6%	4.4%
Expected long-term rate of return on plan assets . . . . .	2.2%	2.2%	2.2%
<b>Overseas plans</b>			
Weighted-average assumptions used to determine benefit obligations at March 31:			
Discount rate . . . . .	2.0%	1.7%	1.7%
Rate of increase in compensation levels . . . . .	2.4%	2.4%	2.2%
Weighted-average assumptions used to determine net periodic pension cost for years ended March 31:			
Discount rate . . . . .	2.1%	2.0%	1.7%
Rate of increase in compensation levels . . . . .	2.4%	2.4%	2.4%
Expected long-term rate of return on plan assets . . . . .	4.9%	4.7%	3.7%

**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, 2019 and 2020, by asset category, are as follows. The three levels of input used to measure fair value are described in Note 2 "Fair Value Measurements."

	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.

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

**ORIX Corporation and Subsidiaries**

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.

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, 2020			
	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	¥ 14,434	¥0	¥ 0	¥0
Other than Japan				
Pooled funds*2	15,207	0	0	0
Debt securities:			0	
Japan			0	
Pooled funds*3	26,133	0	0	0
Other than Japan			0	
Pooled funds*4	33,930	0	0	0
Other assets:				
Life insurance company general accounts*5	28,591	0	28,591	0
Others*6	4,485	0	4,485	0
	<u>¥122,780</u>	<u>¥0</u>	<u>¥33,076</u>	<u>¥0</u>

\*1 These funds invest in listed shares including shares of ORIX Corporation in the amounts of ¥17 million at March 31, 2020.

\*2 These funds invest in listed shares.

\*3 These funds invest approximately 70% in Japanese government bonds, approximately 10% in Japanese municipal bonds, and approximately 20% in Japanese corporate bonds. These funds include corporate bonds of ORIX Corporation in the amounts of ¥1,192 million at March 31, 2020.

\*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, 2020, our policy for the portfolio of plans consists of three major components: approximately 20% is invested in equity securities, approximately 50% is invested in debt securities and approximately 30% 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, 2019 and 2020, by asset category, are as follows. The three levels of input used to measure fair value are described in Note 2 “Fair Value Measurements.”

	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.

**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, 2020			
	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 .....	¥36,848	¥36,848	¥ 0	¥0
Pooled funds*1 .....	311	0	0	0
Debt securities:				
Other than Japan				
Government bonds .....	50,622	50,622	0	0
Municipal bonds .....	4,849	0	4,849	0
Other assets:				
Life insurance company general accounts*2 .....	355	0	355	0
Others*3 .....	4,009	0	4,009	0
	<u>¥96,994</u>	<u>¥87,470</u>	<u>¥9,213</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, 2020, 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 ¥3,792 million to its Japanese pension plans and ¥2,195 million to its overseas pension plans during the year ending March 31, 2021.

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

**ORIX Corporation and Subsidiaries**

At March 31, 2020, 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>
2021 .....	¥ 3,057	¥ 1,483
2022 .....	2,910	1,541
2023 .....	3,037	1,558
2024 .....	3,263	1,685
2025 .....	3,434	1,748
2026-2030 .....	19,887	10,846
Total .....	<u>¥35,588</u>	<u>¥18,861</u>

The cost recognized for Japanese defined contribution pension plans of the Company and certain of its subsidiaries for fiscal 2018, 2019 and 2020 were ¥1,626 million, ¥1,728 million and ¥1,779 million, respectively. The cost recognized for overseas defined contribution pension plans of the Company and certain of its subsidiaries for fiscal 2018, 2019 and 2020 were ¥2,354 million, ¥2,504 million and ¥2,320 million, respectively.

**21. Redeemable Noncontrolling Interests**

Changes in redeemable noncontrolling interests in fiscal 2018, 2019 and 2020 are as follows:

	<u>Millions of yen</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
Beginning Balance .....	¥ 6,548	¥7,420	¥ 9,780
Adjustment of redeemable noncontrolling interests to redemption value .....	1,876	2,131	0
Transaction with noncontrolling interests .....	0	0	653
Comprehensive income			
Net Income .....	452	404	384
Other comprehensive income (loss)			
Net change of foreign currency translation adjustments .....	(416)	326	(197)
Total other comprehensive income (loss) .....	(416)	326	(197)
Comprehensive income .....	36	730	187
Dividends .....	(1,040)	(501)	(289)
Ending Balance .....	<u>¥ 7,420</u>	<u>¥9,780</u>	<u>¥10,331</u>

**22. 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 2010, the Company has not granted stock options, and there are no outstanding stock options and exercisable stock options as of March 31, 2019 and 2020.

In fiscal 2018, 2019 and 2020, the Company did not recognize any stock-based compensation costs of its stock-option program. As of March 31, 2020, the Company had no unrecognized compensation costs.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

The Company received ¥656 million and ¥225 million in cash from the exercise of stock options during fiscal 2018 and 2019, respectively.

The total intrinsic value of options exercised during fiscal 2018 and 2019 was ¥118 million and ¥25 million, respectively.

There are no stock options exercised during fiscal 2020.

#### **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 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 2020, the Company granted 320,250 points, and 446,805 points were settled for individuals who retired during fiscal 2020. Total points outstanding under the stock compensation program as of March 31, 2020 were 1,389,603 points. The points were adjusted for the 10-for-1 stock split implemented on April 1, 2013.

During fiscal 2018, 2019 and 2020, the Company recognized stock-based compensation costs of its stock compensation program in the amount of ¥701 million, ¥413 million and ¥417 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

23. Accumulated Other Comprehensive Income (Loss)

Changes in each component of accumulated other comprehensive income (loss) attributable to ORIX Corporation Shareholders in fiscal 2018, 2019 and 2020 are as follows:

	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, 2017	¥ 32,279	¥ 0	¥(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)	0	(2,962)	(1,955)	779	(26,972)
Transaction with noncontrolling interests	0	0	0	(1)	0	(1)
Less: Other Comprehensive Income (Loss) Attributable to the Noncontrolling Interest	(88)	0	22	(1,537)	34	(1,569)
Less: Other Comprehensive Income (Loss) Attributable to the Redeemable Noncontrolling Interests	0	0	0	(416)	0	(416)
Reclassification of change in accounting standards	932	0	(173)	(67)	0	692
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**

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, 2019 .....	¥ 17,389	¥ 582	¥(27,902)	¥(43,558)	¥ (7,854)	¥ (61,343)
Net unrealized gains (losses) on investment in securities, net of tax of						
¥5,078 million .....	(17,637)					(17,637)
Reclassification adjustment included in net income, net of tax of						
¥1,938 million .....	(4,819)					(4,819)
Debt valuation adjustments, net of tax of						
¥(357) million .....		920				920
Reclassification adjustment included in net income, net of tax of						
¥17 million .....		(45)				(45)
Defined benefit pension plans, net of tax of						
¥(223) million .....			886			886
Reclassification adjustment included in net income, net of tax of						
¥(225) million .....			643			643
Foreign currency translation adjustments, net of tax of ¥(6,212) million .....				(40,605)		(40,605)
Reclassification adjustment included in net income, net of tax of ¥(4,064) million .....				8,941		8,941
Net unrealized gains (losses) on derivative instruments, net of tax of						
¥1,511 million .....					(6,385)	(6,385)
Reclassification adjustment included in net income, net of tax of						
¥652 million .....					(2,171)	(2,171)
Total other comprehensive income (loss) ..	<u>(22,456)</u>	<u>875</u>	<u>1,529</u>	<u>(31,664)</u>	<u>(8,556)</u>	<u>(60,272)</u>
Transaction with noncontrolling interests .....	<u>0</u>	<u>0</u>	<u>0</u>	<u>4</u>	<u>(2)</u>	<u>2</u>
Less: Other Comprehensive Income (Loss) Attributable to the Noncontrolling Interests .....	<u>(66)</u>	<u>0</u>	<u>2</u>	<u>(2,550)</u>	<u>(270)</u>	<u>(2,884)</u>
Less: Other Comprehensive Income (Loss) Attributable to the Redeemable Noncontrolling Interests .....	<u>0</u>	<u>0</u>	<u>0</u>	<u>(197)</u>	<u>0</u>	<u>(197)</u>
Balance at March 31, 2020 .....	<u>¥ (5,001)</u>	<u>¥1,457</u>	<u>¥(26,375)</u>	<u>¥(72,471)</u>	<u>¥(16,142)</u>	<u>¥(118,532)</u>

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

**ORIX Corporation and Subsidiaries**

Amounts reclassified to net income from accumulated other comprehensive income (loss) for fiscal 2018, 2019 and 2020 are as follows:

<b>Details about accumulated other comprehensive income components</b>	<b>March 31, 2018</b>	
	<b>Reclassification adjustment included in net income</b>	<b>Consolidated statements of income caption</b>
	<b>Millions of yen</b>	
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 . . . . .	<u>(682)</u>	Write-downs of securities and other
	29,465	Total before income tax
	<u>(9,039)</u>	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 20 “Pension Plans”
Amortization of net actuarial loss . . . . .	(894)	See Note 20 “Pension Plans”
Amortization of transition obligation . . . . .	<u>(49)</u>	See Note 20 “Pension Plans”
	92	Total before income tax
	<u>(23)</u>	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
	<u>(728)</u>	Total before income tax
	<u>1,296</u>	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
Foreign currency swap agreements . . . . .	3,910	Finance revenues/Interest expense/Other (income) and expense
	<u>4,022</u>	Total before income tax
	<u>(981)</u>	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
	¥ 1,954	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
	¥ 27	Net of tax
Defined benefit pension plans		
Amortization of prior service credit . . . . .	¥ 1,071	See Note 20 “Pension Plans”
Amortization of net actuarial loss . . . . .	(919)	See Note 20 “Pension Plans”
Amortization of transition obligation . . . . .	(7)	See Note 20 “Pension Plans”
	145	Total before income tax
	(43)	Income tax (expense) or benefit
	¥ 102	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
	¥ (3)	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
Foreign currency swap agreements . . . . .	(639)	Finance revenues/Interest expense/Other (income) and expense
	(638)	Total before income tax
	135	Income tax (expense) or benefit
	¥ (503)	Net of tax

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2020

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 . . . . .	¥ 2,366	Gains on investment securities and dividends
Sales of debt securities . . . . .	6,710	Life insurance premiums and related investment income
Amortization of debt securities . . . . .	(1,425)	Finance revenues
Amortization of debt securities . . . . .	(894)	Life insurance premiums and related investment income
	6,757	Total before income tax
	(1,938)	Income tax (expense) or benefit
	¥ 4,819	Net of tax
Debt valuation adjustments		
Fulfillment of policy liabilities and amortization of policy account balances . . . . .	¥ 62	Life insurance costs
	62	Total before income tax
	(17)	Income tax (expense) or benefit
	¥ 45	Net of tax
Defined benefit pension plans		
Amortization of prior service credit . . . . .	¥ 1,028	See Note 20 “Pension Plans”
Amortization of net actuarial loss . . . . .	(1,895)	See Note 20 “Pension Plans”
Amortization of transition obligation . . . . .	(1)	See Note 20 “Pension Plans”
	(868)	Total before income tax
	225	Income tax (expense) or benefit
	¥ (643)	Net of tax
Foreign currency translation adjustments		
Foreign exchange contracts . . . . .	¥ (5,760)	Gains on sales of subsidiaries and affiliates and liquidation losses, net/Interest expense/Write-downs of securities
Sales or liquidation, other . . . . .	(7,245)	Gains on sales of subsidiaries and affiliates and liquidation losses, net/Write-downs of securities
	(13,005)	Total before income tax
	4,064	Income tax (expense) or benefit
	¥ (8,941)	Net of tax
Net unrealized gains (losses) on derivative instruments		
Interest rate swap agreements . . . . .	¥ (775)	Interest expense
Foreign exchange contracts . . . . .	(338)	Interest expense/Other (income) and expense
Foreign currency swap agreements . . . . .	3,936	Interest expense/Other (income) and expense
	2,823	Total before income tax
	(652)	Income tax (expense) or benefit
	¥ 2,171	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 21 “Redeemable Noncontrolling Interests.” Total comprehensive income (loss) and its components have been reported, net of tax, in the consolidated statements of comprehensive income.

**24. ORIX Corporation Shareholders’ Equity**

Changes in the number of shares issued in fiscal 2018, 2019 and 2020 are as follows:

	Number of shares		
	2018	2019	2020
Beginning balance . . . . .	1,324,107,328	1,324,495,728	1,324,629,128
Exercise of stock options . . . . .	388,400	133,400	0
Ending balance . . . . .	1,324,495,728	1,324,629,128	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 2020 that a total of ¥51,493 million dividends shall be distributed to the shareholders of record as of March 31, 2020. 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 ¥789,063 million as of March 31, 2020.

Retained earnings at March 31, 2020 include ¥114,496 million relating to equity in undistributed earnings of the companies accounted for by the equity method.

As of March 31, 2020, the restricted net assets of certain subsidiaries include regulatory capital requirements mainly for banking and life insurance operations of ¥14,116 million.

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

**ORIX Corporation and Subsidiaries**

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

Gains on investment securities and dividends in fiscal 2018, 2019 and 2020 consist of the following:

	Millions of yen		
	2018	2019	2020
Net gains on investment securities . . . . .	¥39,139	¥14,273	¥20,204
Dividends income, other . . . . .	4,163	1,685	2,295
	¥43,302	¥15,958	¥22,499

\* Unrealized changes in fair value of investments in equity securities have been included in “Net gains on investment securities” since fiscal 2019.

**26. Life Insurance Operations**

Life insurance premiums and related investment income in fiscal 2018, 2019 and 2020 consist of the following:

	Millions of yen		
	2018	2019	2020
Life insurance premiums . . . . .	¥299,320	¥330,811	¥360,583
Life insurance related investment income* . . . . .	52,270	16,325	7,195
	¥351,590	¥347,136	¥367,778

\* Life insurance related investment income in fiscal 2018 includes a net unrealized holding gain of ¥14,463 million on trading securities held as of March 31, 2018. Life insurance related investment income in fiscal 2019 and 2020 include net unrealized holding losses of ¥217 million and ¥13,122 million on equity securities held as of March 31, 2019 and 2020, respectively.

Life insurance premiums include reinsurance benefits, net of reinsurance premiums. For fiscal 2018, 2019 and 2020, reinsurance benefits and reinsurance premiums included in life insurance premiums are as follows:

	Millions of yen		
	2018	2019	2020
Reinsurance benefits . . . . .	¥ 3,617	¥ 2,849	¥ 3,268
Reinsurance premiums . . . . .	(6,993)	(5,546)	(5,395)

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 2018, 2019 and 2020 amounted to ¥16,465 million, ¥19,592 million and ¥20,611 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

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

**ORIX Corporation and Subsidiaries**

variable annuity and variable life insurance contracts. In addition, the fair value option was elected for the entire variable annuity and variable life insurance contracts to offset 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. Life insurance costs include the net amount of the changes in fair value of the variable annuity and variable life insurance contracts for which the fair value option was elected 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 portion of the total change in the fair value of variable annuity and variable life insurance contracts that results from a change in the instrument-specific credit risk is recognized in other comprehensive income (loss), net of applicable income taxes.

The above mentioned gains or losses relating to variable annuity and variable life insurance contracts for fiscal 2018, 2019 and 2020 are mainly as follows:

	Millions of yen		
	2018	2019	2020
<b>Life insurance premiums and related investment income :</b>			
Net realized and unrealized gains or losses from investment assets . . . . .	¥ 46,890	¥ 879	¥(10,798)
Net gains or losses from derivative contracts : . . . . .	(7,332)	(1,348)	1,667
Futures . . . . .	(6,238)	(374)	1,257
Foreign exchange contracts . . . . .	(270)	(350)	8
Options held . . . . .	(824)	(624)	402
<b>Life insurance costs :</b>			
Changes in the fair value of the policy liabilities and policy account balances . . . . .	¥(161,510)	¥(83,491)	¥(58,244)
Insurance costs recognized for insurance and annuity payouts as a result of insured events . . . . .	180,775	75,617	53,442
Changes in the fair value of the reinsurance contracts . . . . .	7,108	2,559	(5,757)

**27. 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, 2019 and 2020, the long-lived assets classified as held for sale in the accompanying consolidated balance sheets are as follows.

	Millions of yen	
	2019	2020
Investment in operating leases . . . . .	¥24,956	¥5,208
Property under facility operations . . . . .	44,473	436
Other assets . . . . .	19	0

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

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

**ORIX Corporation and Subsidiaries**

long-lived assets classified as held for sale as of March 31, 2020 are included in Real Estate segment and Investment and Operation 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 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 2018, 2019 and 2020, the Company and its subsidiaries recognized impairment losses for the difference between carrying amounts and fair values in the amount of ¥5,525 million, ¥2,418 million and ¥3,043 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, 2018</b>				
Office buildings	¥ 190	2	¥ 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>
<b>Fiscal Year ended March 31, 2020</b>				
Commercial facilities other than office buildings	¥ 0	—	¥ 529	2
Condominiums	159	1	77	3
Land undeveloped or under construction	0	—	2,083	2
Others*	0	—	195	—
Total	<u>¥ 159</u>	<u>—</u>	<u>¥2,884</u>	<u>—</u>

\* For the “Others”, the number of properties are omitted. Write-downs of long-lived assets for fiscal 2018, 2019 and 2020 include write-downs of ¥2,138 million, ¥825 million and ¥109 million of hotels, respectively.

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

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

**ORIX Corporation and Subsidiaries**

**28. Per Share Data**

Reconciliation of the differences between basic and diluted earnings per share (EPS) in fiscal 2018, 2019 and 2020 is as follows:

In fiscal 2018, the diluted EPS calculation excludes stock compensation for 192 thousand shares, as they were antidilutive. In fiscal 2019 and 2020, there was no stock compensation which was antidilutive.

	Millions of yen		
	2018	2019	2020
Net Income attributable to ORIX Corporation shareholders . . . . .	¥ 313,135	¥ 323,745	¥ 302,700
	Thousands of shares		
	2018	2019	2020
Weighted-average shares . . . . .	1,281,238	1,280,020	1,275,166
Effect of dilutive securities			
Stock compensation . . . . .	1,314	1,107	1,153
Weighted-average shares for diluted EPS computation . . . . .	1,282,552	1,281,127	1,276,319
	Yen		
	2018	2019	2020
Earnings per share for net income attributable to ORIX Corporation shareholders:			
Basic . . . . .	¥ 244.40	¥ 252.92	¥ 237.38
Diluted . . . . .	244.15	252.70	237.17

Note: The Company's shares held through the Board Incentive Plan Trust are included in the number of treasury stock to be deducted in calculation of the weighted-average shares for EPS computation (1,946,561 shares, 1,740,314 shares and 1,735,570 shares in fiscal 2018, 2019 and 2020).

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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

The Company and its subsidiaries have no derivative instruments with credit-risk-related contingent features as of March 31, 2019 and 2020.

#### **(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.

#### **(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 exchange contracts to minimize foreign currency exposures on bonds in foreign currencies. The Company and certain overseas subsidiaries use interest rate swap agreements to hedge interest rate exposure of the fair values of National government bonds in foreign currencies.

#### **(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.

#### **(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.

**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 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	(20)	—	0
Foreign currency swap agreements . . . . .	5,620	Finance revenues/Interest expense/Other (income) and expense	3,910	Other (income) and expense	(1,124)

**(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	(956)	Other (income) and expense
Foreign currency swap agreements . . .	1,147	Other (income) and expense	(1,147)	Other (income) and expense

**(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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

(4) Derivatives not designated as hedging instruments

	Millions of yen	Gains (losses) recognized in income on derivative	
		Consolidated statements of income location	
Interest rate swap agreements	¥ 1,420	Other (income) and expense	
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	
Credit derivatives held	(4)	Other (income) and expense	
Options held/written and other	(291)	Other (income) and expense 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 26 "Life Insurance Operations").

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	Millions of yen
Interest rate swap agreements	¥(4,313)	Finance revenues/Interest expense	¥ 157	—	¥0
Foreign exchange contracts	115	Other (income) and expense	(156)	—	0
Foreign currency swap agreements	(1,816)	Finance revenues/Interest expense/Other (income) and expense	(639)	—	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	5,403	Other (income) and expense

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
Foreign exchange contracts . . . . .	¥ 4,850	Gains on sales of subsidiaries and affiliates and liquidation losses, net	¥(2,540)	—	¥0
Borrowings and bonds in foreign currencies . . . . .	(5,963)	—	0	—	0

(4) Derivatives not designated as hedging instruments

	Millions of yen	Gains (losses) recognized in income on derivative	
		Consolidated statements of income location	
Interest rate swap agreements . . . . .	¥ 832	Other (income) and expense	
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	
Credit derivatives held . . . . .	105	Other (income) and expense	
Options held/written and other . . . . .	710	Other (income) and expense Life insurance premiums and related investment income*	

\* Futures, foreign exchange contracts and options held/written and other in the above table include gains (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 26 “Life Insurance Operations”).

The effect of derivative instruments on the consolidated statements of income, pre-tax, for fiscal 2020 is as follows.

(1) Cash flow hedges

	Gains (losses) recognized in other comprehensive income on derivative	Millions of yen	
		Gains (losses) reclassified from other comprehensive income (loss) into income	
		Interest expense	Other (income) and expense
Interest rate swap agreements . . . . .	¥(11,506)	¥ 775	¥ 0
Foreign exchange contracts . . . . .	(241)	(119)	457
Foreign currency swap agreements . . . . .	3,851	413	(4,349)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

(2) Fair value hedges

	Millions of yen			
	Gains (losses) recognized in income on derivative and other		Gains (losses) recognized in income on hedged item	
	Life insurance premiums and related investment income	Other (income) and expense	Life insurance premiums and related investment income	Other (income) and expense
Interest rate swap agreements . . . . .	¥(19,805)	¥ 0	¥18,955	¥ 0
Foreign exchange contracts . . . . .	3,656	(187)	(3,294)	244

(3) Hedges of net investment in foreign operations

	Millions of yen			
	Gains (losses) recognized in other comprehensive income on derivative and others	Gains (losses) reclassified from other comprehensive income (loss) into income (Millions of yen)		
		Gains on sales of subsidiaries and affiliates and liquidation losses, net	Write-downs of securities	Interest expense
Foreign exchange contracts . . . . .	¥15,273	¥1,594	¥2,759	¥4,595
Borrowings and bonds in foreign currencies . . . . .	13,489	0	0	0

(4) Derivatives not designated as hedging instruments

	Millions of yen		
	Gains (losses) recognized in income on derivative (Millions of yen)		
	Life insurance premiums and related investment income*	Interest expense	Other (income) and expense
Interest rate swap agreements . . . . .	¥ 0	¥ 7	¥ 159
Futures . . . . .	1,257	0	(1,843)
Foreign exchange contracts . . . . .	204	4,803	(1,840)
Credit derivatives held . . . . .	0	0	(6)
Options held/written and other . . . . .	402	0	4,481

\* Futures, foreign exchange contracts and options held/written and other in the above table include gains (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 2020 (see Note 26 “Life Insurance Operations”).

The effect of the components excluded from the assessment of hedge effectiveness on the consolidated statements of income, pre-tax, for fiscal 2020 is as follows.

Fair value hedges

	Millions of yen		
	Gains (losses) recognized in income		
	Other (income) and expense	Interest expense	Life insurance premiums and related investment income
Foreign exchange contracts . . . . .	¥ 0	¥3	¥(3,020)
Options held/written and other . . . . .	29	0	0

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

**ORIX Corporation and Subsidiaries**

The carrying amount of hedged assets and liabilities recognized in balance sheets in fair value hedges and the cumulative amount of fair value hedging adjustments included in the carrying amount at March 31, 2020 is as follows.

<b>Assets as hedged items in fair value hedges</b>			<b>Liabilities as hedged items in fair value hedges</b>		
	<b>Millions of yen</b>			<b>Millions of yen</b>	
<b>Consolidated balance sheets location</b>	<b>Carrying amount</b>	<b>The cumulative amount of fair value hedging adjustments included in the carrying amount</b>	<b>Consolidated balance sheets location</b>	<b>Carrying amount</b>	<b>The cumulative amount of fair value hedging adjustments included in the carrying amount</b>
Investment in Securities* . . . . .	¥320,344	¥24,397	—	¥0	¥0

\* Accumulated fair value hedge adjustments of ¥(1,599) million are included for hedged items for which hedge accounting has been discontinued.

Notional amounts of derivative instruments and other, fair values of derivative instruments and other before offsetting at March 31, 2019 and 2020 are as follows.

**March 31, 2019**

	<b>Notional amount</b>	<b>Derivative assets</b>		<b>Derivative liabilities</b>	
		<b>Fair value</b>	<b>Consolidated balance sheets location</b>	<b>Fair value</b>	<b>Consolidated balance sheets location</b>
	<b>Millions of yen</b>	<b>Millions of yen</b>		<b>Millions of yen</b>	
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 . . . . .	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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

December 31, 2020

	Notional amount Millions of yen	Derivative assets		Derivative liabilities	
		Fair value Millions of yen	Consolidated balance sheets location	Fair value Millions of yen	Consolidated balance sheets location
Derivatives designated as hedging instruments and other:					
Interest rate swap agreements	¥494,893	¥ 0	—	¥43,889	Other Liabilities
Options held/written and other	742	28	Other Assets	0	—
Futures, foreign exchange contracts	623,172	7,555	Other Assets	4,365	Other Liabilities
Foreign currency swap agreements	68,840	5,079	Other Assets	137	Other Liabilities
Foreign currency long-term debt	612,536	0	—	0	—
Derivatives not designated as hedging instruments:					
Interest rate swap agreements	¥ 7,644	¥ 0	—	¥ 113	Other Liabilities
Options held/written and other*	670,044	21,318	Other Assets	20,004	Other Liabilities
Futures, foreign exchange contracts*	372,948	5,710	Other Assets	5,141	Other Liabilities

\* The notional amounts of options held/written and other and futures, foreign exchange contracts in the above table include options held of ¥16,754 million, futures contracts of ¥35,875 million and foreign exchange contracts of ¥16,656 million to economically hedge the minimum guarantee risk of variable annuity and variable life insurance contracts at March 31, 2020, respectively. Derivative assets in the above table include fair value of the options held, futures contracts and foreign exchange contracts before offsetting of ¥598 million, ¥165 million and ¥111 million and derivative liabilities include fair value of the futures and foreign exchange contracts before offsetting of ¥1,564 million and ¥178 million at March 31, 2020, respectively.

30. 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 as of March 31, 2019 and 2020 are as follows.

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*		Net amount
				Financial instruments	Collateral received/pledged	
Derivative assets	¥15,495	¥(1,497)	¥13,998	¥ (196)	¥ 0	¥13,802
Total assets	¥15,495	¥(1,497)	¥13,998	¥ (196)	¥ 0	¥13,802
Derivative liabilities	¥25,958	¥(1,497)	¥24,461	¥(8,353)	¥(79)	¥16,029
Total liabilities	¥25,958	¥(1,497)	¥24,461	¥(8,353)	¥(79)	¥16,029

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

March 31, 2020

	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*		Net amount
				Financial instruments	Collateral received/ pledged	
Derivative assets .....	¥39,690	¥(9,152)	¥30,538	¥ (598)	¥(843)	¥29,097
Total assets .....	<u>¥39,690</u>	<u>¥(9,152)</u>	<u>¥30,538</u>	<u>¥ (598)</u>	<u>¥(843)</u>	<u>¥29,097</u>
Derivative liabilities .....	¥73,649	¥(9,152)	¥64,497	¥(25,997)	¥ 0	¥38,500
Total liabilities .....	<u>¥73,649</u>	<u>¥(9,152)</u>	<u>¥64,497</u>	<u>¥(25,997)</u>	<u>¥ 0</u>	<u>¥38,500</u>

\* The balances related to enforceable master netting agreements or similar agreements which were not offset in the consolidated balance sheets.

**31. Significant Concentrations of Credit Risk**

The Company and its subsidiaries have established various policies and procedures to manage credit exposure, including initial credit approval, credit limits, collateral and guarantee requirements, obtaining rights of offset and continuous oversight. The Company and its subsidiaries' principal financial instrument portfolio consists of investment in net investment in 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, 2019 and 2020, 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, ¥6,363 billion, or 72%, at March 31, 2019 and ¥6,995 billion, or 73%, at March 31, 2020 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 ¥1,075 billion and ¥1,374 billion as of March 31, 2019 and 2020, respectively.

The Company and its subsidiaries have transportation equipment such as automobile operations and aircraft. Transportation equipment is mainly recorded in investment in net investment in leases and operating leases. In connection with investment in net investment in leases and operating leases, the percentage of investment in transportation equipment to consolidated total assets is 11.4% and 10.0% as of March 31, 2019 and 2020, respectively.

The Company and its subsidiaries provide consumers with real estate loans. In connection with installment loans, the percentage of real estate loans for consumers to consolidated total assets is 13.1% and 14.4% as of March 31, 2019 and 2020, respectively.

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

**ORIX Corporation and Subsidiaries**

**32. Estimated Fair Value of Financial Instruments**

The following information is provided to help readers gain an understanding of the relationship between carrying amount of financial instruments reported in the Company's consolidated balance sheets and the related market or fair value. The disclosures do not include net investment in leases, investment in affiliates, pension obligations and insurance contracts and reinsurance contracts except for those classified as investment contracts.

**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."

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

**ORIX Corporation and Subsidiaries**

**March 31, 2020**

	Millions of yen				
	Carrying amount	Estimated fair value	Level 1	Level 2	Level 3
<b>Assets:</b>					
Cash and cash equivalents . . . . .	¥ 982,666	¥ 982,666	¥982,666	¥ 0	¥ 0
Restricted cash . . . . .	152,618	152,618	152,618	0	0
Installment loans (net of allowance for probable loan losses) . . . . .	3,695,342	3,653,042	0	207,950	3,445,092
Equity securities*1 . . . . .	375,174	375,174	58,400	232,873	83,901
Trading debt securities . . . . .	7,431	7,431	0	7,431	0
Available-for-sale debt securities . . . . .	1,631,185	1,631,185	21,490	1,521,342	88,353
Held-to-maturity debt securities . . . . .	113,805	143,189	0	118,472	24,717
<b>Other Assets:</b>					
Time deposits . . . . .	5,918	5,918	0	5,918	0
Derivative assets*2 . . . . .	30,538	30,538	0	0	0
Reinsurance recoverables (Investment contracts) . . . . .	8,625	8,298	0	0	8,298
<b>Liabilities:</b>					
Short-term debt . . . . .	¥ 336,832	¥ 336,832	¥ 0	¥ 336,832	¥ 0
Deposits . . . . .	2,086,765	2,088,513	0	2,088,513	0
Policy liabilities and Policy account balances (Investment contracts) . . . . .	213,885	214,048	0	0	214,048
Long-term debt . . . . .	4,279,354	4,291,697	0	1,247,587	3,044,110
<b>Other Liabilities:</b>					
Derivative liabilities*2 . . . . .	64,497	64,497	0	0	0

\*1 The amount of ¥11,631 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.

**33. Commitments, Guarantees and Contingent Liabilities**

**Commitments**—As of March 31, 2020, the Company and certain subsidiaries have commitments for the purchase of equipment to be leased, having a cost of ¥3,027 million.

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

**ORIX Corporation and Subsidiaries**

The minimum future rentals on non-cancelable operating leases as of March 31, 2019 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 ¥17,564 million in fiscal 2019.

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 ¥5,922 million, ¥7,355 million and ¥7,139 million in fiscal 2018, 2019 and 2020, respectively. The longest contract of them will mature in fiscal 2026. As of March 31, 2020, the amounts due are as follows:

<u>Years ending March 31,</u>	<u>Millions of yen</u>
2021 .....	¥3,183
2022 .....	901
2023 .....	1,443
2024 .....	374
2025 .....	9
Thereafter .....	<u>1</u>
Total .....	<u>¥5,911</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 ¥78,509 million as of March 31, 2020.

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, 2020, the total unused credit and capital amount available is ¥377,870 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, 2019 and 2020:

<b>Guarantees</b>	<b>2019</b>			<b>2020</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 . . . . .	¥ 500,499	¥ 6,707	2026	¥ 490,839	¥ 6,065	2026
Transferred loans . . . . .	175,623	1,436	2059	355,452	2,371	2060
Consumer loans . . . . .	343,119	42,400	2030	341,466	41,019	2031
Real estate loans . . . . .	40,395	4,701	2048	29,235	4,422	2048
Other . . . . .	263	1	2024	130	0	2024
<b>Total . . . . .</b>	<b>¥1,059,899</b>	<b>¥55,245</b>	<b>—</b>	<b>¥1,217,122</b>	<b>¥53,877</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, 2019 and 2020, total notional amount of the loans subject to such guarantees are ¥1,089,000 million and ¥715,000 million, respectively, and book value of guarantee liabilities are ¥2,559 million and ¥2,498 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 2020.

**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 mainly from Fannie Mae under the Delegated Underwriting and Servicing program and Freddie Mac under the Delegated Underwriting Initiative program. As part of these programs, Fannie Mae and Freddie Mac provide a commitment to purchase the loans.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

Under these programs, the subsidiary guarantees the performance of the loans transferred to Fannie Mae and Freddie Mac 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 2020.

As of March 31, 2019 and 2020, 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 ¥593,062 million and ¥1,643,060 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 2020.

**Guarantee of real estate loans:** The Company and certain subsidiaries guarantee real estate loans for consumer 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 real estate 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 2020.

**Other guarantees:** Other guarantees include the guarantees to financial institutions and the guarantees derived from collection agency agreements. Pursuant to the contracts of the guarantees to financial institutions, a certain subsidiary pays to the financial institutions when customers of the financial institutions become debtors and default on the debts. Pursuant to the agreements of the guarantees derived from collection agency agreements, the Company and certain subsidiaries collect third parties' debt and pay the uncovered amounts.

**Litigation**—The Company and certain subsidiaries are involved in legal proceedings and claims in the ordinary course of business. In the opinion of management, none of such proceedings and claims will have a significant impact on the Company's financial position or results of operations.

### 34. Segment Information

Based on the nature of major products and services, customer base, and management organizations, our business are organized into six operating segments: 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 regularly reviewed by the chief operating decision maker to make decisions about resource allocations and assess performance.

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

**ORIX Corporation and Subsidiaries**

Types of products and services of the six segments are as follows.

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

In fiscal 2019, the Company had made DAIKYO a wholly-owned subsidiary, to complement their respective real estate business and to jointly aim for medium- and long-term growth as a comprehensive real estate group. Accordingly, the segment classification of DAIKYO had been shifted from Investment and Operation segment to Real Estate segment since the previous fiscal year. As a result of this change, the segment data of the previous fiscal year has been retrospectively restated.

Financial information of the segments for fiscal 2018, 2019 and 2020 is as follows:

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

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

**ORIX Corporation and Subsidiaries**

<b>Year ended March 31, 2019</b>	<b>Millions of yen</b>						
	<b>Corporate Financial Services</b>	<b>Maintenance Leasing</b>	<b>Real Estate</b>	<b>Investment and Operation</b>	<b>Retail</b>	<b>Overseas Business</b>	<b>Total</b>
Revenues . . . . .	¥ 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

<b>Year ended March 31, 2020</b>	<b>Millions of yen</b>						
	<b>Corporate Financial Services</b>	<b>Maintenance Leasing</b>	<b>Real Estate</b>	<b>Investment and Operation</b>	<b>Retail</b>	<b>Overseas Business</b>	<b>Total</b>
Revenues . . . . .	¥ 97,007	¥336,438	¥466,639	¥451,197	¥ 454,751	¥ 486,328	¥ 2,292,360
Finance revenues . . . . .	28,522	30,820	3,249	7,618	81,089	126,352	277,650
Interest expense . . . . .	3,563	2,837	1,557	9,061	4,489	68,010	89,517
Depreciation and amortization . . . . .	10,938	144,836	15,487	25,301	27,848	71,408	295,818
Other significant non-cash items:							
Provision for doubtful receivables and probable loan losses . . . . .	1,119	349	14	(30)	11,971	11,002	24,425
Write-downs of long-lived assets . . .	0	11	303	2,106	0	623	3,043
Increase (Decrease) in policy liabilities and policy account balances . . . . .	0	0	0	0	70,120	0	70,120
Equity in net income (loss) of affiliates and gains (losses) on sales of subsidiaries and affiliates and liquidation losses, net . . . . .	659	(14)	28,743	35,463	3	77,029	141,883
Segment profits . . . . .	14,611	33,724	76,857	55,715	80,387	156,433	417,727
Segment assets . . . . .	948,268	889,615	749,694	847,082	4,183,894	3,287,445	10,905,998
Long-lived assets . . . . .	92,434	529,757	470,888	411,636	28,911	470,720	2,004,346
Expenditures for long-lived assets . . .	2,109	190,093	68,608	33,787	0	253,226	547,823
Investment in affiliates . . . . .	18,328	19	91,835	150,856	400	560,162	821,600

The accounting policies of the segments are almost the same as those described in Note 1 “Significant Accounting and Reporting Policies” except for the treatment of income tax expenses, net income attributable to the noncontrolling interests, net income attributable to the redeemable noncontrolling interests. Net income

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

### ORIX Corporation and Subsidiaries

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) are excluded from the segment profits or losses, and are regarded as corporate items.

Assets attributed to each segment are net investment in leases, installment loans, investment in operating leases, investment in securities, property under facility operations, investment in affiliates, inventories, advances for finance lease and operating lease (included in other assets), advances for property under facility operations (included in other assets), goodwill, intangible assets acquired in business combinations (included in other assets) and servicing assets (included in other assets). It should be noted that the depreciation expenses of office facilities are included in each segment profit and loss while the corresponding assets are not allocated to each segment's assets. However, the amount 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 (ah) 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.

The New Lease Standard has been adopted since April 1, 2019. This adoption has resulted in a gross up of ROU assets of investment in operating leases and property under facility operations related to operating leases of land, office and equipment, where the Company is the lessee, as segment assets in all of our segments except for Retail segment. In addition, segment revenues and segment expenses mainly in Corporate Financial Service segment and Maintenance Leasing segment increased as a result of a gross up of revenues and expenses of certain lessor costs. For further information, see Note 1 "Significant Accounting and Reporting Policies (ag) New accounting pronouncements."

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.

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

**ORIX Corporation and Subsidiaries**

	Millions of yen		
	2018	2019	2020
Segment revenues:			
Total revenues for segments . . . . .	¥ 2,873,343	¥ 2,447,272	¥ 2,292,360
Revenues related to corporate assets . . . . .	8,531	8,655	8,559
Revenues from inter-segment transactions . . . . .	(19,103)	(21,063)	(20,590)
Total consolidated revenues . . . . .	<u>¥ 2,862,771</u>	<u>¥ 2,434,864</u>	<u>¥ 2,280,329</u>
Segment profits:			
Total segment profits . . . . .	¥ 429,078	¥ 401,395	¥ 417,727
Corporate losses . . . . .	(4,329)	(10,012)	(10,395)
Net income attributable to the noncontrolling interests and net income attributable to the redeemable noncontrolling interests . . . . .	10,752	4,347	5,229
Total consolidated income before income taxes . . . . .	<u>¥ 435,501</u>	<u>¥ 395,730</u>	<u>¥ 412,561</u>
Segment assets:			
Total segment assets . . . . .	¥ 9,098,918	¥ 9,997,698	¥10,905,998
Cash and cash equivalents, restricted cash . . . . .	1,405,117	1,283,580	1,135,284
Allowance for doubtful receivables on finance leases and probable loan losses . . . . .	(54,672)	(58,011)	(56,836)
Trade notes, accounts and other receivable . . . . .	294,773	280,590	312,744
Other corporate assets . . . . .	681,846	671,060	770,338
Total consolidated assets . . . . .	<u>¥11,425,982</u>	<u>¥12,174,917</u>	<u>¥13,067,528</u>

The following information represents geographical revenues and income before income taxes, which are attributed to geographic areas, based on the country location of the Company and its subsidiaries.

	Millions of yen			
	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

	Millions of yen			
	Fiscal Year ended March 31, 2020			
	Japan	The Americas*1	Other*2	Total
Total Revenues . . . . .	¥1,792,790	¥201,578	¥285,961	¥2,280,329
Income before Income Taxes . . . . .	260,323	74,086	78,152	412,561

\*1 Mainly the United States

\*2 Mainly Asia, Europe, Australasia and Middle East

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

**ORIX Corporation and Subsidiaries**

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 2019 and 2020.

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 . . . . .	<u>43,638</u>	<u>75,943</u>	<u>441,113</u>	<u>604,949</u>	<u>3,611</u>	<u>234,903</u>	<u>1,404,157</u>	<u>(8,581)</u>	<u>1,395,576</u>
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 . . . . .	<u>43,638</u>	<u>75,943</u>	<u>441,113</u>	<u>604,949</u>	<u>3,611</u>	<u>234,903</u>	<u>1,404,157</u>	<u>(8,581)</u>	<u>1,395,576</u>
Other revenues* . . . . .	<u>51,574</u>	<u>212,268</u>	<u>87,951</u>	<u>10,202</u>	<u>425,293</u>	<u>255,827</u>	<u>1,043,115</u>	<u>(3,827)</u>	<u>1,039,288</u>
Segment revenues/ Total revenues . . . . .	<u>¥95,212</u>	<u>¥288,211</u>	<u>¥529,064</u>	<u>¥615,151</u>	<u>¥428,904</u>	<u>¥490,730</u>	<u>¥2,447,272</u>	<u>¥(12,408)</u>	<u>¥2,434,864</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

ORIX Corporation and Subsidiaries

		Millions of yen								
		Fiscal Year ended March 31, 2020								
		Reportable segments						Corporate		
		Corporate	Maintenance	Real	Investment	Retail	Overseas	Total	revenue and	Total
		Financial	Leasing	Estate	and		Business		intersegment	revenues
		Services			Operation				transactions	
Goods or services										
category										
Sales of goods . . .	¥ 5,707	¥ 5,829	¥ 4,261	¥266,271	¥ 0	¥ 4,131	¥ 286,199	¥ 1,359	¥ 287,558	
Real estate										
sales . . . . .	0	0	117,969	0	0	984	118,953	0	118,953	
Asset										
management										
and										
servicing . . . . .	0	0	7,453	383	167	173,948	181,951	(100)	181,851	
Automobile										
related										
services . . . . .	488	60,704	0	232	0	16,950	78,374	(387)	77,987	
Facilities										
operation . . . . .	0	0	68,934	0	0	363	69,297	0	69,297	
Environment and										
energy										
services . . . . .	2,911	0	0	138,380	0	963	142,254	(722)	141,532	
Real estate										
management										
and										
brokerage . . . . .	0	0	106,234	0	0	0	106,234	(2,124)	104,110	
Real estate										
contract										
work . . . . .	0	0	89,522	0	0	0	89,522	(556)	88,966	
Other . . . . .	36,340	10,630	3,921	34,942	4,147	17,313	107,293	(3,234)	104,059	
Total revenues from										
contracts with										
customers . . . . .	45,446	77,163	398,294	440,208	4,314	214,652	1,180,077	(5,764)	1,174,313	
Geographical location										
Japan . . . . .	45,446	76,462	398,294	436,500	4,314	5,704	966,720	(2,079)	964,641	
The Americas . . .	0	0	0	0	0	99,979	99,979	0	99,979	
Other . . . . .	0	701	0	3,708	0	108,969	113,378	(3,685)	109,693	
Total revenues from										
contracts with										
customers . . . . .	45,446	77,163	398,294	440,208	4,314	214,652	1,180,077	(5,764)	1,174,313	
Other revenues* . . . . .	51,561	259,275	68,345	10,989	450,437	271,676	1,112,283	(6,267)	1,106,016	
Segment revenues/										
Total revenues . . . . .	¥97,007	¥336,438	¥466,639	¥451,197	¥454,751	¥486,328	¥2,292,360	¥(12,031)	¥2,280,329	

\* Other revenues include revenues that are not in the scope of 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

#### 35. Subsequent Events

The share repurchase based on the resolution at the Board of Directors meeting held on October 28, 2019 and cancellation of own shares were completed. The details of share repurchase and cancellation of own shares subsequent to the balance sheet date are as follows.

##### (1) Status of Share Repurchase

• Class of shares repurchased	Common shares
• Total number of shares repurchased	8,224,900 shares
• Total value of shares repurchased	¥10,088,218,300
• Repurchased period	April 1, 2020 – May 8, 2020
• Method of share repurchased	Market purchases based on the discretionary dealing contract regarding repurchase of own shares

##### (Reference)

Cumulative number of own shares acquired based on the above resolution at the Board of Directors meeting as of May 8, 2020

• Class of shares repurchased	Common shares
• Total number of shares repurchased	34,061,300 shares
• Total value of shares repurchased	¥55,807,590,700
• Repurchased period	November 1, 2019 – May 8, 2020
• Method of share repurchased	Market purchases based on the discretionary dealing contract regarding repurchase of own shares

##### (2) Cancellation of Own Shares

• Class of shares cancelled	Common shares
• Number of shares cancelled	10,674,148 shares
• Cancellation date	May 29, 2020

**Schedule II.—Valuation and Qualifying Accounts and Reserves**

**ORIX Corporation and Subsidiaries**

Description	Millions of yen					
	Year Ended March 31, 2018					
	Balance at beginning of period	Acquisitions	Addition: Charged to costs and expenses	Deduction	Translation adjustment	Balance at end of period
<b>Restructuring cost:</b>						
Severance and other benefits to terminated employees . . . . .	¥ 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>

Description	Millions of yen					
	Year Ended March 31, 2019					
	Balance at beginning of period	Acquisitions	Addition: Charged to costs and expenses	Deduction	Translation adjustment	Balance at end of period
<b>Restructuring cost:</b>						
Severance and other benefits to terminated employees . . . . .	¥ 2,151	¥ 0	¥ 0	¥ (3)	¥ (99)	¥ 2,049
Total . . . . .	<u>¥ 2,151</u>	<u>¥ 0</u>	<u>¥ —</u>	<u>¥ (3)</u>	<u>¥ (99)</u>	<u>¥ 2,049</u>

Description	Millions of yen					
	Year Ended March 31, 2020					
	Balance at beginning of period	Acquisitions	Addition: Charged to costs and expenses	Deduction	Translation adjustment	Balance at end of period
<b>Restructuring cost:</b>						
Severance and other benefits to terminated employees . . . . .	¥ 2,049	¥ 0	¥ 73	¥ (1,365)	¥ (67)	¥ 690
Total . . . . .	<u>¥ 2,049</u>	<u>¥ 0</u>	<u>¥ 73</u>	<u>¥ (1,365)</u>	<u>¥ (67)</u>	<u>¥ 690</u>

Description	Millions of yen					
	Balance at beginning of period	Acquisitions	Addition: Charged to costs and expenses	Deduction*1	Other*2	Balance at end of period
	<b>Deferred tax assets:</b>					
<b>Valuation allowance</b>						
Year ended March 31, 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
Year ended March 31, 2020 . . . . .	¥13,156	¥522	¥3,401	¥ (1,677)	¥ (33)	¥15,369

\*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 ¥8,303 million in fiscal 2018, ¥2,648 million in fiscal 2019 and ¥890 million in fiscal 2020.

\*2 The amount of other includes translation adjustment and the effect of changes in statutory tax rate.

**ORIX CORPORATION SHARES, ETC. HANDLING REGULATIONS****Chapter I. General Provisions****Article 1.1 (Purpose)**

The procedures for handling Company shares and stock acquisition rights including procedures for exercising shareholder's rights shall, pursuant to the Articles of Incorporation, be governed by this "Shares, etc. Handling Regulations" ("Regulation") as well as the provisions of The Japan Securities Depository Center, Inc. (hereinafter referred to as "JASDEC") and those of account management institutions such as securities companies, banks or trust banks at which shareholders of the Company have their transfer accounts (hereinafter referred to as the "Securities Companies").

**Articles 1.2 (Principal Department, Amendment/Repeal)**

The principal department in charge of this Regulation shall be the "Group Corporate Administration Department of ORIX Corporation."

2. Subject to regulations, the amendment/repeal of this Regulation shall first be proposed by the director of the principal department in charge of this Regulation, reviewed by an executive officer in charge of regulations reviewing department, and then submitted for approval to "Executive Committee." Provided, however, that the director of the principal department in charge of this Regulation may make a final decision upon review of the executive officer in charge of regulations reviewing department when any minor revisions hereof are made.

**Articles 1.3 (Scope of Application)**

These Regulations shall apply to the entire company, Shareholders and their agents.

**Articles 1.4 (Administrator of the Register of Shareholders)**

The Administrator of the Register of Shareholders and the Handling Office of such Administrator shall be as follows:

- (1) Administrator of the Register of Shareholders:  
Mitsubishi UFJ Trust and Banking Corporation  
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
- (2) Handling Office:  
Corporate Agency Department of Mitsubishi UFJ Trust and Banking Corporation  
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo

**Chapter II. Recordation on Register of Shareholders, etc.****Article 2.1 (Recordation on the Register of Shareholders)**

Change to the matters recorded in the Register of Shareholders shall be made upon notification from JASDEC such as "Notification of All Shareholders" (*Sokabunushi-tsuchi*) (excluding notification provided in Article 154 Paragraph 3 of the Law on Transfer of Bonds and Shares, Etc. (the "Transfer Law") (hereinafter referred to as the "Notification of Individual Shareholder")).

2. In addition to the preceding paragraph, changes to matters recorded in the Register of Shareholders shall be made without notification from JASDEC if the Company is issuing new shares or otherwise as specified by laws or ordinances.

3. The Register of Shareholders shall be recorded in the characters and symbols designated by JASDEC.

**Article 2.2 (Notifications Related to Matters to be Stated in the Register of Shareholders)**

Shareholders and registered share pledgees (hereinafter referred to as “Shareholders”) shall notify the Company of their names and addresses through the Securities Companies and JASDEC, as required by JASDEC. The same shall apply to any changes thereof.

**Article 2.3 (Representative of Corporate Shareholders)**

In the event that a Shareholder is a corporation, such corporation shall notify the Company of one (1) representative through the Securities Companies and JASDEC, as required by the JASDEC. The same shall apply to any changes to such representative.

**Article 2.4 (Representative of Joint Shareholders)**

Shareholders who jointly own shares shall appoint one (1) representative and notify the Company of the name and address of such representative through the Securities Companies and JASDEC, as required by JASDEC. The same shall apply to the any changes to such representative.

**Article 2.5 (Legal Representatives)**

Legal Representatives of Shareholders such as persons having parental authority or guardians shall notify the Company of their names and addresses through the Securities Companies and JASDEC, as required by JASDEC. The same shall apply to any changes to or any discharges to such Legal Representatives.

**Article 2.6 (Notifications of Mailing Addresses for Receipt of Notices by Shareholder Residing in Foreign Countries, Etc.)**

Shareholders or their Legal Representatives residing in foreign countries shall appoint a Standing Proxy who is resident in Japan or designate a mailing address in Japan to receive notices. Such shareholders or their Legal Representatives shall notify the Company of the names and addresses of the Standing Proxy or the mailing address for receipt of notices through the Securities Companies and JASDEC, as required by JASDEC. The same shall apply to any changes to or any discharges to such Standing Proxy or mailing address.

**Article 2.7 (Other Notifications)**

The Handling Office of Administrator of the Register of Shareholders as provided in Article 1.4 shall be notified of any notifications unable to be accepted or liaised by the Securities Companies or JASDEC.

**Article 2.8 (Verification Method through JASDEC)**

In the event that notification from Shareholders, Legal Representatives of Shareholders, and Standing Proxy of Shareholders to the Company is made through the Securities Companies and JASDEC, such notification shall be deemed to be made from respective parties and principals who originally made the notification.

**Article 2.9 (Entry to or Recordation on Register of Stock Acquisition Rights)**

A request for entry to or recordation on the Register of Stock Acquisition Rights (including registration, transfer or deletion of the pledge, and indication or deletion of trust asset for Stock Acquisition Rights) shall be submitted to the Administrator of the Register of Shareholders.

2. In addition to the preceding paragraph, handling of Stock Acquisition Rights may be provided separately.

**Article 2.10 (Notification Method for Stock Acquisition Rights Holder, Etc.)**

With regard to the matters to be notified and notification method for entry to or recordation on Register of Stock Acquisition Rights, the provisions of Article 2.2 through Article 2.6 shall be applied *mutatis mutandis*. Provided, however, that unless otherwise separately provided under the paragraph 2 of the preceding Article, notifications shall be made to the attention of the Administrator of the Register of Shareholders.

**Chapter III. Shareholder Verification**

**Article 3.1 (Shareholder Verification)**

In the event that a Shareholder (including a shareholder who has made a Notification of Individual Shareholder) makes a request or exercises any other shareholder's right (hereinafter referred to as "Request"), such Shareholder shall attach or submit proof that such Request was made by such Shareholder (hereinafter referred to as "Proof"). Provided, however, that in the event the Company is able to verify on its own that the Request was made by such Shareholder, no attachment or submission thereof shall be required.

2. In the event that the Request from a Shareholder to the Company was made through the Securities Companies and JASDEC, such Request may be deemed to be made by the Shareholder making the Request. In such case, no Proof may be required.

3. In the event that the Request is made by an agent for a Shareholder, a power of attorney to which the relevant Shareholder signs or affixes his/her name and seal as well as documents to establish the genuineness of such power of attorney shall be attached in addition to following certain procedures provided in the preceding two (2) paragraphs. Such power of attorney shall include the agent's name and address.

4. The provisions in paragraphs 1 and 2 above shall apply to an agent of a Shareholder.

**Chapter IV. Procedures for Exercising Shareholder's Right**

**Article 4.1 (Minority Shareholder's Right, Etc.)**

If Among the Request, a Shareholder exercises the Minority Shareholders' Right, Etc., as defined in Article 147, Paragraph 4 of the Transfer Law directly against the Company, a document to which such Shareholder signs or affixes his/her name and seal shall be submitted with a notice of receipt of the Notice of Individual Shareholder.

**Article 4.2 (Submission of Materials Upon Request)**

Upon Requests made by Shareholders, the Company may require such Shareholders to submit any necessary materials for the Company to confirm its legality or any other necessary matters, or any materials necessary for share transfer procedures.

**Article 4.3 (Entry of Agenda Proposed by Shareholders to the Reference Documents for the General Meeting of Shareholders)**

Pursuant to the provision of Article 93, Paragraph 1 of the Enforcement Rules of the Company Law, when shareholders propose the agenda of the General Meeting of Shareholders, the volume designated by the Company shall be as follows:

(1) For the reason for such proposal, no more than 400 characters per agenda.

(2) For proposed agenda regarding election of directors which should be contained in the reference documents for the General Meeting of Shareholders, no more than 400 characters per candidate.

2. When the number of characters provided for in the preceding paragraphs exceeds 400 characters, the Company, at its discretion, may summarize within 400 characters after clearly indicating that the Company is providing a summary.

#### **Article 4.4 (Method for Request of Purchase of Shares Less Than One Unit)**

In the event that a shareholder who holds shares less than one Unit requests the Company to purchase such shares, such request shall be made through the Securities Companies and JASDEC, as required by JASDEC, and an application for transfer, with the payment date of the purchase price subject to such purchase request being the transfer date of shares to be transferred subject to such purchase request, shall be made concurrently with such purchase request.

#### **Article 4.5 (Determination of Purchase Price)**

The purchase price per share subject to the purchase request in the preceding Article shall be the closing price of the Company shares at an auction market held by the Tokyo Stock Exchange on the day which the purchase request reaches the Handling Office of Administrator of the Register of Shareholders. Provided, however, that if no trading of the Company shares takes place on such day or the day falls on a holiday of such stock exchange, the purchase price shall be the price at which the Company shares are first traded subsequent to such day.

2. The purchase price shall be the amount equal to the purchase price per share pursuant to the preceding paragraph multiplied by the number of shares subject to the purchase request.

#### **Article 4.6 (Payment of Purchase Price)**

Unless otherwise provided separately by the Company, the Company shall pay the purchase price to the applicant on the fourth (4th) business day immediately following the day on which the purchase price is determined, as required by JASDEC. Provided, however, that when such purchase price includes rights for dividends on retained earnings or share splits and the like, the purchase price shall be paid on or prior to the record date.

#### **Article 4.7 (Transfer of Shares Purchased)**

Shares less than one Unit for which a purchase request by the Company has been made shall be transferred to the transfer account of the Company on a day on which payment of the purchase price or procedures for payment is completed pursuant to the preceding Article.

#### **Article 4.8 (Exceptional Rules for Foreign Currency Bonds subject to Requests for Purchase of Shares Less than One Unit)**

Handling of requests to purchase shares less than one Unit issued upon the exercise of stock acquisition rights in relation to bonds with stock acquisition rights (including former convertible bond prior to the amendment by Law No. 128 of 2001) issued by the Company outside of Japan, shall be governed by the provisions of the relevant agreement relating to the issuance of the relevant bonds, if separately prescribed in such agreement, to the extent so provided.

2. Handling of requests to purchase shares less than one Unit issued upon the exercise of stock acquisition rights issued by the Company outside of Japan, shall be governed by the provisions of the relevant agreement relating to the issuance of the relevant stock acquisition rights, if expressly prescribed in such agreement, to the extent so provided.

#### **Article 4.9 (Method for Request of Sale of Shares Less than One Unit)**

When a shareholder who holds shares less than one Unit requests the Company to sell the number of shares which would make one Unit by combining with the shares less than one Unit held by such shareholder (hereinafter referred to as the “Request for Sale”), such Request for Sale shall be made through the Securities Companies and JASDEC, as required by JASDEC.

#### **Article 4.10 (Request for Sale Exceeding Number of Treasury Shares)**

In the event that the total number of shares for which Requests for Sale were made on the same day in unclear order exceeds the number of treasury shares of the Company to be transferred, all Request for Sale made on that day shall have no effect.

#### **Article 4.11 (Effective Date of the Request for Sale)**

The Request for Sale shall take effect when the request reaches the Handling Office of Administrator of the Register of Shareholders.

#### **Article 4.12 (Determination of Sale Price)**

The sale price per share shall be the closing price of the Company shares at an auction market held by the Tokyo Stock Exchange on the effective date of the Request for Sale. Provided, however, that if no trading of the Company shares takes place on such day or the day falls on a holiday of such stock exchange, the sale price shall be the price at which the Company shares are first traded subsequent to such day.

2. The sale price shall be the amount equal to the sale price per share pursuant to the preceding paragraph multiplied by the number of shares subject to the Request for Sale.

#### **Article 4.13 (Transfer of Shares Sold)**

Transfer of treasury shares equivalent to the number of shares for which a Request for Sale has been made to the transfer account of the shareholder who made such Request for Sale shall be applied for on the day when the payment by the shareholder of the amount of the sale price to the bank account designated by the Company, as required by JASDEC, has been confirmed through the Securities Companies.

#### **Article 4.14 (Suspension Term of Acceptance of Request for Sale)**

The Company shall suspend acceptance of any Request for Sale for the period between the date that is ten (10) business days prior to each of the following dates of each year to each of the following dates:

- (1) March 31;
- (2) June 30;
- (3) September 30;
- (4) December 31; and
- (5) Other dates such as “shareholders fix dates” (Kabunushi-kakutei-bi) as designated by JASDEC.

2. Notwithstanding the preceding paragraph, the Company may suspend acceptance of a Request for Sale as it deems necessary.

**Article 4.15 (Exceptional Rules for Foreign Currency Bonds subject to Requests for Sale of Shares Less than One Unit)**

The provisions of Article 4.8 shall be applied *mutatis mutandis* to sales of shares less than one Unit.

**Chapter V. Exception for Special Account**

**Article 5.1 (Exception for Special Accounts)**

Handling of special accounts including identity verification of Shareholders with special accounts shall be governed by the provisions of the account management institutions of such special accounts as well as those of JASDEC.

**Chapter VI. Commission**

**Article 6.1 (Commissions)**

There shall be no commission charged with respect to the handling of the Company shares.

2. Notwithstanding the preceding paragraph, commission which Shareholders will pay or have paid to the Securities Companies and JASDEC shall be borne by the shareholders.

**Chapter VII. Miscellaneous Provisions**

**Article 7.1 (Justifiable Reason in Relation to Notification of All Shareholders)**

The Company may request Notification of All Shareholders from JASDEC for the following or other justifiable reasons:

- (1) if the board of directors or an executive officer authorized to decide matters relating to the execution of business determines the necessity of a notification to current holders of shares;
- (2) if the board of directors or an executive officer authorized to decide on matters relating to the execution of business determines that the current holders of shares should be reflected on the Register of Shareholders;
- (3) if the procedures for confirming the intention of Shareholders, (including those who are entitled to exercise their voting rights and other rights as shareholders and other related parties; the same shall apply hereinafter through Article 7.1, Paragraph 6 and Article 7.2, Paragraph 1 to 3) are taken;
- (4) if the board of directors or an executive officer authorized to decide on matters relating to the execution of business determines the necessity to confirm a Shareholder's information to ensure smooth communication with Shareholders and smooth implementations of other IR activities;
- (5) if the board of directors or an executive officer authorized to decide on matters relating to the execution of business determines the necessity to confirm a Shareholder's information upon acknowledgement of the possibility of a Request;
- (6) if the board of directors or an executive officer authorized to decide on matters relating to the execution of business determines the necessity to confirm a Shareholder's information in connection with submissions or non-submissions of large volume holding reports as provided in Article 27-23 of the Financial Instruments and Exchange Law (including a Change Report as provided in Article 27-25) (such large volume holding reports hereinafter referred to as "LVHR"), TOB notification as provided in Article 27-3 (including Correction Report as provided in Article 27-8) (hereinafter referred to as "TOB Notification"), or reports provided in Article 163 (hereinafter referred to as "Sale and Purchase Report"), or any other procedures or action taken pursuant to any laws or regulations; and

- (7) In addition to the preceding paragraphs (1) through (6), if the board of directors or an executive officer authorized to decide on matters relating to the execution of business reasonably determines the necessity of a Notification on a case-by-case basis.

**Article 7.2 (Justifiable Reason for Information Provision Request)**

The Company may make a request as provided in Article 277 of Transfer Law to Securities Companies or JASDEC for the following or other justifiable reasons:

- (1) if the board of directors or an executive officer authorized to decide on matters relating to the execution of business determines the necessity to confirm a Shareholder’s information to ensure smooth communication with Shareholders and smooth implementations of other IR activities;
- (2) if the board of directors or an executive officer authorized to decide on matters relating to the execution of business determines the necessity to confirm a Shareholder’s information upon acknowledgement of the possibility of a Request;
- (3) if the board of directors or an executive officer authorized to decide on matters relating to the execution of business determines the necessity to confirm a Shareholder’s information in connection with submissions or nonsubmissions of the LVHR, TOB Notification, or Sale and Purchase Report or any other procedures or actions taken pursuant to any laws or regulations; and
- (4) In addition to the preceding paragraphs (1) through (3), if the board of directors or an executive officer authorized to decide on matters relating to the execution of business reasonably determines the necessity of a provision request on a case-by-case basis.

**SUPPLEMENTARY PROVISIONS**

**Article 1. (Effective Date)**

This regulation takes effect on March 6, 1995.

**Regulation History**

Effective Date

Established: .....	March 6, 1995
1st Amendment: .....	December 1, 1999
2nd Amendment: .....	November 30, 2001
3rd Amendment: .....	January 15, 2002
4th Amendment: .....	April 1, 2003
5th Amendment: .....	June 25, 2003
6th Amendment: .....	June 23, 2004
7th Amendment: .....	April 26, 2005
8th Amendment: .....	October 1, 2005
9th Amendment: .....	December 1, 2005
10th Amendment: .....	June 20, 2006
11th Amendment: .....	January 5, 2009
12th Amendment: .....	March 1, 2010
13th Amendment: .....	November 22, 2011
14th Amendment: .....	July 17, 2012
15th Amendment: .....	October 7, 2013
16th Amendment: .....	June 23, 2015
17th Amendment: .....	May 27, 2016
18th Amendment: .....	July 1, 2019

## LIST OF SUBSIDIARIES

Name	Country of Incorporation	Principal Business	ORIX Voting Power <sup>1</sup>
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 Investment, Development, 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	Housing Development and Sales, Redevelopment	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%
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, Aircraft 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 899 Subsidiaries			

## LIST OF AFFILIATES

Avolon Holdings Limited	Ireland	Aircraft Leasing	30%
Kansai Airports	Japan	Airport Operation	40%
Another 202 Affiliates			

ORIX voting power includes ORIX's indirect voting power.

**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 29, 2020

By: \_\_\_\_\_ /s/ MAKOTO INOUE  
Name: Makoto Inoue  
Title: Chief Executive Officer





**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
ORIX Corporation:

We consent to the incorporation by reference in the registration statement (No. 333-219189) on Form F-3 of ORIX Corporation of our reports dated June 29, 2020, with respect to the consolidated balance sheets of ORIX Corporation and its subsidiaries as of March 31, 2020 and 2019, 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, 2020, 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, 2020, which reports appear in the March 31, 2020 annual report on Form 20-F of ORIX Corporation.

KPMG AZSA LLC  
Tokyo, Japan  
June 29, 2020