

Risk Management

Group-Wide Risk Management System

Risk Control

ORIX allocates management resources by taking into account Group-wide risk preference based on management strategies and the strategy of individual business units. It monitors its business both on an individual transaction and total portfolio basis, as well as by business unit. Business units and corporate divisions confirm progress of strategies and cooperate to analyze and manage risk from various perspectives.

The monitoring results are regularly reported to the Board

of Directors and the relevant executive officers. Those who receive the reports evaluate the performance, profitability and risk of each business unit and the total portfolio, and take measures deemed appropriate.

Through this process, we control the balance sheet while allocating more management resources to business units having greater growth potential.

Executive Officers

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

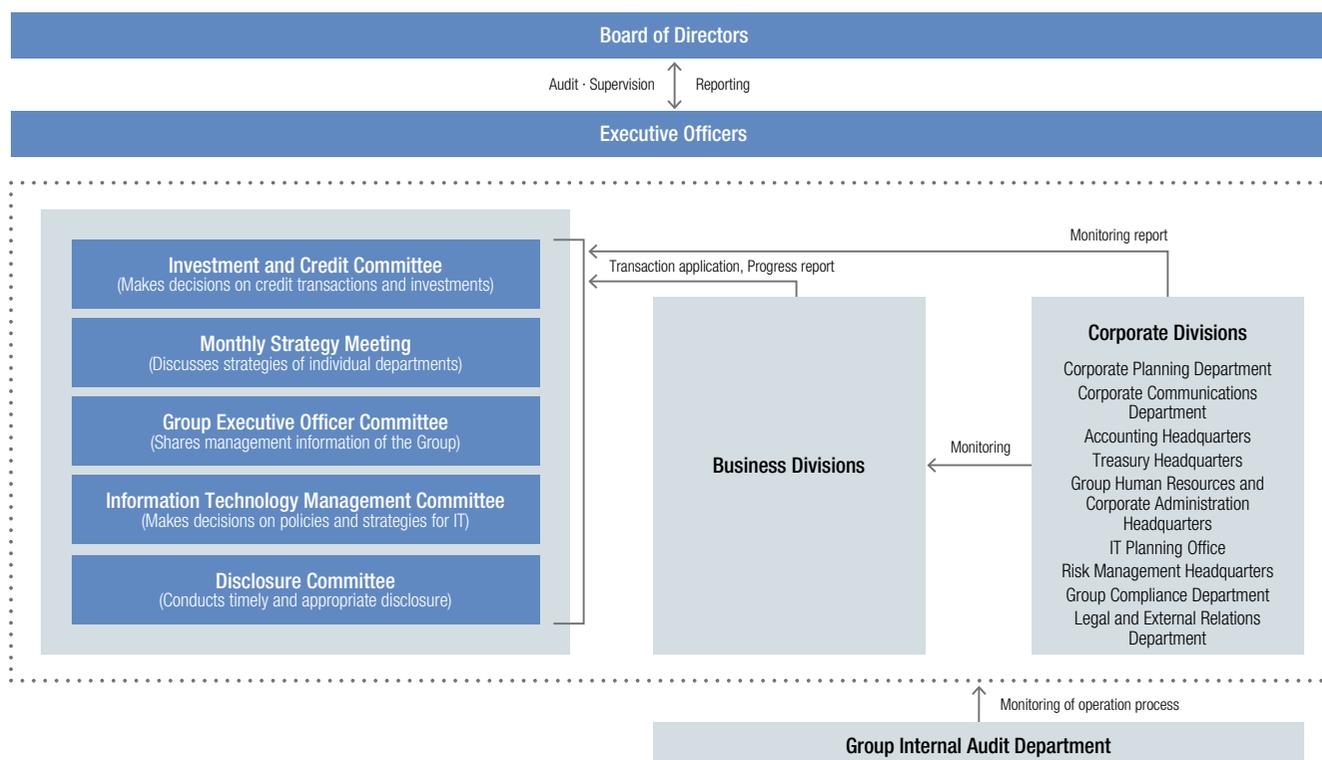
The duties of executive officers are decided by the Board of

Directors and the representative executive officers and are carried out in accordance with ORIX's various regulations. Group executives are appointed by the Board of Directors from among the directors and executive officers of the Group companies.

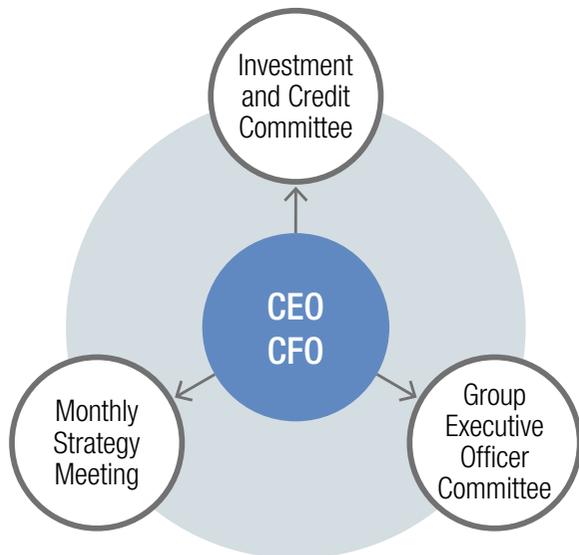
Characteristics of the Executive Officer System

- Operation and oversight are separated through a "Company with Nominating Committees, etc." board model.
- CEO and CFO are involved in all processes for evaluating individual transactions and monitoring the progress of strategies and plans of business units as well as the progress of strategies and plans of the Group as a whole.
- Executive officers and group executives regularly report and share information with CEO and CFO about progress of strategies and plans of business units they are responsible for.
- Executive officers and group executives along with CEO and CFO share information about strategies and plans of the Group as a whole.

Organization of Executive Officers (As of July 1, 2016)



Top Management Involvement in Main Functions of Executive Officers



- The Investment and Credit Committee deliberates individual transactions. Even small transactions are discussed thoroughly among senior management including CEO and CFO before final decisions are made.
- Monthly Strategy Meetings are held for the approximately twenty business units grouped under the six business segments, including corporate divisions. CEO and CFO, in principle, have discussions with each divisional head to confirm plans, progress, and outlook, and then give instructions as necessary.
- At the Group Executive Officer Committee, attended by all executive officers and group executives, CEO shares information about progress of the Group strategy and CFO shares information about numerical aspects.

Individual Executive Bodies

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

Investment and Credit Committee (“ICC”)

(Three times a month in principle)

Attendees: Top management and executive officers involved in projects

- Meets primarily to deliberate and make decisions on credit transactions and investments that exceed certain specified investment or credit amounts and important matters related to management of the Company and matters that have been entrusted to representative executive officers by the Board of Directors.
- In consideration of their importance, the content of the matters and items decided by the ICC are reported to the Board of Directors as necessary.

Monthly Strategy Meeting

(Once a month in principle)

Attendees: Top management and each divisional head

- Meets to discuss matters such as the state of achievement of strategic targets and changes in the business environment.
- Matters of high importance discussed at the Monthly Strategy Meeting are deliberated and decided by the ICC and reported to the Board of Directors as necessary.

Group Executive Officer Committee

(Once a month in principle)

Attendees: Executive officers and group executives

- Meets to share important information related to the business administration of the ORIX Group.

Information Technology Management Committee

(Once a month in principle)

Attendees: Top management and the executive officer in charge of IT systems

- Meets to deliberate and decide important matters concerning fundamental policies for IT operations and IT systems.
- Ensures that IT decisions are consistent with its business strategies and works to realize IT investments that contribute to business growth and reduce risk.

Disclosure Committee

(As necessary)

Attendees: CFO (Chairperson) and executive officers in charge of Corporate Planning Department, Treasury Headquarters, Accounting Headquarters, Risk Management Headquarters, Legal and External Relations Department, Group Compliance Department, Group Human Resources and Corporate Administration Headquarters, Group Internal Audit Department and Corporate Communications Department

- Upon receiving warnings regarding important information from those in charge of individual departments, the Disclosure Committee meets to discuss whether any timely disclosure is required and takes steps to provide appropriate disclosure of such information, if necessary.
- The committee controls information disclosure and facilitates the appropriate and timely disclosure of information to stakeholders.

Risk Management

Main Risk Management

Main Risk Management

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

| Credit Risk Management

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

To analyze credit risk, we evaluate the adequacy of collateral and guarantees, the liquidation of debt and the concentration of debtors and their business types. We conduct a comprehensive customer credit evaluation based on the customer's financial position, cash flow, underlying security interests, profitability and other factors of individual credit transactions.

Moreover, an analysis of our portfolio, as well as measures to establish appropriate credit limits, allows us to control exposure to markets with potentially high risks.

We recognize certain assets that require extra monitoring, including credit extended to debtors who have petitioned for bankruptcy or civil rehabilitation, or other insolvency proceedings, 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 know-how from sending an initial reminder to actively seizing collateral is consolidated in the credit department and is reflected in our evaluation criteria for individual credit transactions and portfolio analysis.

| Business Risk Management

We define *business risk* as uncertainties related to new business areas, potential obsolescence of the products or services we offer or a decline in their quality, and variability in market prices for the types of products or services we offer.

Against uncertainties related to new business areas, we monitor business plans and operations using scenario analyses and stress tests, and we also evaluate and verify the cost of withdrawal from a business.

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

their quality.

A principal risk relating to operating leases is fluctuation in the residual value of the leased properties. To control fluctuation in residual value, we monitor our inventories of leased properties, market environments and the overall business environment. We generally limit our operating leases to leased properties with high versatility that are comparatively easy to re-lease, and evaluate the sale of such properties depending on changes in market conditions.

We endeavor to reduce the risk related to fluctuation in market prices for real estate by strengthening our cash flow.

| Market Risk Management

We define *market risk* as the risk of changes in the fair value of assets and liabilities caused by changes in market variables, such as interest rates, exchange rates and stock prices.

We establish Group-wide ALM (Asset-Liability Management) policies, and we endeavor to comprehensively verify and understand market risks.

Interest rate risk is comprehensively evaluated factoring in the expected impact of interest rate changes on periodic profit and loss and/or the balance sheet, the assets and liabilities positions, and the funding environment. These analysis methods are modified, as required, depending on the situation.

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 closely monitor and manage exchange rate risk of unhedged

foreign currency denominated assets and retained earnings of foreign subsidiaries using appropriate indicators such as the 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.

For assets that we manage in our banking business, our life insurance business and our overseas operations, we regularly monitor monetary policies, macroeconomic indicators and securities and financial market trends, and manage our asset portfolios by analyzing individual security price movements and gains and losses. Market volatility is managed according to guidelines that include instruction to cut off loss and downsize certain position. Our credit department monitors our compliance with the guidelines.

| Liquidity Risk Management (Risk Management Relating to Funding)

We define *liquidity risk* as the risk that we will be unable to obtain the required funds or that we will be forced to secure funding at a significantly high interest rate due to market turmoil, deteriora-

tion in the financial condition of ORIX or other reasons.

To reduce liquidity risk, we diversify our funding methods and sources and monitor liquidity on hand. To manage liquidity on hand, we project future cash flows and analyze liquidity risk using hypothetical stress scenarios. We take necessary measures so that business may continue undisturbed in the event of 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 manage liquidity risk, such as intercompany loans extended to our subsidiary.

ORIX Bank Corporation (“ORIX Bank”) and ORIX Life Insurance Corporation (“ORIX Life Insurance”) provide products and services to retail customers and are regulated by Japanese finan-

Legal Risk Management

We define *legal risk* as the risk of legal liability or legal disadvantage arising due to noncompliance with applicable laws and/or regulations in relation to the management of the business.

To avoid, prevent and mitigate transactional legal risk in Japan, in principle we require that the credit department, the legal department and the compliance department be involved in evaluating and/or executing transactions. In addition to establishing and maintaining internal rules designed to facilitate legal compliance, we take steps to further ensure compliance with future revisions to laws.

For business transactional agreements, we have established an approval process involving the legal department in accordance with our prescribed internal rules. In addition, depending on the size and importance of a given transaction, we may utilize the expertise of outside lawyers if it is deemed appropriate. To

Operational Risk Management

We define *operational risk* as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Operational risk is inherent in our business and includes compliance risk and fiduciary risk.

Compliance risk is the risk of financial loss, regulatory sanction or damage to our reputation resulting from a failure by ORIX to comply with applicable laws and regulations where it conducts its business and ORIX’s internal policies, rules and procedures and may encompass legal risk when applicable laws and regulations are violated.

Fiduciary risk is the risk of loss resulting from a failure to properly exercise discretion when acting on behalf of our customers and clients.

Each ORIX department conducts an annual compliance program to address material risks at the Group level. The internal audit department conducts monitoring activities based on an annual internal audit plan that focuses on material risks. The department endeavors to prevent the occurrence of events that could negatively affect Group management and seeks to strengthen

cial authorities. They are required to manage liquidity risk independently from other ORIX Group companies based on internal regulations formulated according to the relevant regulations.

ORIX Bank maintains the required liquidity levels by holding highly liquid assets such as cash and government and corporate bonds and by setting an upper limit for capital market funding. In addition, it regularly monitors its liquidity position against these measures, conducts stress tests on cash flow under different scenarios.

ORIX Life Insurance conducts stress tests on insured events and ensures the necessary liquidity 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 setting maximum limits for holding held-to-maturity securities.

ensure that proper legal procedures are followed in connection with potential disputes and litigation, we require that the legal department, the compliance department and the credit department be involved in the management of such disputes and litigation, including lawsuits that have been, or are expected to be, brought against us and lawsuits that we bring, or expect to bring, against third parties.

The administration department monitors the company’s use of intellectual property and takes necessary corrective measures when potential infringement of third party intellectual property rights is detected.

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

the risk management function through monitoring activities.

The compliance department supports the business and operations functions by implementing and maintaining compliance programs designed to identify and manage compliance risks in each jurisdiction where ORIX does business and to support a strong culture of compliance throughout the Group.

In FY2016.3, ORIX undertook to enhance compliance risk management in its global businesses and in connection with that effort updated its Principles of Conduct and introduced a Code of Conduct and Ethics to increase compliance awareness among its directors, executive officers and employees throughout the Group.

The IT planning department and ORIX Computer Systems Corporation endeavor to reduce operational risk including risks of cyber-attacks and other information security threats through the maintenance and operational administration of internal systems.

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

Risk Management

Individual Business Risk Management

Individual Business Risk Management

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

Corporate Financial Services

Credit risk is the main risk of the Corporate Financial Services segment.

After individual transactions have been executed, the Corporate Financial Services segment regularly monitors performance and collateral, as well as collection from customers whose balances exceed specified levels. The credit department regularly evaluates customers with large credit balances.

We analyze current conditions and outlook for specific

business types and industries, including the potential impact on customers while making decisions about future transactions in that specific business type or industry.

For those assets requiring extra monitoring, particularly in transactions secured by real estate, we take various measures such as capitalizing on our network of real estate-related departments within the Group to sell properties or introduce tenants.

Maintenance Leasing

Business risk and credit risk are the main risks of the Maintenance Leasing segment.

To manage the risk of changes in market values of assets under operating leases, we continuously monitor market environments and fluctuation in the resale value of leased assets and adjust residual value estimates of leased property in new transactions accordingly.

Cost fluctuation is the main risk that we manage when we provide various services to our customers. In response to this, we analyze initial cost planning and performance, moni-

tor future forecasts and control costs at an appropriate level.

In addition, to manage the risk that the quality of our services might fall short of customer expectations due to changes in the operating environment or diversification of client needs, we conduct quantitative and qualitative monitoring on our service quality and continuously strive to improve our services in line with the operating environment.

We also conduct credit examinations of individual transactions to manage credit risk.

Real Estate

In the Real Estate segment, the main risk for real estate development, rental and operation is business risk.

With respect to real estate investment, before making an investment decision we evaluate the actual cash flow performance of the investee target against the initial plan and forecasts, and monitor investment strategies and schedules after execution. When a material divergence from the initial forecast is detected, 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 rental business, we monitor development and operation schedules and NOI yield. We capitalize on the Group's network to improve occupancy rates and support sales.

In our facility operation business, we monitor performance indicators such as occupancy rates and profitability. We conduct market analysis and take initiatives to improve the marketability of our facilities, such as through renovations. To improve the quality of our services and facilities, we strive to take into consideration customers' feedback and also implement training programs for our employees.

Investment and Operation

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

In the environment and energy business, for renewable energy, energy conservation and resource and waste processing operations, we endeavor to minimize business risk by deploying appropriate equipment and technology, forming alliances with expert operators and arranging our business structure to allow for changes in the business environment and the business content.

When making investment decisions in the principal investment business, we conduct a credit evaluation, analyzing the investee's credit profile and assessing its cash flow, similar to the usual credit examinations. In addition, we perform a multifaceted evaluation on the characteristics of the business operation and investment scheme, in which corporate departments such as the accounting and legal departments are also involved.

After the initial investment, individual transactions are monitored for any divergence from the initial projection. Furthermore, during the phase where we take steps to enhance the investees' corporate values, we focus on credit risk and watch cash flow closely. We also monitor market risk as the

time for exit nears, benchmarking investees' corporate values to their peers.

The frequency of monitoring may increase depending on 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, we work to strengthen management through measures such as the secondment of management personnel.

In the loan servicing business, we seek to reduce credit and operational risks by conducting periodic internal auditing and monitoring and by implementing business operations based on work procedures in accordance with the applicable supervision and guidance from regulatory authorities. In addition, ORIX Asset Management & Loan Services Corporation has designated an outside lawyer as a company director to be in charge of the company's legal and compliance department, and also ensure necessary organizational system is in place to handle legal and compliance related matters with any stakeholders professionally and with an objective and broad viewpoint.

Retail

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

When underwriting insurance policies, while implementing strict assessment standards based on documents such as statements of health condition and medical examination reports, ORIX Life Insurance cultivates employees with expert knowledge and hires sufficient staff, checks the status of insurance solicitation and takes rigorous measures to prevent the underwriting of fraudulent contracts. In addition, ORIX Life Insurance educates and instructs agency staff and agents to enhance legal compliance regarding the privacy of personal information, as well as insurance sales practices, and regularly checks whether these measures are carried out.

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

Regarding each housing loan we extend for investment properties mainly condominiums and apartments, we conduct screenings through individual interviews, which consist

of a comprehensive evaluation including not only the client's ability to repay but also the cash flows that can be derived from the property and its collateral value. Throughout this process, we utilize the real estate market information, industry know-how and network we have built for many years.

Decision making for corporate loans is based on an investigation of the client's performance, business plan, the purpose of the loan, the expected source of repayment and industry trends. We also reduce risks by avoiding overconcentration in particular business types and products in our portfolio.

The card loan business uses a proprietary scoring system incorporating a credit screening model. We set interest rates and credit limits in line with each customer's credit risk profile, after evaluating their creditworthiness based on an analysis of customer attributes or payment history, as well as other factors that might affect the ability of the borrower to repay. Also, we undertake subsequent credit evaluations at regular intervals to monitor changes in the customer's financial condition.

Overseas Business

In the Overseas Business segment, credit risk is the main risk of the leasing and loan businesses operated by local subsidiaries, which are located mainly in Asia.

Individual transactions in this segment are conducted in a manner similar to those in the domestic business segments. The credit department monitors the portfolio according to country risk. Information regarding the portfolio of the respective local subsidiaries, the business condition of major clients, the condition of those assets requiring extra monitoring and the clients of particular concern is shared internally.

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

In addition, in the ship and aircraft-related business, we monitor market conditions and the overall business environment for business risk. We generally limit our operating leases to ships and aircraft with high versatility that are comparatively easy to re-lease and evaluate sales depending on changes in market conditions.

Credit risk and market risk are the main risks for the investment and finance business, including corporate loans and securities investment in the United States.

Regarding credit risk, at the time when an investment or a loan is made, we assign an internal credit rating to each transaction taking into consideration the credit status and the collateral status and continuously monitor the credit status. For any investment and/or loan of which the rating has reached or exceeded the caution level, our policy requires management to determine the necessity of a provision for doubtful receivables and probable loan losses or impairment.

Regarding market risk, we monitor market values while referring to credit risk information and manage risk by pursuing early sales as appropriate to secure profits or minimize losses.

Operational risk is the main risk for the loan servicing business in the United States. We arrange loans and conduct servicing operations thereof under public financing schemes such as the Federal National Mortgage Association and the Federal Housing Administration. We conduct our operations based on the designated operating procedures set forth by these public financial institutions, and monitor and manage service quality through internal auditing.

Business risk and operational risk are the main risks for the asset management business and the advisory business.

Regarding business risk, in addition to monitoring to maintain and ensure satisfactory quality levels, we review the content of our products and services to constantly maintain and improve quality in response to changes in the business environment and evolving customer needs.

In the asset management business, we have established an internal compliance system to manage operational risk and manage our operations to abide by the compliance standards established by the supervisory authority. Regarding operational risk in the advisory business, we maintain and ensure quality and operational procedures that meet the operating standards set forth by authorities through an internal quality control committee and other oversight so that high-quality advice and/or evaluation services can be supplied to customers according to proper operating procedures.