ORIX CORP
Form 6-K
November 13, 2013
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 OF

THE SECURITIES EXCHANGE Act of 1934

For the month of November 2013.

Commission File Number: 001-14856

ORIX Corporation

(Translation of Registrant s Name into English)

World Trade Center Bldg., 2-4-1 Hamamatsucho, Minato-Ku,

Tokyo, JAPAN

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

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Table of Document(s) Submitted

1. This is an English translation of ORIX Corporation s quarterly financial report (*shihanki houkokusho*) as filed with the Kanto Financial Bureau in Japan on November 13, 2013, which includes unaudited consolidated financial information prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for the three and six months ended September 30, 2012 and 2013.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORIX Corporation

Date: November 13, 2013	By /s/ Haruyuki Urata Haruyuki Urata Director Deputy President and Chief Financial Officer ORIX Corporation

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CONSOLIDATED FINANCIAL INFORMATION

Notes to Translation

1. The following is an English translation of ORIX Corporation s quarterly financial report (*shihanki houkokusho*) as filed with the Kanto Financial Bureau in Japan on November 13, 2013, which includes unaudited consolidated financial information prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for the three and six months ended September 30, 2012 and 2013.

2. Significant differences between U.S. GAAP and generally accepted accounting principles in Japan (Japanese GAAP) are stated in the notes of Overview of Accounting Principles Utilized.

In preparing its consolidated financial information, ORIX Corporation (the Company) and its subsidiaries have complied with U.S. GAAP.

This document may contain forward-looking statements about expected future events and financial results that involve risks and uncertainties. Such statements are based on our current expectations and are subject to uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements. Factors that could cause such a difference include, but are not limited to, those described under Risk Factors in the Company s most recent annual report on Form 20-F filed with the U.S. Securities and Exchange Commission.

This document contains non-GAAP financial measures, including adjusted long-term and interest-bearing debt, adjusted total assets and adjusted ORIX Corporation shareholders equity, as well as other measures and ratios calculated on the basis thereof. These non-GAAP financial measures should not be considered in isolation or as a substitute for the most directly comparable financial measures included in our consolidated financial statements presented in accordance with U.S. GAAP. Reconciliations of these non-GAAP financial measures to the most directly comparable U.S. GAAP measures are included in these documents.

The Company believes that it will be considered a passive foreign investment company for U.S. Federal income tax purposes in the year to which these consolidated financial results relate and for the foreseeable future by reason of the composition of its assets and the nature of its income. A U.S. holder of the shares or ADSs of the Company is therefore 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. Investors should consult their tax advisors with respect to such rules, which are summarized in the Company s annual report.

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1. Information on the Company and its Subsidiaries
(1) Consolidated Financial Highlights

	Millions of yen (except for per share amounts and ratios)		
	Six months ended September 30, 2012	Six months ended September 30, 2013	Fiscal year ended March 31, 2013
Total revenues	¥ 508,534	¥ 614,131	¥ 1,064,484
Income before income taxes and discontinued operations	87,433	123,575	172,332
Net income attributable to ORIX Corporation shareholders	59,840	80,408	111,909
Comprehensive Income attributable to ORIX Corporation shareholders	44,970	85,568	171,791
ORIX Corporation shareholders equity	1,415,999	1,759,626	1,643,596
Total assets	8,186,534	8,429,989	8,439,710
Earnings per share for net income attributable to ORIX Corporation shareholders			
Basic (yen)	55.65	64.67	102.87
Diluted (yen)	46.59	61.86	87.37
ORIX Corporation shareholders equity ratio (%)	17.3	20.9	19.5
Cash flows from operating activities	215,733	218,969	391,304
Cash flows from investing activities	272	(110,713)	105,657
Cash flows from financing activities	(279,428)	(230,853)	(467,193)
Cash and cash equivalents at end of period	719,012	706,289	826,296

	Three months ended September 30, 2012	Three months ended September 30, 2013
Total revenues	¥ 258,092	¥ 335,329
Net income attributable to ORIX Corporation shareholders	25,067	35,401
Earnings per share for net income attributable to ORIX Corporation shareholders		
Basic (yen)	23.31	28.19

Notes:
1. Pursuant to FASB Accounting Standards Codification (ASC) 205-20 (Presentation of Financial Statements Discontinued Operations), certain amounts in the fiscal year ended March 31, 2013 related to the operations of subsidiaries, business units, and certain properties, that have been sold or are to be disposed of by sale without significant continuing involvement as of September 30, 2013 have been reclassified retrospectively.
2. Consumption tax is excluded from the stated amount of total revenues.
3. On April 1, 2013, the Company implemented a 10-for-1 stock split of common stock held by shareholders registered on the Company s register of shareholders as of March 31, 2013. Per share data has been adjusted retrospectively to reflect the stock split for the previous period presented.

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(2) Overview of Activities

During the six months ended September 30, 2013, no significant changes were made in the Company and its subsidiaries operations.

During the three months ended September 30, 2013, pursuing its growth ambitions in global asset management, the Company completed the acquisition of approximately 90.01% of the total issued shares of Robeco Groep N.V. (Head office: Rotterdam, the Netherlands, hereinafter, Robeco) from Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Head office: Utrecht, the Netherlands). As a result, Robeco became a consolidated subsidiary of the Company since July 1, 2013.

2. Risk Factors

Investing in our securities involves risks. You should carefully consider the information described herein as well as the risks described under Risk Factors in our Form 20-F for the fiscal year ended March 31, 2013 and the other information in that 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 those factors or other factors.

3. Material Contracts

Not applicable.

4. Analysis of Financial Results and Condition

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 that could have a material effect on our financial condition and results of operations in the future. However, please be advised that financial conditions and results of operations in the future may also be affected by factors other than those discussed here. These factors and trends regarding the future were assessed as of the issue date of the quarterly financial report (shihanki houkokusho).

(1) Qualitative Information Regarding Consolidated Financial Results

Economic Environment

Although the global economy continues to carry downside risks such as decelerating growth in emerging countries and lingering uncertainties in European sovereign debt issues, the risk of another serious global financial crisis is receding, with signs of improvement in the United States economy.

In the United States, although there is concern regarding the effect of increasing home loan interest rates on the housing market, private consumption has been firm on the back of increased wages and employment levels, and income and consumption in the retail sector are beginning to create a self-sustained healthy economic cycle. Meanwhile, although the feared tapering of Quantitative Easing Program (QE3) has been suspended for the time being, once again fiscal issues such as the U.S. debt-ceiling crisis are gaining attention.

In Asia s emerging economies, the Chinese economy is at a standstill due to policies restricting investment and India also continues to experience slower growth. In the ASEAN region, although the economic growth rate is beginning to decelerate as the economic slowdown gathers momentum, at the moment in many countries we are seeing higher market share prices and currency appreciation as a result of a delay in tapering Quantitative Easing Programs in the U.S.

In Japan, although a rapid depreciation of the yen and rise in market share prices that continued from the beginning of the year has subsided for the moment, we expect ongoing recovery in the domestic economy due to monetary easing by the Bank of Japan and various economic measures. Moving forward, against a background of improving Japanese domestic company results brought about by the depreciation of yen and increased public investment, we anticipate an increase in private consumption and improvement in the domestic employment environment. Further, following Tokyo s selection to host the 2020 Summer Olympics, there is anticipation of long term investment in Tokyo s infrastructure and increased private investment.

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Financial Highlights

Financial Results for the Six Months Ended September 30, 2013

Total revenues	¥614,131 million (Up 21% year on year)
Total expenses	¥506,735 million (Up 17% year on year)
Income before income taxes and discontinued operations	¥123,575 million (Up 41% year on year)
Net income attributable to ORIX Corporation Shareholders	¥80,408 million (Up 34% year on year)
Earnings per share for net income attributable to ORIX Corporation Shareholders	
(Basic)	¥64.67 (Up 16% year on year)
(Diluted)	¥61.86 (Up 33% year on year)
ROE (Annualized) *1	9.5% (8.6% during the same period of the previous fiscal year)
ROA (Annualized) *2	1.91% (1.45% during the same period of the previous fiscal year)

*1 ROE is the ratio of net income attributable to ORIX Corporation Shareholders for the period to average ORIX Corporation Shareholders Equity.

*2 ROA is the ratio of net income attributable to ORIX Corporation Shareholders for the period to average Total Assets.

*3 On April 1, 2013, the Company implemented a 10-for-1 stock split of common stock held by shareholders registered on the Company s register of shareholders as of March 31, 2013. Per share data has been retrospectively adjusted to reflect the stock split for the previous period presented.

Total Revenues for the six-month period ended September 30, 2013 (hereinafter the second consolidated period) increased 21% to ¥614,131 million compared to ¥508,534 million during the same period of the previous fiscal year. In addition to an increase in revenues from asset management and servicing due to the acquisition of asset management company Robeco Groep N.V. (hereinafter Robeco), operating lease revenues increased due to growth in auto leasing in Japan and aircraft leasing overseas, as did other operating revenues due to contributions from companies acquired after March 31, 2012, growth in the environment and energy-related business, and an increase in commission income compared to the same period of the previous fiscal year. On the other hand, real estate sales decreased compared to the same period of the previous fiscal year due to a decrease in the number of condominium units delivered.

Total Expenses increased 17% to ¥506,735 million compared to ¥431,498 million during the same period of the previous fiscal year. In addition to an increase in expenses from asset management and servicing in line with the acquisition of Robeco, costs of operating leases and other operating expenses increased in line with an expansion in revenues from operating leases and other operations, and selling, general and administrative expenses increased mainly due to corporate acquisitions made after March 31, 2012. Meanwhile, interest expense decreased due to a decrease in the average balance of borrowing; costs of real estate sales decreased due to a decrease in the number of condominium units delivered; and write-downs of securities decreased mainly due to a decrease in write-downs recorded for non-marketable securities compared to the same period of the previous fiscal year.

Equity in net income of affiliates increased compared to the same period of the previous fiscal year mainly due to an increase in profits from domestic joint real-estate ventures.

As a result of the foregoing, income before income taxes and discontinued operations for the second consolidated period increased 41% to ¥123,575 million compared to ¥87,433 million during the same period of the previous fiscal year, and net income attributable to ORIX Corporation shareholders increased 34% to ¥80,408 million compared to ¥59,840 million during the same period of the previous fiscal year.

For more information about the acquisition of Robeco, see Note 4 Acquisitions .

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Segment Information

Total revenues and profits by segment for the six months ended September 30, 2012 and 2013 are as follows:

	Millions of yen							
	Six months ended September 30, 2012		Six months ended September 30, 2013		Change (revenues)		Change (profits)	
	Segment Revenues	Segment Profits	Segment Revenues	Segment Profits	Amount	Percent (%)	Amount	Percent (%)
Corporate Financial Services	¥ 36,135	¥ 11,753	¥ 35,646	¥ 10,824	¥ (489)	(1)	¥ (929)	(8)
Maintenance Leasing	117,403	17,772	126,863	21,135	9,460	8	3,363	19
Real Estate	108,044	2,982	99,300	8,769	(8,744)	(8)	5,787	194
Investment and Operation	49,228	16,408	78,683	22,215	29,455	60	5,807	35
Retail	88,940	23,647	103,474	28,379	14,534	16	4,732	20
Overseas Business	93,287	22,660	151,364	34,204	58,077	62	11,544	51
Total	493,037	95,222	595,330	125,526	102,293	21	30,304	32
Difference between Segment Total and Consolidated Amounts	15,497	(7,789)	18,801	(1,951)	3,304	21	5,838	
Total Consolidated Amounts	¥ 508,534	¥ 87,433	¥ 614,131	¥ 123,575	¥ 105,597	21	¥ 36,142	41

Total assets by segment as of March 31, 2013 and September 30, 2013 are as follows:

	Millions of yen					
	March 31, 2013		September 30, 2013		Change	
	Segment Assets	Composition ratio (%)	Segment Assets	Composition ratio (%)	Amount	Percent (%)
Corporate Financial Services	¥ 893,235	10.6	¥ 895,137	10.6	¥ 1,902	0
Maintenance Leasing	599,360	7.1	634,662	7.5	35,302	6
Real Estate	1,133,170	13.4	1,045,505	12.4	(87,665)	(8)
Investment and Operation	444,315	5.3	434,230	5.2	(10,085)	(2)
Retail	1,994,140	23.6	2,056,642	24.4	62,502	3
Overseas Business	1,318,434	15.6	1,682,603	20.0	364,169	28
Total	6,382,654	75.6	6,748,779	80.1	366,125	6
Difference between Segment Total and Consolidated Amounts	2,057,056	24.4	1,681,210	19.9	(375,846)	(18)
Total Consolidated Amounts	¥ 8,439,710	100.0	¥ 8,429,989	100.0	¥ (9,721)	(0)

Segment profits for the second consolidated period increased 32% to ¥125,526 million compared to ¥95,222 million during the same period of the previous fiscal year.

In line with the acquisition of Robeco, goodwill and other intangible assets have been allocated to the relevant segments from the second consolidated period. The segment information for the previous periods has been reclassified to reflect this change.

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Segment information for the second consolidated period is as follows:

Corporate Financial Services Segment

This segment is involved in lending, leasing and fee business.

During the second consolidated period, improved revenues have not been limited to companies in the manufacturing industry but have extended to include large domestic companies across different industries. Also, small and medium-sized enterprises are showing signs of recovery in performance as a result of growing domestic demand including increased public investment.

Segment assets remained flat at ¥895,137 million compared to the end of the previous fiscal year primarily due to a decrease in installment loans, despite an increase in the balance of investment in direct financing leases.

Installment loan revenues have decreased in line with a decrease in the average loan balance. On the other hand, segment revenues only decreased 1% to ¥35,646 million compared to ¥36,135 million during the same period of the previous fiscal year due to solid direct financing lease revenues as a result of an increase in the average investment balance.

Segment profits decreased 8% to ¥10,824 million compared to ¥11,753 million during the same period of the previous fiscal year due to segment expenses remaining flat compared to the same period of the previous fiscal year and a decrease in equity in net income of affiliates.

Maintenance Leasing Segment

This segment consists of automobile and rental operations. The automobile operations are comprised of automobile leasing, rentals and car sharing. The rental operations are comprised of leasing and rental of precision measuring and IT-related equipment.

The manufacturing activities of Japanese companies are showing signs of recovery. Large companies are making upward revision of their capital expenditure plans and there are signs that private investment activities that had been halted for a period of time are beginning to be resumed. In such an environment, revenues have remained stable due to our ability to provide customers with high value-added services that meet corporate customers capital expenditure and cost reduction needs.

Segment revenues continued to progress steadily due to an increase in operating lease revenues, increasing 8% to ¥126,863 million compared to ¥117,403 million during the same period of the previous fiscal year. Segment expenses increased compared to the same period of the previous fiscal year due to an increase in the costs of operating leases in line with increased investment in operating leases.

As a result of the foregoing, segment profits increased 19% to ¥21,135 million compared to ¥17,772 million during the same period of the previous fiscal year.

Segment assets increased 6% compared to the end of the previous fiscal year to ¥634,662 million due to increases in both investment in operating leases and investment in direct financing leases.

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Real Estate Segment

This segment consists of real estate development, rental and financing, facility operation, REIT asset management, and real estate investment advisory services.

The office building market in Japan continues to show signs of recovery with the vacancy rate falling below its peak and rent levels appearing to have bottomed out. In addition, the J-REIT (Japanese real estate investment trust) market is showing improvement due to an increase in land prices in Japan s three largest cities for the first time in five years, a decrease in long term interest rates and anticipation of a rise in real estate prices as a result of Tokyo being selected to host the 2020 Summer Olympics.

Segment revenues decreased 8% to ¥99,300 million compared to ¥108,044 million during the same period of the previous fiscal year due to a decrease in real estate sales resulting from a decrease in the number of condominiums units delivered despite an increase in revenues from facilities operation.

Segment expenses decreased compared to the same period of the previous fiscal year due to decreases in costs of real estate sales and write-downs of securities despite an increase in write-downs of long-lived assets.

In addition to the foregoing, due to an increase in equity in net income of affiliates and recognition of gains from sales of real estate joint ventures, segment profits increased 194% to ¥8,769 million compared to ¥2,982 million during the same period of the previous fiscal year.

Segment assets decreased 8% compared to the end of the previous fiscal year to ¥1,045,505 million due to sales of rental properties, as well as decreases in installment loans and investment securities.

Investment and Operation Segment

This segment consists of environment and energy-related business, loan servicing, and principal investment.

In the environment and energy-related business in Japan, there has been ongoing active investment in power generation business projects such as mega-solar. In addition, investment targets are expanding beyond solar power projects to include wind and geothermal power generation projects. Meanwhile, in Japan, recovery in the stock market is gaining momentum with an increase in the number of initial public offerings for the third consecutive year of which many companies are exceeding their public offering price.

Segment revenues increased 60% to ¥78,683 million compared to ¥49,228 million during the same period of the previous fiscal year due to an increase in gains on sales of investment securities and revenue contributions from consolidated subsidiaries acquired after March 31, 2012, despite a decrease in installment loan revenues due to absence of revenues from large collections in the loan servicing business recorded during the first consolidated fiscal period of the previous fiscal year.

Similarly, segment expenses increased compared to the same period of the previous fiscal year due to increases in expenses attributable to aforementioned consolidated subsidiaries acquired after September 30, 2012.

As a result of the foregoing, segment profits increased 35% to ¥22,215 million compared to ¥16,408 million during the same period of the previous fiscal year.

Segment assets decreased 2% compared to the end of the previous fiscal year to ¥434,230 million due to a decrease in investment in securities and installment loans despite an increase in investment in affiliates.

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Retail Segment

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

Segment revenues increased 16% to ¥103,474 million compared to ¥88,940 million during the same period of the previous fiscal year due to an increase in installment loan revenues, steady growth in insurance premium income as a result of an increase in the number of policies in force in the life insurance business and an increase in insurance-related investment income.

Segment expenses increased due to an increase in selling, general and administrative expenses as well as an increase in insurance related costs.

As a result of the foregoing, segment profits increased 20% to ¥28,379 million compared to ¥23,647 million during the same period of the previous fiscal year.

Segment assets increased 3% compared with the end of the previous fiscal year to ¥2,056,642 million due to increases in investment in securities and installment loans despite a decrease in investment in affiliates.

Overseas Business Segment

This segment consists of leasing, lending, investment in bonds, investment banking, and ship- and aircraft-related operations in the United States, Asia, Oceania and Europe. In addition, asset management operations have been added to this segment as a major business following the acquisition of Robeco.

In the United States, a moderate recovery is continuing while private consumption and the residential markets remained steady. In Asia, although the growth rate is beginning to decelerate as the economic slowdown gathers momentum, at the moment in many countries we are seeing higher market share prices and currency appreciation as a result of a delay in tapering QE3 in the U.S.

Segment revenues increased 62% to ¥151,364 million compared to ¥93,287 million during the same period of the previous fiscal year due to an increase in revenues from asset management in line with the acquisition of Robeco, an increase in direct financing lease revenues in Asia and an increase in aircraft operating lease revenues.

Segment expenses increased compared to the same period of the previous fiscal year due to an increase in costs of operating leases in addition to an increase in expenses from asset management and selling, general and administrative expenses in line with the acquisition of Robeco.

As a result of the foregoing, segment profits increased 51% to ¥34,204 million compared to ¥22,660 million during the same period of the previous fiscal year.

Segment assets increased 28% to ¥1,682,603 million compared to the end of the previous fiscal year due to recognition of goodwill and other intangible assets in line with the acquisition of Robeco, increased investment in operating leases such as aircraft, increased investment in direct financing leases in Asia and increased investment in affiliates.

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(2) Financial Condition

	As of March 31, 2013	As of September 30, 2013	Change Amount	Change Percent (%)
Total assets (millions of yen)	8,439,710	8,429,989	(9,721)	(0)
(Segment assets)	6,382,654	6,748,779	366,125	6
Total liabilities (millions of yen)	6,710,516	6,551,616	(158,900)	(2)
(Short- and long-term debt)	4,482,260	4,120,035	(362,225)	(8)
(Deposits)	1,078,587	1,109,583	30,996	3
ORIX Corporation shareholders equity (millions of yen)	1,643,596	1,759,626	116,030	7
ORIX Corporation shareholders equity per share (yen)	1,345.63	1,380.37	34.74	3
ORIX Corporation shareholders equity ratio	19.5%	20.9%	1.4%	
Adjusted ORIX Corporation shareholders equity ratio*	21.4%	21.9%	0.5%	
D/E ratio (Debt-to-equity ratio) (Short-and long-term debt (excluding deposits) / ORIX Corporation shareholders equity)	2.7x	2.3x	(0.4)x	
Adjusted D/E ratio*	2.3x	2.1x	(0.2)x	

* ORIX Corporation shareholders equity per share is calculated using total ORIX Corporation shareholders equity.

* On April 1, 2013, the Company implemented a 10-for-1 stock split of common stock held by shareholders registered on the Company s register of shareholders as of March 31, 2013. Per share data has been retrospectively adjusted to reflect the stock split for the previous period presented.

* Goodwill and other intangible assets acquired in the business combination have been recognized as segment assets beginning in the second consolidated fiscal period. Segment assets for the previous fiscal year have been reclassified as a result of this change.

* Adjusted ORIX Corporation shareholders equity ratio and Adjusted D/E ratio are non-GAAP financial measures presented on an adjusted basis which excludes the effect of consolidating certain VIEs on our assets or liabilities and reverses the cumulative effect on our retained earnings of such consolidation, which resulted from applying the accounting standards for the consolidation of VIEs under ASU 2009-16 and ASU 2009-17. For a discussion of these and other non-GAAP financial measures, including a quantitative reconciliation to the most directly comparable GAAP financial measures, please see 5. Non-GAAP Financial Measures.

Total assets remained flat compared to the end of the previous fiscal year at ¥8,429,989 million. Investment in direct financing leases increased due to robust new transactions in Japan and the Asian region. Investment in operating leases increased primarily due to strong auto leasing in Japan and aircraft leasing overseas. Investment in affiliates increased primarily due to new investment overseas. Other assets increased primarily due to the recognition of goodwill and other intangible assets in line with the acquisition of Robeco. On the other hand, cash and cash equivalents decreased, as did installment loans due to increased collections. Segment assets increased 6% compared to March 31, 2013 to ¥6,748,779 million. For more information about assets attributed to segment assets, see Note 22 Segment Information.

The balance of interest bearing liabilities is managed at an appropriate level with consideration to conditions of assets and liquidity on-hand as well as the domestic and overseas financial environment. As a result, long-term and short-term debt decreased compared to March 31, 2013.

Shareholders equity increased 7% compared to March 31, 2013 to ¥1,759,626 million due to a decrease in treasury stock, at cost for the disposal of treasury shares to pay part of the consideration for the acquisition of the Robeco shares, an increase in common stock and additional paid-in capital as a result of the exercise of acquisition rights and the conversion of convertible bond, and an increase in retained earnings due to net income recorded for the period.

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(3) Liquidity and Capital Resources

We require capital resources for working capital and investment and lending in our businesses. We accordingly prioritize funding stability, maintaining adequate liquidity, and reducing capital costs. We formulate and execute on funding policies that are resilient to sudden deterioration in financial markets, and then conduct funding activities in accordance with actual transitions in our assets and changes in financial markets. In preparing our management plan, we project funding activities to maintain a balanced capital structure in light of projected cash flows, asset liquidity and our own liquidity situation. In implementation, we adjust our funding plan based on changes in the external funding environment and our funding needs in light of our business activities, and endeavor to maintain flexibility in our funding activities.

We have endeavored to diversify our funding sources, promote longer liability maturities, stagger interest and principal repayment dates, and otherwise maintain sufficient liquidity and reinforce our funding stability.

Our funding was comprised of borrowings from financial institutions, direct fund procurement from capital markets, and deposits. ORIX Group s total funding including that from short- and long-term debt and deposits on a consolidated basis was ¥5,229,618 million as of September 30, 2013.

Borrowings were procured from a diverse range of financial institutions including major banks, regional banks, foreign banks and life and casualty insurance companies. The number of financial institutions from which we procured borrowings exceeded 200 as of September 30, 2013. Procurement from the capital markets was composed of bonds, including unsecured convertible bonds, medium term notes, commercial paper, and payables under securitized leases, loan receivables and investment in securities (including asset backed securities). ORIX Group accepts deposits for funding purposes, with the majority of deposits attributable to ORIX Bank Corporation.

In an effort to promote longer liability maturities and further diversified funding resources, during the six months ended September 30, 2013, we issued seven-year domestic straight bonds to institutional investors and ten-year domestic straight bonds to retail investors. We intend to continue to strengthen our financial condition, while maintaining an appropriate funding mix.

Short-term and long-term debt and deposits

(a) Short-term debt

	Millions of yen	
	March 31, 2013	**September 30, 2013**
Borrowings from financial institutions	¥ 268,588	¥ 202,501
Notes	634	
Commercial paper	151,504	100,018
Total	¥ 420,726	¥ 302,519

Short-term debt as of September 30, 2013 was ¥302,519 million, which accounted for 7% of the total amount of short and long-term debt (excluding deposits) as compared to 9% as of March 31, 2013.

While the amount of short-term debt as of September 30, 2013 was ¥302,519 million, the sum of cash and cash equivalents and the unused amount of the committed credit facilities as of September 30, 2013 was ¥1,135,739 million.

(b) Long-term debt

	Millions of yen	
	March 31, 2013	**September 30, 2013**
Borrowings from financial institutions	¥ 2,099,408	¥ 2,255,921
Bonds	1,224,191	1,142,962
Medium-term notes	58,169	57,867

Payable under securitized lease and loan receivables and investment in securities	679,766	360,766
Total	¥ 4,061,534	¥ 3,817,516

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The balance of long-term debt as of September 30, 2013 was ¥3,817,516 million, which accounted for 93% of the total amount of short and long-term debt (excluding deposits) as compared to 91% as of March 31, 2013. On an adjusted basis, our ratio of long-term debt to total debt (excluding deposits) was 92% as of September 30, 2013 as compared to 89% as of March 31, 2013. This ratio is a non-GAAP financial measure presented on an adjusted basis that excludes payables under securitized leases, loan receivables and investment in securities. For a discussion of this and other non-GAAP financial measures including reconciliations to the most directly comparable financial measures presented in accordance with GAAP, see 5. Non-GAAP Financial Measures.

(c) Deposits

	Millions of yen	
	March 31, 2013	**September 30, 2013**
Deposits	¥ 1,078,587	¥ 1,109,583

Apart from the short-term and long-term debt noted above, ORIX Bank Corporation and ORIX Asia Limited accept deposits. These deposit taking subsidiaries are regulated institutions, and loans from these subsidiaries to ORIX Group are subject to maximum regulatory limits.

(4) Summary of Cash Flows

Cash and cash equivalents as of September 30, 2013 decreased by ¥120,007 million to ¥706,289 million compared to March 31, 2013.

Cash flows from operating activities provided ¥218,969 million in the six months ended September 30, 2013, up from ¥215,733 million during the same period of the previous fiscal year, resulting from an increase in net income, a smaller decrease in restricted cash, a smaller decrease in other receivables and a decrease in trading securities compared to an increase during the same period of the previous fiscal year, in addition to adjustments made for the non-cash revenue and expense items such as depreciation and amortization, write-downs of long-lived assets and write-downs of securities compared to the same period of the previous fiscal year.

Cash flows from investing activities used ¥110,713 million in the six months ended September 30, 2013, having provided ¥272 million during the same period of the previous fiscal year. This change was due to increases in acquisitions of subsidiaries, net of cash acquired and purchases of available-for-sale securities, partially offset by increases in principal collected on installment loans.

Cash flows from financing activities used ¥230,853 million in the six months ended September 30, 2013, while having used ¥279,428 million during the same period of the previous fiscal year. This change was due to a decrease in a repayment of debt with maturities longer than three months compared to the same period of the previous year.

(5) Challenges to be addressed

There were no significant changes for the six months ended September 30, 2013.

(6) Research and Development Activity

There were no significant changes in research and development activity for the six months ended September 30, 2013.

(7) Major facilities

There were no significant changes in major facilities for the six months ended September 30, 2013.

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5. Non-GAAP Financial Measures

The sections 4 (2) Financial Condition and (3) Liquidity and Capital Resources contain certain financial measures presented on a basis not in accordance with U.S. GAAP (commonly referred to as non-GAAP financial measures), including long-term debt, ORIX Corporation shareholders equity and total assets, as well as other measures or ratios calculated based on those measures, presented on an adjusted basis. The adjustment excludes payables under securitized leases, loan receivables and investment in securities and reverses the cumulative effect on retained earnings of applying the accounting standards for the consolidation of VIEs under ASU 2009-16 and ASU 2009-17, effective April 1, 2010.

Our management believes these non-GAAP financial measures provide investors with additional meaningful comparisons between our financial condition as of September 30, 2013, as compared to prior periods. Effective April 1, 2010, we adopted ASU 2009-16 and ASU 2009-17, which changed the circumstances under which we are required to consolidate certain VIEs. Our adoption of these accounting standards caused a significant increase in our consolidated assets and liabilities and a decrease in our retained earnings without affecting the net cash flow and economic effects of our investments in such consolidated VIEs. Accordingly, our management believes that providing certain financial measures that exclude the impact of consolidating certain VIEs on our assets and liabilities as a supplement to financial information calculated in accordance with U.S. GAAP enhances understanding of the overall picture of our current financial position and enables investors to evaluate our historical financial and business trends without the large balance sheet fluctuation caused by our adoption of these accounting standards.

We provide these non-GAAP financial measures as supplemental information to our consolidated financial statements prepared in accordance with U.S. GAAP, and they should not be considered in isolation or as substitutes for the most directly comparable U.S. GAAP measures.

The tables set forth below provide reconciliations of these non-GAAP financial measures to the most directly comparable financial measures presented in accordance with U.S. GAAP as reflected in our consolidated financial statements for the periods provided.

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		2013	
		As of March 31,	As of September 30,
		(Millions of yen, except percentage data)	
Total assets	(a)	8,439,710	8,429,989
Deduct**:** Payables under securitized leases, loan receivables and investment in securities*		679,766	360,766
Adjusted total assets	(b)	7,759,944	8,069,223
Short-term debt	(c)	420,726	302,519
Long-term debt	(d)	4,061,534	3,817,516
Deduct**:** Payables under securitized leases, loan receivables and investment in securities*		679,766	360,766
Adjusted long-term debt	(e)	3,381,768	3,456,750
Long- and short-term debt (excluding deposits)	(f)=(c)+(d)	4,482,260	4,120,035
Adjusted short- and long-term debt (excluding deposits)	(g)=(c)+(e)	3,802,494	3,759,269
ORIX Corporation shareholders equity	(h)	1,643,596	1,759,626
Deduct**:** The cumulative effect on retained earnings of applying the accounting standards for the consolidation of VIEs under ASU 2009-16 and ASU 2009-17		(16,593)	(5,781)
Adjusted ORIX Corporation shareholders equity	(i)	1,660,189	1,765,407
ORIX Corporation shareholders equity ratio	(h)/(a)	19.5%	20.9%
Adjusted ORIX Corporation shareholders equity ratio	(i)/(b)	21.4%	21.9%
D/E ratio	(f)/(h)	2.7x	2.3x
Adjusted D/E ratio	(g)/(i)	2.3x	2.1x
Long-term debt ratio	(d)/(f)	91%	93%
Adjusted long-term debt ratio	(e)/(g)	89%	92%

* These deductions represent amounts recorded as liabilities and included in long-term debt on the consolidated balance sheet.

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6. Company Stock Information

(The following disclosure in this section is provided for ORIX Corporation on a stand-alone basis and has been prepared based on Japanese GAAP.)

(1) Information of Issued Shares, Common Stock and Additional Paid-in Capital

The information of the number of issued shares, the amount of common stock and additional paid-in capital for the three months ended September 30, 2013 is as follows:

In thousands		Millions of yen			
Number of issued shares		Common stock		Additional paid-in capital	
Increase, net	September 30, 2013	Increase, net	September 30, 2013	Increase, net	September 30, 2013
23,857	1,288,075	¥8,175	¥207,576	¥8,175	¥234,755

Note: *1 Common stock and additional paid-in capital have been increased by the exercise of stock acquisition rights and the conversion of convertible bond.

(2) List of Major Shareholders

The following is a list of major shareholders based on our share registry as of September 30, 2013:

Name Address	Number of shares held (in thousands)	Percentage of total shares issued
Japan Trustee Services Bank, Ltd. (Trust Account) 1-8-11, Harumi, Chuo-ku, Tokyo	114,956	8.92%
The Master Trust Bank of Japan, Ltd. (Trust Account) 2-11-3, Hamamatsu-cho, Minato-ku, Tokyo	94,689	7.35
JP Morgan Chase Bank 380055 270 Park Avenue, New York, NY 10017 U.S.A.	46,637	3.62
Japan Trustee Services Bank, Ltd. (Trust Account 9) 1-8-11, Harumi, Chuo-ku, Tokyo	43,995	3.41
The Chase Manhattan Bank 385036 360 N. Crescent Drive, Beverly Hills, CA 90210 U.S.A.	38,379	2.97
The Bank of New York, Treaty JASDEC Account Avenue des Arts, 35 Kunstlaan, 1040 Brussels, Belgium	30,794	2.39
State Street Bank and Trust Company P.O. BOX 351, Boston, MA 02101 U.S.A.	29,710	2.30
State Street Bank and Trust Company 505225 P.O. BOX 351, Boston, MA 02101 U.S.A.	22,506	1.74
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account Woolgate House, Coleman Street London EC2P 2HD, England	22,453	1.74

CACEIS Bank France, Ordinary Account*	20,156	1.56
1-3 Place Valhubert 75013 Paris France		
	464,278	36.04%

* CACEIS Bank France, Ordinary Account changed its name to CACEIS Bank France Non Treaty on October 10, 2013.

Notes:

(a) The number of shares held in relation to a trust business may not be all inclusive and therefore is reported with reference to the names listed as shareholders.

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(b) Sumitomo Mitsui Trust Bank, Limited, Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd. jointly filed an amended large shareholder report as required under Japanese regulations on April 19, 2013 that shows their share holdings of the Company as of April 15, 2013. The following information is not included in the List of Major Shareholders above because we were unable to confirm the reported number of shares held against our share registry as of September 30, 2013.

Name	Number of shares held (in thousands)	Percentage of total shares issued
Sumitomo Mitsui Trust Bank, Limited	50,659	4.10%
Sumitomo Mitsui Trust Asset Management Co., Ltd. *1	3,045	0.25
Nikko Asset Management Co., Ltd. *2	18,760	1.52
Total	72,465	5.86%

* 1, 2 The number of shares and percentage of total shares issued held by Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd. include the potential shares.

(c) FIL Investments (Japan) Limited and FMR LLC jointly filed an amended large shareholder report as required under Japanese regulations on May 17, 2013 that shows their share holdings of the Company as of May 10, 2013. The following information is not included in the List of Major Shareholders above because we were unable to confirm the reported number of shares held against our share registry as of September 30, 2013.

Name	Number of shares held (in thousands)	Percentage of total shares issued
FIL Investments (Japan) Limited	49,428	3.96%
FMR LLC	68,424	5.48
Total	117,853	9.44%

(d) JPMorgan Asset Management (Japan) Limited, JPMorgan Asset Management (UK) Limited, J.P. Morgan Investment Management Inc., JF Asset Management Limited, Highbridge Capital Management LLC, JPMorgan Chase Bank, National Association, JPMorgan Securities Japan Co., Ltd., J.P. Morgan Securities plc. and J.P. Morgan Clearing Corp. jointly filed an amended large shareholder report as required under Japanese regulations on June 7, 2013 that shows their share holdings of the Company as of May 31, 2013. The following information is not included in the List of Major Shareholders above because we were unable to confirm the reported number of shares held against our share registry as of September 30, 2013.

Name	Number of shares held (in thousands)	Percentage of total shares issued
JPMorgan Asset Management (Japan) Limited	35,308	2.83%
JPMorgan Asset Management (UK) Limited *3	13,219	1.06
J.P. Morgan Investment Management Inc.	11,635	0.93
JF Asset Management Limited	3,029	0.24
Highbridge Capital Management LLC	3,542	0.28
JPMorgan Chase Bank, National Association	3,263	0.26

JPMorgan Securities Japan Co., Ltd.	103	0.01
J.P. Morgan Securities plc. *4	1,340	0.11
J.P. Morgan Clearing Corp.	7,717	0.62
Total	79,160	6.33%

* 3, 4 The number of shares and percentage of total shares issued held by JPMorgan Asset Management (UK) Limited and J.P. Morgan Securities plc. include the potential shares.

(e) Nomura Securities Co., Ltd., NOMURA INTERNATIONAL PLC, NOMURA SECURITIES INTERNATIONAL, Inc. and Nomura Asset Management Co., Ltd. jointly filed an amended large shareholder report as required under Japanese regulations on September 5, 2013 that shows their share holdings of the Company as of August 30, 2013. The following information is not included in the List of Major Shareholders above because we were unable to confirm the reported number of shares held against our share registry as of September 30, 2013.

Name	Number of shares held (in thousands)	Percentage of total shares issued
Nomura Securities Co., Ltd.	(180)	(0.01)%
NOMURA INTERNATIONAL PLC *5	30,150	2.35
NOMURA SECURITIES INTERNATIONAL, Inc.	0	0.00
Nomura Asset Management Co., Ltd. *6	32,632	2.58
Total	62,602	4.88%

* 5, 6 The number of shares and percentage of total shares issued held by NOMURA INTERNATIONAL PLC and Nomura Asset Management Co., Ltd. include the potential shares.

(f) Capital Research and Management Company, Capital Guardian Trust Company, Capital International Limited, Capital International Inc. and Capital International K.K. jointly filed a large shareholder report as required under Japanese regulations on October 7, 2013 that shows their share holdings of the Company as of September 30, 2013. The following information is not included in the List of Major Shareholders above because we were unable to confirm the reported number of shares held against our share registry as of September 30, 2013.

Name	Number of shares held (in thousands)	Percentage of total shares issued
Capital Research and Management Company	43,835	3.45%
Capital Guardian Trust Company	8,733	0.69
Capital International Limited	6,424	0.51
Capital International Inc.	2,449	0.19
Capital International K.K.	4,059	0.32
Total	65,502	5.15%

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7. Information of the Directors and the Executive Officers

Between the filing date of Form 20-F for the fiscal year ended March 31, 2013 and September 30, 2013, the personnel changes of the directors and the executive officers are as follows:

(1) Ex-Executive Officer

Name	Title	Areas of duties	The day of retirement
Komei Ikebukuro	Executive Officer	Responsible for Group Legal and Compliance Department Responsible for Group Internal Audit Department	August 31, 2013

(2) Change of Position

Name	New Position	Ex-Position	The day of change
Tamio Umaki	Director, Deputy President and Chief Information Officer Head of Human Resources and Corporate Administration Headquarters Responsible for Group Legal and Compliance Department Responsible for Group Internal Audit Department	Director, Deputy President and Chief Information Officer Head of Human Resources and Corporate Administration Headquarters	September 1, 2013

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8. Financial Information

(1) Condensed Consolidated Balance Sheets (Unaudited)

	Millions of yen	
Assets	**March 31, 2013**	**September 30, 2013**
Cash and Cash Equivalents	¥ 826,296	¥ 706,289
Restricted Cash	106,919	127,442
Time Deposits	8,356	2,932
Investment in Direct Financing Leases	989,380	1,019,265
Installment Loans	2,691,171	2,314,487
(The amounts of ¥16,026 million of installment loans as of March 31, 2013 and ¥8,401 million of installment loans as of September 30, 2013 are measured at fair value by electing the fair value option under FASB Accounting Standards Codification 825-10.)		
Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses	(104,264)	(89,912)
Investment in Operating Leases	1,395,533	1,433,048
Investment in Securities	1,093,668	1,094,835
(The amounts of ¥5,800 million of investment in securities as of March 31, 2013 and ¥7,486 million of investment in securities as of September 30, 2013 are measured at fair value by electing the fair value option under FASB Accounting Standards Codification 825-10.)		
Other Operating Assets	233,258	237,172
Investment in Affiliates	326,732	366,632
Other Receivables	196,626	204,756
Inventories	41,489	33,465
Prepaid Expenses	50,323	55,132
Office Facilities	108,757	106,477
Other Assets	475,466	817,969
Total Assets	¥ 8,439,710	¥ 8,429,989

Note: The assets of consolidated variable interest entities (VIEs) that can be used only to settle obligations of those VIEs are below:

	Millions of yen	
Assets	**March 31, 2013**	**September 30, 2013**
Cash and Cash Equivalents	¥ 9,439	¥ 4,472
Investment in Direct Financing Leases (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses)	205,989	187,406
Installment Loans (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses)	528,976	241,479
Investment in Operating Leases	199,190	248,687
Investment in Securities	37,641	2,373
Investment in Affiliates	13,820	11,034
Other	98,885	129,354
	¥ 1,093,940	¥ 824,805

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Liabilities and Equity	Millions of yen March 31, 2013	September 30, 2013
Liabilities:		
Short-Term Debt	¥ 420,726	¥ 302,519
Deposits	1,078,587	1,109,583
Trade Notes, Accounts Payable and Other Liabilities	312,922	329,118
Accrued Expenses	121,281	169,325
Policy Liabilities	426,007	438,161
Current and Deferred Income Taxes	143,057	238,117
Security Deposits	146,402	147,277
Long-Term Debt	4,061,534	3,817,516
Total Liabilities	6,710,516	6,551,616
Redeemable Noncontrolling Interests	41,621	43,927
Commitments and Contingent Liabilities		
Equity:		
Common Stock	194,039	207,576
Additional Paid-in Capital	229,600	243,032
Retained Earnings	1,305,044	1,363,969
Accumulated Other Comprehensive Income (Loss)	(36,263)	(31,103)
Treasury Stock, at Cost	(48,824)	(23,848)
ORIX Corporation Shareholders Equity	1,643,596	1,759,626
Noncontrolling Interests	43,977	74,820
Total Equity	1,687,573	1,834,446
Total Liabilities and Equity	¥ 8,439,710	¥ 8,429,989

Note: The liabilities of consolidated VIEs for which creditors (or beneficial interest holders) do not have recourse to the general credit of the Company and subsidiaries are below:

Liabilities	Millions of yen March 31, 2013	September 30, 2013
Short-Term Debt	¥ 1,710	¥ 1,466
Trade Notes, Accounts Payable and Other Liabilities	3,503	3,530
Security Deposits	5,679	6,051
Long-Term Debt	806,857	509,726
Other	5,649	4,025
	¥ 823,398	¥ 524,798

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(2) Condensed Consolidated Statements of Income (Unaudited)

	Millions of yen	
	Six months ended September 30, 2012	Six months ended September 30, 2013
Revenues:		
Direct financing leases	¥ 26,380	¥ 28,387
Operating leases	145,588	163,865
Interest on loans and investment securities	78,701	69,752
Brokerage commissions and net gains on investment securities	13,083	15,318
Life insurance premiums and related investment income	66,928	75,796
Real estate sales	18,332	10,976
Gains (losses) on sales of real estate under operating leases	2,695	(925)
Revenues from asset management and servicing	6,961	43,517
Other operating revenues	149,866	207,445
Total revenues	508,534	614,131
Expenses:		
Interest expense	52,480	42,377
Costs of operating leases	95,631	107,651
Life insurance costs	46,600	51,326
Costs of real estate sales	20,945	15,860
Expenses from asset management and servicing	212	11,837
Other operating expenses	93,349	120,114
Selling, general and administrative expenses	104,022	137,967
Provision for doubtful receivables and probable loan losses	2,803	5,229
Write-downs of long-lived assets	4,137	11,915
Write-downs of securities	11,676	2,003
Foreign currency transaction loss (gain), net	(357)	456
Total expenses	431,498	506,735
Operating Income	77,036	107,396
Equity in Net Income (Loss) of Affiliates	6,980	10,530
Gains on Sales of Subsidiaries and Affiliates and Liquidation Losses, Net	3,417	5,649
Income before Income Taxes and Discontinued Operations	87,433	123,575
Provision for Income Taxes	26,243	44,851
Income from Continuing Operations	61,190	78,724

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	Millions of yen	
	Six months ended September 30, 2012	Six months ended September 30, 2013
Discontinued Operations:		
Income from discontinued operations, net	3,277	8,551
Provision for income taxes	(1,253)	(3,230)
Discontinued operations, net of applicable tax effect	2,024	5,321
Net Income	63,214	84,045
Net Income Attributable to the Noncontrolling Interests	1,887	2,217
Net Income Attributable to the Redeemable Noncontrolling Interests	1,487	1,420
Net Income Attributable to ORIX Corporation Shareholders	¥ 59,840	¥ 80,408

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

2. Revenues and Expenses from asset management and loan servicing business have been separately presented from this period as, Revenues from asset management and servicing and Expenses from asset management and servicing . The amounts in the same period of the previous year have been retrospectively reclassified for this change.

	Millions of yen	
	Six months ended September 30, 2012	Six months ended September 30, 2013
Income attributable to ORIX Corporation shareholders:		
Income from continuing operations	¥ 57,786	¥ 75,087
Discontinued operations	2,054	5,321
Net income attributable to ORIX Corporation shareholders	59,840	80,408

	Yen	
	Six months ended September 30, 2012	Six months ended September 30, 2013
Amounts per Share of Common Stock for Income attributable to ORIX Corporation shareholders:		
Basic:		
Income from continuing operations	¥ 53.74	¥ 60.39
Discontinued operations	1.91	4.28
Net income attributable to ORIX Corporation shareholders	55.65	64.67
Diluted:		
Income from continuing operations	¥ 45.01	¥ 57.77
Discontinued operations	1.58	4.09
Net income attributable to ORIX Corporation shareholders	46.59	61.86

Note 1: On April 1, 2013, the Company implemented a 10-for-1 stock split of common stock held by shareholders registered on the Company s register of shareholders as of March 31, 2013. The amounts per share of common stock for income attributable to ORIX Corporation shareholders have been adjusted retrospectively to reflect the stock split for the previous period presented.

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	Millions of yen	
	Three months ended September 30, 2012	Three months ended September 30, 2013
Revenues:		
Direct financing leases	¥ 12,995	¥ 14,145
Operating leases	74,185	82,769
Interest on loans and investment securities	39,845	32,466
Brokerage commissions and net gains on investment securities	6,140	7,768
Life insurance premiums and related investment income	34,447	38,278
Real estate sales	5,828	9,248
Gains (losses) on sales of real estate under operating leases	2,380	(988)
Revenues from asset management and servicing	3,570	38,629
Other operating revenues	78,702	113,014
Total revenues	258,092	335,329
Expenses:		
Interest expense	25,170	19,476
Costs of operating leases	49,465	54,912
Life insurance costs	24,761	27,362
Costs of real estate sales	7,543	10,767
Expenses from asset management and servicing	115	11,664
Other operating expenses	50,522	67,545
Selling, general and administrative expenses	53,308	77,995
Provision for doubtful receivables and probable loan losses	1,589	2,881
Write-downs of long-lived assets	2,817	9,144
Write-downs of securities	2,468	1,315
Foreign currency transaction loss (gain), net	(20)	137
Total expenses	217,738	283,198
Operating Income	40,354	52,131
Equity in Net Income (Loss) of Affiliates	(396)	6,556
Gains on Sales of Subsidiaries and Affiliates and Liquidation Losses, Net	304	1,690
Income before Income Taxes and Discontinued Operations	40,262	60,377
Provision for Income Taxes	13,677	23,326
Income from Continuing Operations	26,585	37,051

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	Millions of yen	
	Three months ended September 30, 2012	Three months ended September 30, 2013
Discontinued Operations:		
Income (Loss) from discontinued operations, net	1,174	1,576
Provision for income taxes	(492)	(612)
Discontinued operations, net of applicable tax effect	682	964
Net Income	27,267	38,015
Net Income Attributable to the Noncontrolling Interests	1,411	1,863
Net Income Attributable to the Redeemable Noncontrolling Interests	789	751
Net Income Attributable to ORIX Corporation Shareholders	¥ 25,067	¥ 35,401

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

2. Revenues and Expenses from asset management and loan servicing business have been separately presented from this period as, Revenues from asset management and servicing and Expenses from asset management and servicing . The amounts in the same period of the previous year have been retrospectively reclassified for this change.

	Millions of yen	
	Three months ended September 30, 2012	Three months ended September 30, 2013
Income attributable to ORIX Corporation shareholders:		
Income from continuing operations	¥ 24,384	¥ 34,437
Discontinued operations	683	964
Net income attributable to ORIX Corporation shareholders	25,067	35,401

	Yen	
	Three months ended September 30, 2012	Three months ended September 30, 2013
Amounts per Share of Common Stock for Income attributable to ORIX Corporation shareholders:		
Basic:		
Income from continuing operations	¥ 22.68	¥ 27.42
Discontinued operations	0.63	0.77
Net income attributable to ORIX Corporation shareholders	23.31	28.19
Diluted:		
Income from continuing operations	¥ 19.04	¥ 26.40
Discontinued operations	0.53	0.73
Net income attributable to ORIX Corporation shareholders	19.57	27.13

Note 1:

On April 1, 2013, the Company implemented a 10-for-1 stock split of common stock held by shareholders registered on the Company s register of shareholders as of March 31, 2013. The amounts per share of common stock for income attributable to ORIX Corporation shareholders have been adjusted retrospectively to reflect the stock split for the previous period presented.

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(3) Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Millions of yen	
	Six months ended September 30, 2012	Six months ended September 30, 2013
Net Income	¥ 63,214	¥ 84,045
Other comprehensive income (loss), net of tax:		
Net change of unrealized gains (losses) on investment in securities	3,445	6,422
Net change of defined benefit pension plans	179	(342)
Net change of foreign currency translation adjustments	(23,116)	2,478
Net change of unrealized gains (losses) on derivative instruments	676	1,033
Total other comprehensive income (loss)	(18,816)	9,591
Comprehensive Income	44,398	93,636
Comprehensive Income Attributable to the Noncontrolling Interests	93	5,008
Comprehensive Income (Loss) Attributable to the Redeemable Noncontrolling Interests	(665)	3,060
Comprehensive Income Attributable to ORIX Corporation Shareholders	¥ 44,970	¥ 85,568

	Millions of yen	
	Three months ended September 30, 2012	Three months ended September 30, 2013
Net Income	¥ 27,267	¥ 38,015
Other comprehensive income (loss), net of tax:		
Net change of unrealized gains (losses) on investment in securities	4,290	6,107
Net change of defined benefit pension plans	70	(277)
Net change of foreign currency translation adjustments	(4,308)	(7,101)
Net change of unrealized gains (losses) on derivative instruments	82	483
Total other comprehensive income (loss)	134	(788)
Comprehensive Income	27,401	37,227
Comprehensive Income Attributable to the Noncontrolling Interests	811	3,239
Comprehensive Income Attributable to the Redeemable Noncontrolling Interests	43	409
Comprehensive Income Attributable to ORIX Corporation Shareholders	¥ 26,547	¥ 33,579

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(4) Condensed Consolidated Statements of Changes in Equity (Unaudited)

Six months ended September 30, 2012

	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
Beginning Balance	¥ 144,026	¥ 179,223	¥ 1,202,450	¥ (96,056)	¥ (48,907)	¥ 1,380,736	¥ 39,735	¥ 1,420,471
Contribution to Subsidiaries						0	205	205
Transaction with noncontrolling interests		91		(89)		2	(143)	(141)
Comprehensive income, net of tax**:**								
Net income			59,840			59,840	1,887	61,727
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				3,226		3,226	219	3,445
Net change of defined benefit pension plans				178		178	1	179
Net change of foreign currency translation adjustments				(18,951)		(18,951)	(2,013)	(20,964)
Net change of unrealized gains (losses) on derivative instruments				677		677	(1)	676
Total other comprehensive income (loss)						(14,870)	(1,794)	(16,664)
Total comprehensive income						44,970	93	45,063
Cash dividends			(9,676)			(9,676)	(499)	(10,175)
Other, net		96	(147)		18	(33)	0	(33)
Ending balance	¥ 144,026	¥ 179,410	¥ 1,252,467	¥ (111,015)	¥ (48,889)	¥ 1,415,999	¥ 39,391	¥ 1,455,390

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Six months ended September 30, 2013

	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
Beginning Balance	¥ 194,039	¥ 229,600	¥ 1,305,044	¥ (36,263)	¥ (48,824)	¥ 1,643,596	¥ 43,977	¥ 1,687,573
Contribution to subsidiaries						0	2,166	2,166
Transaction with noncontrolling interests		24				24	(582)	(558)
Comprehensive income, net of tax:								
Net income			80,408			80,408	2,217	82,625
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				5,991		5,991	431	6,422
Net change of defined benefit pension plans				(346)		(346)	4	(342)
Net change of foreign currency translation adjustments				(1,500)		(1,500)	2,338	838
Net change of unrealized gains (losses) on derivative instruments				1,015		1,015	18	1,033
Total other comprehensive income (loss)						5,160	2,791	7,951
Total comprehensive income						85,568	5,008	90,576
Cash dividends			(15,878)			(15,878)	(1,356)	(17,234)
Conversion of convertible bond	13,307	13,086				26,393	0	26,393
Exercise of stock options	230	218				448	0	448
Acquisition of treasury stock					(8)	(8)	0	(8)
Acquisition of Robeco			(5,471)		24,880	19,409	25,607	45,016
Other, net		104	(134)		104	74	0	74
Ending Balance	¥ 207,576	¥ 243,032	¥ 1,363,969	¥ (31,103)	¥ (23,848)	¥ 1,759,626	¥ 74,820	¥ 1,834,446

Changes in the redeemable noncontrolling interests are not included in the table. For further information, see Note 10 Redeemable Noncontrolling Interests.

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(5) Condensed Consolidated Statements of Cash Flows (Unaudited)

	Millions of yen	
	Six months ended September 30, 2012	Six months ended September 30, 2013
Cash Flows from Operating Activities:		
Net income	¥ 63,214	¥ 84,045
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	86,487	100,115
Provision for doubtful receivables and probable loan losses	2,803	5,229
Increase in policy liabilities	7,080	12,154
Equity in net income of affiliates (excluding interest on loans)	(6,656)	(10,421)
Gains on sales of subsidiaries and affiliates and liquidation losses, net	(3,417)	(5,649)
Gains on sales of available-for-sale securities	(1,942)	(11,793)
Gains and Losses on sales of real estate under operating leases	(2,695)	925
Gains on sales of operating lease assets other than real estate	(6,922)	(9,427)
Write-downs of long-lived assets	4,137	11,915
Write-downs of securities	11,676	2,003
Decrease in restricted cash	32,549	14,478
Decrease (Increase) in trading securities	(2,148)	6,898
Decrease in inventories	16,155	10,305
Decrease in other receivables	23,169	7,060
Decrease in trade notes, accounts payable and other liabilities	(7,829)	(124)
Decrease in accrued expenses	(9,050)	(10,502)
Other, net	9,122	11,758
Net cash provided by operating activities	215,733	218,969
Cash Flows from Investing Activities:		
Purchases of lease equipment	(367,191)	(428,197)
Principal payments received under direct financing leases	182,845	230,028
Installment loans made to customers	(403,978)	(465,310)
Principal collected on installment loans	511,504	688,509
Proceeds from sales of operating lease assets	86,014	101,244
Investment in affiliates, net	(12,443)	(52,272)
Proceeds from sales of investment in affiliates	32	15,116
Purchases of available-for-sale securities	(357,763)	(489,267)
Proceeds from sales of available-for-sale securities	217,862	209,437
Proceeds from redemption of available-for-sale securities	191,688	275,509
Purchases of held-to-maturity securities	(15,006)	(2,622)
Purchases of other securities	(12,054)	(9,074)
Proceeds from sales of other securities	12,442	8,828
Purchases of other operating assets	(8,797)	(11,841)
Acquisitions of subsidiaries, net of cash acquired	(40,131)	(193,970)
Other, net	15,248	13,169
Net cash provided by (used in) investing activities	272	(110,713)

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	Millions of yen	
	Six months ended September 30, 2012	Six months ended September 30, 2013
Cash Flows from Financing Activities:		
Net decrease in debt with maturities of three months or less	(128,769)	(95,299)
Proceeds from debt with maturities longer than three months	766,185	715,675
Repayment of debt with maturities longer than three months	(934,211)	(862,174)
Net increase in deposits due to customers	26,109	30,986
Cash dividends paid to ORIX Corporation shareholders	(9,676)	(15,878)
Net decrease in call money	0	(5,000)
Other, net	934	837
Net cash used in financing activities	(279,428)	(230,853)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(4,457)	2,590
Net decrease in Cash and Cash Equivalents	(67,880)	(120,007)
Cash and Cash Equivalents at Beginning of Period	786,892	826,296
Cash and Cash Equivalents at End of Period	¥ 719,012	¥ 706,289

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Notes to Consolidated Financial Statements

1. Overview of Accounting Principles Utilized

In preparing the accompanying consolidated financial statements, ORIX Corporation (the Company) and its subsidiaries have complied with accounting principles generally accepted in the United States of America (U.S. GAAP), modified for the accounting for stock splits (see Note 2 (n)).

These statements include all adjustments (consisting of normal recurring accruals) that we considered necessary to present a fair statement of our results of operations, financial position and cash flows. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our March 31, 2013 consolidated financial statements on Form 20-F.

Since the Company listed on the New York Stock Exchange in September 1998, the Company has filed the annual report (Form 20-F) including the consolidated financial statements with the Securities and Exchange Commission.

Significant differences between U.S. GAAP and generally accepted accounting principles in Japan (Japanese GAAP) are as follows:

(a) Initial direct costs

Under U.S. GAAP, certain initial direct costs to originate leases or loans are being deferred and amortized as yield adjustments over the life of related direct financing leases or loans by using interest method.

On the other hand, under Japanese GAAP, those initial direct costs are recognized as expenses when they are incurred.

(b) Operating leases

Under U.S. GAAP, revenues from operating leases are recognized on a straight-line basis over the contract terms. Also operating lease assets are depreciated over their estimated useful lives mainly on a straight-line basis.

On the other hand, Japanese GAAP allows for operating lease assets to be depreciated using mainly either the declining-balance basis or straight-line basis.

(c) Accounting for life insurance operations

Based on ASC 944 (Financial Services Insurance), certain costs related directly to the successful acquisition of new or renewal insurance contracts, or deferred policy acquisition costs, are being deferred and amortized over the respective policy periods in proportion to anticipated premium revenue.

Under Japanese GAAP, such costs are recorded as expenses currently in earnings in each accounting period.

In addition, under U.S. GAAP, although policy liabilities for future policy benefits are established using the net level premium method, based on actuarial estimates of the amount of future policyholder benefits, under Japanese GAAP, these are calculated by the methodology which relevant authorities accept.

(d) Accounting for goodwill and other intangible assets in business combination

Under U.S. GAAP, goodwill and intangible assets that have indefinite useful lives are not amortized, but assessed at least annually for impairment. 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.

Under Japanese GAAP, goodwill is amortized over an appropriate period up to 20 years.

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(e) Accounting for pension plans

Under U.S. GAAP, the Company and its subsidiaries apply ASC 715 (Compensation Retirement Benefits) and record pension costs based on the amounts determined using actuarial methods. The net actuarial gain (loss) is amortized using a corridor test.

Under Japanese GAAP, the net actuarial gain (loss) is fully amortized over a certain term within the average remaining service period of employees.

(f) Reporting on discontinued operations

Under U.S. GAAP, in accordance with ASC 205-20 (Presentation of Financial Statements Discontinued Operations), the financial results of discontinued operations and disposal gain or loss, net of applicable income tax effects, are presented as a separate line from continuing operations in the consolidated statements of income. The prior periods results of these discontinued operations have also been reclassified as income from discontinued operations in each prior period presented in the accompanying consolidated statements of income and consolidated statements of cash flows.

Under Japanese GAAP, there are no rules on reporting discontinued operations and the amounts are not presented separately from continuing operations.

(g) Presentation of net income in the consolidated statements of income

Under U.S. GAAP, net income consists of net income attributable to the parent and net income attributable to the noncontrolling interests. Each of them is separately stated in the consolidated statements of income.

Under Japanese GAAP, net income attributable to the minority interests is not included in net income.

(h) Partial sale and additional acquisition of the parent s ownership interest in subsidiaries

Under U.S. GAAP, a partial sale and an additional acquisition of the parent s ownership interest in subsidiaries where the parent continues to retain control of that 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.

Under Japanese GAAP, a partial sale of the parent s ownership interest where the parent continues to retain control is accounted for as a profit-loss transaction and an additional acquisition of the parent s ownership interest is accounted for as a business combination. In addition, in a transaction that results in the loss of control, only the realized gain or loss related to the portion of ownership interest sold is recognized in income and the gain or loss on the remeasurement to fair value of the interest retained is not recognized.

(i) Classification in consolidated statements of cash flows

Classification in the statements of cash flows under U.S. GAAP is based on ASC 230 (Statement of Cash Flows), which differs from Japanese GAAP. As significant differences, purchase of lease equipment and principal payments received under direct financing leases, proceeds from sales of operating lease assets, installment loans made to customers and principal collected on installment loans (excluding issues and collections of loans held for sale) are included in Cash Flows from Investing Activities under U.S. GAAP while they are classified as Cash Flows from Operating Activities under Japanese GAAP.

(j) Securitization of financial assets

Under U.S. GAAP, from April 1, 2010, because the exception to variable interest entities that are qualifying special-purpose entities has been removed, an enterprise is required to perform analysis to determine whether or not to consolidate special-purpose entities (SPEs) for securitization under the VIE s consolidation rules. As a result of the analysis, if it is determined that the enterprise transferred financial assets in a securitization transaction to an SPE that needs to be consolidated, the transaction is not accounted for as a sale but accounted for as a secured borrowing.

Under Japanese GAAP, an SPE that meets certain conditions may be considered not to be a subsidiary of the transferor. Therefore, if an enterprise transfers financial assets to this type of SPE in a securitization transaction, the transferee SPE is not required to be consolidated, and the enterprise accounts for the transaction as a sale and recognizes a gain or loss on the sale into earnings when control over the transferred assets is surrendered.

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2. Significant Accounting and Reporting Policies

(a) 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 pursuant to FASB Accounting Standards Codification (ASC) 810-10-25-2 to 14 (Consolidation The effect of Noncontrolling Rights on Consolidation). In addition, the consolidated financial statements also include variable interest entities to which the Company and its subsidiaries are primary beneficiaries pursuant to ASC 810-10 (Consolidation Variable Interest Entities).

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.

(b) Use of estimates

The preparation of the 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. These are the selection of valuation techniques and determination of assumptions used in fair value measurements (see Note 3), the determination and periodic reassessment of the unguaranteed residual value for direct financing leases and operating leases (see (d)), the determination and reassessment of insurance policy liabilities and deferred policy acquisition costs (see (e)), the determination of the allowance for doubtful receivables on direct financing leases and probable loan losses (see (f)), the determination of impairment of long-lived assets (see (g)), the determination of impairment of investment in securities (see (h)), the determination of valuation allowance for deferred tax assets and the evaluation of tax positions (see (i)), assessment and measurement of effectiveness in hedging relationship using derivative financial instruments (see (k)), the determination of benefit obligation and net periodic pension cost (see (l)) and the determination of impairment of goodwill and intangible assets that have indefinite useful lives (see (w)).

(c) Foreign currencies translation

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

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

(d) Recognition of revenues

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

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

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Leases The Company and its subsidiaries lease various assets to customers under direct financing or operating lease arrangements. Classification of a lease arrangement into either a direct financing lease or an operating lease is dependent upon the specific conditions of the arrangement. Revenue recognition policies applied for direct financing leases and operating leases are specifically described in sections following this paragraph. In providing leasing services, the Company and its subsidiaries execute supplemental services, such as paying insurance and handling taxes on leased assets on behalf of lessees. In some cases, automobile maintenance services are also provided 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 taken into income over the contract period in proportion to the estimated service costs to be incurred and are recorded in other operating revenues in the accompanying consolidated statements of income.

(1) Recognition of revenues for direct financing leases

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

(2) Recognition of revenues for operating leases

Revenues from operating leases are recognized on a straight-line basis over the contract terms. Investment in operating leases is recorded at cost less accumulated depreciation, which was ¥431,329 million and ¥439,870 million as of March 31, 2013 and September 30, 2013, respectively. Operating lease assets are depreciated over their estimated useful lives mainly on a straight-line basis. Depreciation expenses are included in costs of operating leases. Gains or losses arising from dispositions of operating lease assets, except real estate under operating leases, are included in operating lease revenues. With respect to some sales of real estate under operating leases such as commercial buildings, the Company or its subsidiaries may retain an interest in some cash flows of the real estate in the form of management or operation of the real estate. Where the Company or its subsidiaries have significant continuing involvement in the operations from the real estate under operating leases which have been disposed of, the gains or losses arising from such disposition are separately disclosed as gains on sales of real estate under operating leases, whereas if the Company or its subsidiaries have no significant continuing involvement in the operations from such disposed real estate, the gains or losses are reported as income from discontinued operations, net.

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

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.

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Non-accrual policy In common with all classes, past-due financing receivables are receivables for which principal or interest is past-due 30 days or more. Loans whose terms have been modified are not classified as past-due financing receivables if the principals and interests are not past-due 30 days or more in accordance with the modified terms. The Company and its subsidiaries suspend accruing revenues on past-due installment loans and direct financing leases when principal or interest is past-due 90 days or more, or earlier, if management determines that their collections are doubtful based on factors such as individual debtors creditworthiness, historical loss experience, current delinquencies and delinquency trends. Accrued but uncollected interest is reclassified to investment in direct financing leases or installment loans in the accompanying consolidated balance sheets and becomes subject to the allowance for doubtful receivables and probable loan loss process. Cash repayments received on non-accrual loans are applied first against past due interest and then any surpluses are applied to principal in view of the conditions of the contract and obligors. The Company and its subsidiaries return 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 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.

Brokerage commissions and net gains on investment securities Brokerage commissions and net gains on investment securities are recorded on a trade date basis.

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.

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 their customers. The Company and its subsidiaries receive fees for those services from our customers.

Revenues from asset management services and servicing are recognized in the consolidated statements of income when transactions occur or services are rendered and the amounts are fixed or determinable and collectability of which is reasonably assured. Certain subsidiaries recognize revenues from performance fees when earned based on the performance of the asset under management. Another subsidiary recognizes revenues from performance fees on an accrual basis over the period in which services are performed.

Revenues from asset management and servicing primarily include management fee income and performance fee income. 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 the contracts. Performance fees are calculated based on the predetermined percentages on the performance of the assets under management in accordance with the contracts.

(e) Insurance premiums and expenses

Premium income from life insurance policies is recognized as earned premiums when due.

Life insurance benefits are recorded as expenses when they are incurred. Policy liabilities for future policy benefits are established using the net level premium method, based on actuarial estimates of the amount of future policyholder benefits.

ASC 944 (Financial Services Insurance) requires insurance companies to defer certain costs related directly to the successful acquisition of new or renewal insurance contracts, or deferred policy acquisition costs, and amortize them over the respective policy periods in proportion to anticipated premium revenue. These deferred policy acquisition costs consist primarily of first-year commissions in excess of recurring policy maintenance costs and certain variable costs and expenses for underwriting policies.

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Amortization charged to income for the six months ended September 30, 2012 and 2013 amounted to ¥3,296 million and ¥4,094 million, respectively.

Amortization charged to income for the three months ended September 30, 2012 and 2013 amounted to ¥1,815 million and ¥2,291 million, respectively.

(f) Allowance for doubtful receivables on direct financing leases and probable loan losses

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

Developing the allowance for doubtful receivables on direct financing leases and probable loan losses is subject to numerous estimates and judgments. In evaluating the appropriateness of the allowance, management considers various factors, including the business characteristics and financial conditions of the obligors, current economic conditions and trends, prior charge-off experience, current delinquencies and delinquency trends, future cash flows expected to be received from the direct financing leases and loans and value of underlying collateral and guarantees. Impaired loans are individually evaluated for a valuation allowance based on the present value of expected future cash flows, the loan s observable market price or the fair value of the collateral securing the loans if the loans are collateral-dependent. For non-impaired loans, including loans that are not individually evaluated for impairment, and direct financing leases, the Company and its subsidiaries evaluate prior charge-off experience segmented by the debtors industries and the purpose of the loans, and then develop the allowance for doubtful receivables on direct financing leases and probable loan losses considering the prior charge-off experience and current economic conditions.

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

(g) Impairment of long-lived assets

The Company and its subsidiaries have followed ASC 360-10 (Property, Plant, and Equipment Impairment or Disposal of Long-Lived Assets). Under ASC 360-10, long-lived assets to be held and used in operations, including tangible assets and intangible assets being amortized, consisting primarily of office building, condominiums, golf courses and other operating assets, shall be tested for recoverability whenever events or changes in circumstances indicate that the assets might be impaired. When the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of those assets, the net 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.

(h) Investment in securities

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

Available-for-sale securities are reported at fair value, and unrealized gains or losses are recorded in accumulated other comprehensive income (loss), net of applicable income taxes.

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

Other securities are recorded at cost or carrying value that reflects equity income and loss based on the Company s share, except investments which are recorded at fair value with unrealized gains and losses included in income by electing the fair value option under ASC 825-10 (Financial Instruments Fair Value Option).

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

For debt securities, 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 the collectibility of debt securities. The Company and its subsidiaries do not consider that an other-than-temporary impairment for a debt security has occurred 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 that an other-than-temporary impairment has occurred if any of the above mentioned three conditions are not met. For the debt security for which an other-than-temporary impairment is considered to have occurred, the Company and its subsidiaries recognize the entire difference between the amortized cost and the fair value in earnings if the Company and its subsidiaries intend to sell the debt security or it is more likely than not that the Company and its subsidiary will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss. On the other hand, if the Company and its subsidiaries do not intend to sell the debt security and it is not more likely than not that the Company and its subsidiaries will be required to sell the debt security before recovery of its amortized cost basis less any current-period credit loss, the Company and its subsidiaries separate the difference between the amortized cost and the fair value of the debt securities into the credit loss component and the non-credit loss component. The credit loss component is recognized in earnings, and the non-credit loss component is recognized in other comprehensive income (loss), net of applicable income taxes.

For other securities, the Company and its subsidiaries reduce the carrying value of other security to the fair value and charge against income losses related to other securities in situations where it is considered that the decline in the value of other security is other than temporary.

(i) Income taxes

The Company, in general, determines its provision for income taxes for quarterly periods by applying the current estimate of the effective tax rate for the full fiscal year to the actual year-to-date income before income taxes and discontinued operations. The estimated effective tax rate is determined by dividing the estimated provision for income taxes for the full fiscal year by the estimated income before income taxes and discontinued operations for the full fiscal year.

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

The effective income tax rates including discontinued operations are 30.3% and 36.4% for the six months ended September 30, 2012 and 2013, respectively. These rates are 34.2% and 38.6% for the three months ended September 30, 2012 and 2013, respectively. The Company and its subsidiaries in Japan are subject to a National Corporate tax of approximately 28%, an Inhabitant tax of approximately 5% and a deductible Enterprise tax of approximately 8%, which in the aggregate result in a statutory income tax rate of approximately 38.3%. The effective income tax rate is different from the statutory tax rate primarily because of certain non-deductible expenses for tax purposes, non-taxable income for tax purposes, the effect of lower income tax rates on foreign subsidiaries and a life insurance subsidiary in Japan, a change in valuation allowance and reversal of undistributed earnings of affiliates.

The Company and its subsidiaries have followed ASC 740 (Income Taxes). According to ASC 740, the Company and its subsidiaries 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 the tax position that meets the recognition threshold at the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the taxing authority. The Company and its subsidiaries classify penalties and interest expense related to income taxes as part of provision for income taxes in the consolidated statements of income.

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

(j) Securitized assets

The Company and its subsidiaries have securitized and sold to investors certain lease receivables, loan receivables and investment in securities. In the securitization process, the assets to be securitized (the assets) are sold to trusts and SPEs that issue asset-backed beneficial interests and securities to the investors.

In accordance with ASC 860 (Transfers and Servicing) and ASC 810-10 (Consolidation Variable Interest Entities), trusts or SPEs used in securitization transactions have been consolidated if the Company and its subsidiaries are the primary beneficiary of the trusts or SPEs, and the transfers of the financial assets to those consolidated trusts and SPEs are not accounted for as sales. Assets held by consolidated trusts or consolidated SPEs continue to be accounted for as direct financing lease receivables, loan receivable and investment securities, 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 which is not subject to consolidation, the Company and its subsidiaries account for the transfer as a sale if control over the transferred assets is surrendered.

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

(k) Derivative financial instruments

The Company and its subsidiaries apply ASC 815 (Derivatives and Hedging), and all derivatives held by the Company and its subsidiaries are recognized 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 hedges for accounting purposes. Derivatives that are not hedges must be 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 change in the fair value of hedged assets or liabilities through the consolidated statements of income, or recorded in other comprehensive income (loss).

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

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

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

Changes in the fair value of a derivative, that are not held as a hedge, such as those held for trading use, or the ineffective portion of the change in fair value of a derivatives that qualify as a hedge, are recorded in earnings.

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

(l) Pension plans

The Company and certain subsidiaries have contributory and non-contributory pension plans covering substantially all of their employees. The Company and its subsidiaries apply ASC 715 (Compensation Retirement Benefits), and 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.

(m) Stock-based compensation

The Company and its subsidiaries apply ASC 718 (Compensation Stock Compensation). ASC 718 requires, with limited exception, that the cost of employee services received in exchange for an award of equity instruments be measured based on the grant-date fair value. The costs are recognized over the requisite employee service period.

(n) 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 has become 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 September 30, 2013 would have increased by approximately ¥24,674 million, with a corresponding decrease in retained earnings. Total ORIX Corporation shareholders equity would remain unchanged. A stock split on May 19, 2000 was excluded from the above amounts because the stock split was not considered to be a stock dividend under U.S. GAAP.

On April 1, 2013, the Company implemented a 10-for-1 stock split of common stock held by shareholders registered on the Company s register of shareholders as of March 31, 2013. The number of shares and per share data have been adjusted retrospectively to reflect the stock split for the previous periods presented.

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(o) 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.

(p) Restricted cash

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

(q) Installment loans

Certain loans, for which the Company and certain 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 under ASC 825-10 (Financial Instruments Fair Value Option) was elected. A subsidiary elected the fair value option under ASC 825-10 (Financial Instruments Fair Value Option) on its loans held for sale originated on or after October 1, 2011. The subsidiary enters into forward sale agreements to offset the change in the fair value of loans held for sale and the election of the fair value option allows the subsidiary to recognize both the change in the fair value of the loans and the change in the fair value of the forward sale agreements due to changes in interest rates in the same accounting period.

Loans held for sale are included in installment loans and the outstanding balances of these loans as of March 31, 2013 and September 30, 2013 were ¥17,939 million and ¥9,529 million, respectively. There were ¥16,026 million and ¥8,401 million of loans held for sale as of March 31, 2013 and September 30, 2013, measured at fair value by electing the fair value option.

(r) Other operating assets

Other operating assets consist primarily of operating facilities (including golf courses, hotels, training facilities and senior housing), 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. Accumulated depreciation was ¥48,313 million and ¥54,138 million as of March 31, 2013 and September 30, 2013, respectively.

(s) Other receivables

Other receivables include primarily payments made on behalf of lessees for property tax, maintenance fees and insurance premiums in relation to direct financing lease contracts, accounts receivables in relation to sales of leased assets, residential condominiums and other assets, accrued revenue in relation to business operations and derivative assets.

(t) Inventories

Inventories primarily consist of advance and/or progress payments for development of residential condominiums for sale and completed residential condominiums (including completed residential condominiums waiting to be delivered to buyers under the contracts for sale). Advance and/or progress payments for development of residential condominiums for sale are carried at cost less any impairment losses and finished goods (including completed residential condominiums) are stated at the lower of cost or market. As of March 31, 2013, and September 30, 2013, advance and/or progress payments were ¥34,556 million and ¥25,657 million, respectively, and finished goods were ¥6,933 million and ¥7,808 million, respectively.

For the six months ended September 30, 2012 and 2013, subsidiaries recorded ¥3,377 million and ¥5,650 million of write-downs principally for advance and/or progress payments for development of residential condominiums for sale, resulting from an increase in development costs and/or a decrease in expected sales price. The amounts of such write-downs for the three months ended September 30, 2012 and 2013 were ¥1,582 million and ¥2,393 million, respectively. These write-downs were recorded in costs of real estate sales and included in the Real Estate 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. Accumulated depreciation was ¥41,698 million and ¥37,695 million as of March 31, 2013 and

September 30, 2013, respectively.

(v) Other assets

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

(w) Goodwill and other intangible assets

The Company and its subsidiaries have followed ASC 805 (Business Combinations) and ASC 350 (Intangibles Goodwill and Other). ASC 805 requires that all business combinations be accounted for using the acquisition method. It also requires that intangible assets acquired in a business combination be recognized apart from goodwill if the intangible assets meet one of two criteria either the contractual-legal criterion or the separability criterion. 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.

ASC 350 establishes how intangible assets (other than those acquired in a business combination) should be accounted for upon acquisition. It also addresses how goodwill and other intangible assets should be accounted for subsequent to their acquisition. Both goodwill and intangible assets that have indefinite useful lives are not amortized but tested at least annually for impairment. Additionally, if events or changes in circumstances indicate that the asset might be impaired, we test for impairment when such events or changes occur. Under ASC 350, the Company and its subsidiaries may 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, it is determined 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, the Company and/or subsidiaries perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the fair value of the reporting unit falls below its carrying amount, then the Company and/or subsidiaries perform the second step of the goodwill impairment test by comparing the fair value of goodwill with its carrying amount. If the carrying amount of goodwill exceeds its 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 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.

The Company and its subsidiaries adopted Accounting Standards Update 2012-02 (Testing Indefinite-Lived Intangible Assets for Impairment ASC 350 (Intangibles Goodwill and Other)) during the fiscal year ended March 31, 2013. According to ASU 2012-02, the Company and its subsidiaries may perform a qualitative assessment to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired. 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 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, 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. 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.

Intangible assets with finite lives are amortized over their useful lives and tested for impairment in accordance with ASC 360-10 (Property, Plant, and Equipment Impairment or Disposal of Long-Lived Assets).

The amount of goodwill is ¥136,644 million and ¥297,793 million as of March 31, 2013 and September 30, 2013, respectively.

(x) Trade notes, accounts payable and other liabilities

Trade notes, accounts payable and other liabilities include accounts payables, guarantee liabilities, and derivative liabilities.

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(y) Capitalization of interest costs

The Company and its subsidiaries capitalized interest costs related to specific long-term development projects.

(z) Advertising

The costs of advertising are expensed as incurred.

(aa) Discontinued operations

The Company and its subsidiaries have followed ASC 205-20 (Presentation of Financial Statements Discontinued Operations). Under ASC 205-20, the scope of discontinued operations includes the operating results of any component of an entity with its own identifiable operations and cash flow and in which operations the Company and its subsidiaries will not have significant continuing involvement. Included in reported discontinued operations are the operating results of operations for the subsidiaries, the business units and certain properties sold or to be disposed of by sale without significant continuing involvements, which results of operations for prior periods presented have also been reclassified as discontinued operations in the accompanying consolidated statements of income.

(ab) Earnings per share

Basic earnings per share is computed by dividing income attributable to ORIX Corporation shareholders from continuing operations and net income attributable to ORIX Corporation shareholders by the weighted average number of shares of common stock outstanding in each period and diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Earnings per share is adjusted for any stock splits and stock dividends retrospectively. For discussion of stock splits, see Note 17 (Per Share Data).

Furthermore, the Company and its subsidiaries applied ASC 260-10-45-43 to 44 (Earnings Per Share Contingently Convertible Instruments) to Liquid Yield Option Notes™ which was redeemed in fiscal 2013.

(ac) Partial sale and additional acquisition of the parent s ownership interest in subsidiaries

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

(ad) Redeemable noncontrolling interests

Noncontrolling interests in certain subsidiaries 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 in accordance with provisions including EITF Topic No. D-98 (ASC 480-10-s99-3A) (Classification and Measurement of Redeemable Securities).

(ae) Issuance of stock by an affiliate

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

(af) New accounting pronouncements

In December 2011, Accounting Standards Update 2011-10 (Derecognition of in Substance Real Estate a Scope Clarification ASC 360 (Property, Plant, and Equipment)) was issued. This Update is intended to resolve the diversity in practice and clarifies that when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s non-recourse debt, the reporting entity should apply the guidance in ASC 360-20 (Property, Plant, and Equipment Real Estate Sales) to determine whether it should derecognize the in substance real estate. The Company and its subsidiaries adopted this Update on April 1, 2013. The adoption had no effect on the Company and its subsidiaries results of operations or financial position.

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In December 2011, Accounting Standards Update 2011-11 (Disclosures about Offsetting Assets and Liabilities ASC 210 (Balance Sheet)) was issued. This Update requires all entities that have financial instruments and derivative instruments that are either offset in the balance sheet or subject to an enforceable master netting arrangement or similar agreement to disclose information about offsetting and related arrangements. In January 2013, Accounting Standards Update 2013-01 (Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities ASC 210 (Balance Sheet)) was issued. This Update clarifies that the scope of Update 2011-11 applies to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The Company and its subsidiaries adopted these Updates on April 1, 2013. These Updates only relate to certain disclosure requirements and the adoption had no effect on the Company and its subsidiaries results of operations or financial position.

In February 2013, Accounting Standards Update 2013-02 (Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ASC 220 (Comprehensive Income)) was issued. This Update supersedes the reporting requirement for reclassifications out of accumulated other comprehensive income, originally required under Accounting Standards Update 2011-05, for which the effective date was deferred by Accounting Standards Update 2011-12. This Update requires an entity to present information about amounts reclassified out of accumulated other comprehensive income, their corresponding effect on line items of net income and other information by component. An entity shall provide the information together, in one location, either on the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statement. The Company and its subsidiaries adopted this Update on April 1, 2013. The Update only relates to certain disclosure requirements and the adoption had no effect on the Company and its subsidiaries results of operations or financial position.

In February 2013, Accounting Standards Update 2013-04 (Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date ASC 405 (Liabilities)) was issued. This Update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The Update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The adoption is not expected to have a material effect on the Company and its subsidiaries results of operations or financial position.

In March 2013, Accounting Standards Update 2013-05 (Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity ASC 830 (Foreign Currency Matters)) was issued. This Update requires that when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity, the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This Update continues to require an entity to release a pro rata portion of the cumulative translation adjustment into net income upon a partial sale of an equity method investment that is a foreign entity. This Update requires an acquirer to release any related cumulative translation adjustment into net income when the acquirer obtains a controlling financial interest in a foreign entity that was previously an equity method affiliate in a business combination achieved in stages. The Update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. Generally, the effect of adopting this Update on the Company and its subsidiaries results of operations or financial position will depend on future transactions.

In April 2013, Accounting Standards Update 2013-07 (Liquidation Basis of Accounting ASC 205 (Presentation of Financial Statements)) was issued. This Update requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent and provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. The Update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. Generally, the effect of adopting this Update on the Company and its subsidiaries results of operations or financial position will depend on future transactions.

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In June 2013, Accounting Standards Update 2013-08 (Amendments to the Scope, Measurement, and Disclosure Requirements ASC 946 (Financial Services Investment Companies)) was issued. This Update changes the approach to the investment company assessment, clarifies the characteristics of an investment company, and provides comprehensive guidance for assessing whether an entity is an investment company. This Update requires an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting. This Update requires an investment company to disclose the additional information about an entity s status as an investment company and financial support provided or contractually required to be provided by an investment company to its investees. The Update is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. Early adoption is prohibited. 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 and financial position.

In July 2013, Accounting Standards Update 2013-10 (Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes ASC 815 (Derivatives and Hedging)) was issued. This Update permits the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to the interest rates on direct Treasury obligations of the U.S. government and LIBOR swap rate. This Update also removes the restriction on using different benchmark rates for similar hedges. The Company and its subsidiaries adopted this Update for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption had no effect on the Company and its subsidiaries results of operations or financial position.

In July 2013, Accounting Standards Update 2013-11 (Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ASC 740 (Income Taxes)) was issued. This Update requires an entity to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss carryforward, or similar tax loss or tax credit carryforward, rather than as a liability, with certain exceptions. This Update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date, although retrospective application is permitted. Early adoption is permitted. The adoption is not expected to have a material effect on the Company and its subsidiaries results of operations or financial position.

(ag) Reclassifications

Revenues and Expenses from asset management and loan servicing business have been separately presented from this period as Revenues from asset management and servicing and Expenses from asset management and servicing. The amounts in the same period of the previous year have been retrospectively reclassified for this change.

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3. Fair Value Measurements

The Company and its subsidiaries adopted ASC 820-10 (Fair Value Measurement). This Codification Section defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

This Codification Section classifies and prioritizes 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.

This Codification Section differentiates between those assets and liabilities required to be carried at fair value at every reporting period (recurring) and those assets and liabilities that are only required to be adjusted to fair value under certain circumstances (nonrecurring). The Company and its subsidiaries mainly measure certain loans held for sale, trading securities, available-for-sale securities, certain investment funds and derivatives at fair value on a recurring basis.

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The following table presents recorded amounts of major financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2013 and September 30, 2013:

March 31, 2013

	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)**
Financial Assets:				
Loans held for sale *1	¥ 16,026	¥ 0	¥ 16,026	¥ 0
Trading securities	33,041	2,184	30,857	0
Available-for-sale securities	757,299	166,398	453,923	136,978
Japanese and foreign government bond securities	278,717	98,990	179,727	0
Japanese prefectural and foreign municipal bond securities	61,090	0	61,090	0
Corporate debt securities	196,835	0	190,311	6,524
Specified bonds issued by SPEs in Japan	63,244	0	0	63,244
CMBS and RMBS in the U.S., and other asset-backed securities	60,691	0	1,792	58,899
Other debt securities	8,311	0	0	8,311
Equity securities	88,411	67,408	21,003	0
Other securities	5,800	0	0	5,800
Investment funds *2	5,800	0	0	5,800
Derivative assets	14,598	147	12,352	2,099
Interest rate swap agreements	4,654	0	4,654	0
Options held/written and other	5,654	0	3,555	2,099
Futures, foreign exchange contracts	1,030	147	883	0
Foreign currency swap agreements	2,890	0	2,890	0
Credit derivatives held	370	0	370	0
	¥ 826,764	¥ 168,729	¥ 513,158	¥ 144,877
Financial Liabilities:				
Derivative liabilities	¥ 18,037	¥ 0	¥ 18,037	¥ 0
Interest rate swap agreements	1,459	0	1,459	0
Options held/written and other	3,530	0	3,530	0
Futures, foreign exchange contracts	4,685	0	4,685	0
Foreign currency swap agreements	8,263	0	8,263	0
Credit derivatives held/written	100	0	100	0
	¥ 18,037	¥ 0	¥ 18,037	¥ 0

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September 30, 2013

	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)
Financial Assets:				
Loans held for sale *1	¥ 8,401	¥ 0	¥ 8,401	¥ 0
Trading securities	27,349	1,273	26,076	0
Available-for-sale securities	764,278	185,522	514,991	63,765
Japanese and foreign government bond securities	334,154	90,989	243,165	0
Japanese prefectural and foreign municipal bond securities	58,581	0	58,581	0
Corporate debt securities	191,930	0	191,268	662
Specified bonds issued by SPEs in Japan	14,733	0	0	14,733
CMBS and RMBS in the U.S., and other asset-backed securities	40,049	0	919	39,130
Other debt securities	9,240	0	0	9,240
Equity securities	115,591	94,533	21,058	0
Other securities	8,800	1,218	0	7,582
Investment funds *2	8,800	1,218	0	7,582
Derivative assets	17,298	207	17,091	0
Interest rate swap agreements	4,133	0	4,133	0
Options held/written and other	4,565	0	4,565	0
Futures, foreign exchange contracts	2,410	207	2,203	0
Foreign currency swap agreements	5,794	0	5,794	0
Credit derivatives held/written	396	0	396	0
	¥ 826,126	¥ 188,220	¥ 566,559	¥ 71,347
Financial Liabilities:				
Derivative liabilities	¥ 17,193	¥ 8	¥ 14,994	¥ 2,191
Interest rate swap agreements	944	0	944	0
Options held/written and other	3,384	0	1,193	2,191
Futures, foreign exchange contracts	5,964	8	5,956	0
Foreign currency swap agreements	6,735	0	6,735	0
Credit derivatives held	166	0	166	0
	¥ 17,193	¥ 8	¥ 14,994	¥ 2,191

*1 A subsidiary elected the fair value option under ASC 825-10 (Financial Instruments Fair Value Option) on the loans held for sale originated on or after October 1, 2011. These loans are multi-family and seniors housing loans and are sold to Federal National Mortgage Association (Fannie Mae) or institutional investors. Included in other operating revenues in the consolidated statements of income are losses from the change in the fair value of the loans of ¥306 million for the six months ended September 30, 2012 and losses from the change in the fair value of the loans of ¥465 million for the six months ended September 30, 2013. Included in other operating revenues in the consolidated statements of income are losses from the change in the fair value of the loans of ¥168 million for the three months ended September 30, 2012 and gains from the change in the fair value of the loans of ¥229 million for the three months ended September 30, 2013. No gains or losses were recognized in earnings during the six months ended September 30, 2012 and the six months ended September 30, 2013, 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 at March 31, 2013, are ¥15,535 million and ¥16,026 million, respectively, and the amount of the aggregate fair value exceeds the amount of aggregate unpaid principal balance by ¥491 million. The amounts of aggregate unpaid principal balance and aggregate fair value of the loans held for sale as of September 30, 2013, are ¥8,356 million and ¥8,401 million, respectively, and the amount of the aggregate fair value falls below the amount of aggregate unpaid principal balance by ¥45 million. As of March 31, 2013 and September 30, 2013, there are no loans that are 90 days or more past due, in non-accrual status, or both.

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*2 A subsidiary elected the fair value option under ASC 825-10 (Financial Instruments Fair Value Option) for certain funds purchased at a discount on the secondary market and an investment in a drug royalty trust, which were made on or after April 1, 2012. Included in brokerage commissions and net gains on investment securities in the consolidated statements of income are gains from the change in the fair value of those investments of ¥395 million for the six months ended September 30, 2013 and ¥207 million for the three months ended September 30, 2013. The amounts of aggregate fair value elected the fair value option are ¥5,800 million and ¥7,486 million as of March 31, 2013 and September 30, 2013, respectively.

Changes in economic conditions or valuation methodologies may require the transfer of assets and liabilities from one fair value level to another. In such instances, the Company and its subsidiaries recognize the transfer at the beginning of the quarter during which the transfers occur. For the six months ended September 30, 2012, and for the six months ended September 2013, there were no transfers between Level 1 and Level 2.

The following table presents the reconciliation for financial assets and liabilities (net) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended September 30, 2012 and 2013:

Six months ended September 30, 2012

	Millions of yen									
		Gains or losses (realized/unrealized)								
	Balance at April 1, 2012	Included in earnings *1	Included in other comprehensive income *2	Total	Purchases	Sales	Settlements	Transfers in and/ or out of Level 3 (net)	Balance at September 30, 2012	Change in unrealized gains or losses included in earnings for assets and liabilities still held at September 30, 2012 *1
Available-for-sale securities	¥ 243,655	¥ (2,173)	¥ (1,405)	¥ (3,578)	¥ 11,182	¥ (852)	¥ (70,637)	¥ 0	¥ 179,770	¥ (2,502)
Corporate debt securities	2,912	(665)	89	(576)	102	(204)	(290)	0	1,944	(599)
Specified bonds issued by SPEs in Japan	139,152	(1,696)	(256)	(1,952)	5,419	(9)	(41,098)	0	101,512	(1,705)
CMBS and RMBS in the U.S., and other asset-backed securities	93,181	188	(1,265)	(1,077)	5,661	(639)	(29,249)	0	67,877	(198)
Other debt securities	8,410	0	27	27	0	0	0	0	8,437	0
Derivative assets and liabilities (net)	5,293	414	0	414	0	0	0	0	5,707	414
Options held, caps held and other	5,293	414	0	414	0	0	0	0	5,707	414

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Six months ended September 30, 2013

	Millions of yen									
		Gains or losses (realized/unrealized)								
	Balance at April 1, 2013	Included in earnings *1	Included in other comprehensive income *2	Total	Purchases	Sales	Settlements	Transfers in and/ or out of Level 3 (net)	Balance at September 30, 2013	Change in unrealized gains or losses included in earnings for assets and liabilities still held at September 30, 2013 *1
Available-for-sale securities	¥ 136,978	¥ 4,039	¥ 2,203	¥ 6,242	¥ 16,831	¥ (11,445)	¥ (84,841)	¥ 0	¥ 63,765	¥ 142
Corporate debt securities	6,524	411	(366)	45	0	(1,325)	(4,582)	0	662	22
Specified bonds issued by SPEs in Japan	63,244	295	797	1,092	0	(22)	(49,581)	0	14,733	51
CMBS and RMBS in the U.S., and other asset-backed securities	58,899	3,333	843	4,176	16,831	(10,098)	(30,678)	0	39,130	69
Other debt securities	8,311	0	929	929	0	0	0	0	9,240	0
Other securities	5,800	379	226	605	1,566	(386)	(3)	0	7,582	379
Investment funds	5,800	379	226	605	1,566	(386)	(3)	0	7,582	379
Derivative assets and liabilities (net)	2,099	(2,584)	0	(2,584)	0	0	(1,706)	0	(2,191)	(2,584)
Options held/written and other	2,099	(2,584)	0	(2,584)	0	0	(1,706)	0	(2,191)	(2,584)

*1 Principally, gains and losses from available-for-sale securities are included in brokerage commissions, net gains on investment securities, write-downs of securities or life insurance premiums and related investment income ; other securities are included in brokerage commissions and net gains on investment securities and derivative assets and liabilities (net) are included in other operating revenues/expenses, respectively. Also, for available-for-sale securities, amortization of interest recognized in interest on loans and investment securities 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 .

There were no transfers in or out of Level 3 in the six months ended September 30, 2012 and 2013.

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Changes in economic conditions or valuation methodologies may require the transfer of assets and liabilities from one fair value level to another. In such instances, the Company and its subsidiaries recognize the transfer at the beginning of the quarter during which the transfers occur. For the three months ended September 30, 2012, and for the three months ended September 2013, there were no transfers between Level 1 and Level 2.

The following table presents the reconciliation for financial assets and liabilities (net) measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended September 30, 2012 and 2013:

Three months ended September 30, 2012

	Millions of yen									
		Gains or losses (realized/unrealized)								
	Balance at June 30, 2012	Included in earnings *1	Included in other comprehensive income *2	Total	Purchases	Sales	Settlements	Transfers in and/ or out of Level 3 (net)	Balance at September 30, 2012	Change in unrealized gains or losses included in earnings for assets and liabilities still held at September 30, 2012 *1
Available-for-sale securities	¥ 219,005	¥ (2,402)	¥ (398)	¥ (2,800)	¥ 4,011	¥ (843)	¥ (39,603)	¥ 0	¥ 179,770	¥ (2,701)
Corporate debt securities	2,629	(672)	269	(403)	102	(204)	(180)	0	1,944	(606)
Specified bonds issued by SPEs in Japan	119,851	(1,494)	(478)	(1,972)	1,834	0	(18,201)	0	101,512	(1,494)
CMBS and RMBS in the U.S., and other asset-backed securities	88,257	(236)	(358)	(594)	2,075	(639)	(21,222)	0	67,877	(601)
Other debt securities	8,268	0	169	169	0	0	0	0	8,437	0
Derivative assets and liabilities (net)	5,128	579	0	579	0	0	0	0	5,707	579
Options held and other	5,128	579	0	579	0	0	0	0	5,707	579

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Three months ended September 30, 2013

	Millions of yen									
		Gains or losses (realized/unrealized)								
	Balance at June 30, 2013	Included in earnings *1	Included in other comprehensive income *2	Total	Purchases	Sales	Settlements	Transfers in and/ or out of Level 3 (net)	Balance at September 30, 2013	Change in unrealized gains or losses included in earnings for assets and liabilities still held at September 30, 2013 *1
Available-for-sale securities	¥ 92,535	¥ 1,936	¥ 395	¥ 2,331	¥ 4,485	¥ (1,823)	¥ (33,763)	¥ 0	¥ 63,765	¥ (171)
Corporate debt securities	5,264	136	(37)	99	0	(122)	(4,579)	0	662	12
Specified bonds issued by SPEs in Japan	25,469	230	773	1,003	0	(22)	(11,717)	0	14,733	26
CMBS and RMBS in the U.S., and other asset-backed securities	52,752	1,570	(531)	1,039	4,485	(1,679)	(17,467)	0	39,130	(209)
Other debt securities	9,050	0	190	190	0	0	0	0	9,240	0
Other securities	7,128	188	(59)	129	596	(268)	(3)	0	7,582	189
Investment funds	7,128	188	(59)	129	596	(268)	(3)	0	7,582	189
Derivative assets and liabilities (net)	(2,975)	875	0	875	0	0	(91)	0	(2,191)	875
Options held/written and other	(2,975)	875	0	875	0	0	(91)	0	(2,191)	875

*1 Principally, gains and losses from available-for-sale securities are included in brokerage commissions, net gains on investment securities, write-downs of securities or life insurance premiums and related investment income ; other securities are included in brokerage commissions and net gains on investment securities and derivative assets and liabilities (net) are included in other operating revenues/expenses, respectively. Also, for available-for-sale securities, amortization of interest recognized in interest on loans and investment securities 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.

There were no transfers in or out of Level 3 in the three months ended September 30, 2012 and 2013.

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The following table presents recorded amounts of assets and liabilities measured at fair value on a nonrecurring basis as of March 31, 2013 and September 30, 2013. These assets are measured at fair value on a nonrecurring basis mainly to recognize impairment.

March 31, 2013

	Millions of yen			
	Total carrying value in Consolidated Balance Sheets	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Real estate collateral-dependent loans (net of allowance for probable loan losses)	¥ 60,564	¥ 0	¥ 0	¥ 60,564
Investment in operating leases and other operating assets	21,960	0	0	21,960
Land and buildings undeveloped or under construction	11,845	0	0	11,845
Certain investment in affiliates	3,704	0	0	3,704
	¥ 98,073	¥ 0	¥ 0	¥ 98,073

September 30, 2013

	Millions of yen			
	Total carrying value in Consolidated Balance Sheets	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Real estate collateral-dependent loans (net of allowance for probable loan losses)	¥ 42,743	¥ 0	¥ 0	¥ 42,743
Investment in operating leases and other operating assets	12,585	0	0	12,585
Land and buildings undeveloped or under construction	18,382	0	0	18,382
	¥ 73,710	¥ 0	¥ 0	¥ 73,710

The following is a description of the valuation process and the main valuation methodologies used for assets and liabilities measured at fair value.

Valuation process

The Company and its subsidiaries determine fair value of Level 3 assets and liabilities by using valuation techniques such as internally developed models or using third-party pricing information. Internally developed models include the discounted cash flow methodologies and direct capitalization methodologies. To measure the fair value of the assets and liabilities, the Company and its subsidiaries select the valuation technique which best reflects the nature, characteristics and risks of each asset and liability. The appropriateness of valuation methods and unobservable inputs is verified when measuring fair values of the assets and liabilities by using internally developed models. The Company and its subsidiaries also use third-party pricing information to measure the fair value of certain assets and liabilities. In that case, the Company and its subsidiaries verify the appropriateness of the prices by monitoring available information about the assets and liabilities such as current conditions of the assets or liabilities as well as surrounding market information. When these prices are determined to be able to reflect the nature, characteristics and risks of assets and liabilities reasonably, the Company and its subsidiaries use these prices as fair value of the assets and liabilities.

Loans held for sale

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

Real estate collateral-dependent loans

The valuation allowance for large balance non-homogeneous loans is individually evaluated based on the present value of expected future cash flows, the loan s observable market price or the fair value of the collateral securing the loans if the loans are collateral-dependent. According to ASC 820-10 (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. 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 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 other operating assets 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 other operating assets and Land and buildings undeveloped or under construction using appraisals prepared by independent third party appraisers or the Company s own staff of qualified appraisers based on recent transactions involving sales of similar assets or other valuation techniques such as discounted cash flow methodologies using future cash flows estimated to be generated from operation of the existing assets or completion of development projects, as appropriate. The Company and its subsidiaries classified the assets as Level 3 because such appraisals involve unobservable inputs. These unobservable inputs contain discount rates as well as future cash flows estimated to be generated from the assets or projects. An increase (decrease) in the discount rate and a decrease (increase) in the estimated future cash flows would result in a decrease (increase) in the fair value of investment in operating leases and other operating assets and Land and buildings undeveloped or under construction.

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Trading securities, Available-for-sale securities, Unlisted securities and Investment in affiliates

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

The Company and its subsidiaries classified CMBS and RMBS in the United States as level 3 due to a certain market being inactive. In determining whether a market is active or inactive, 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 the CMBS and RMBS in the United States, the Company and its subsidiaries judged that there has been increased overall trading activity but 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, the Company and its subsidiaries established internally developed pricing models (Level 3 inputs) using valuation techniques such as discounted cash flow methodologies in order to estimate fair value of these securities and classified them as Level 3. Under the models, the Company and its subsidiaries use anticipated cash flows of the security discounted at a risk-adjusted discount rate that incorporates our estimate of credit risk and liquidity risk that a market participant would consider. The cash flows are estimated based on a number of assumptions such as default rate and prepayment speed, as well as seniority of the security. An increase (decrease) in the discount rate or default rate would result in a decrease (increase) in the fair value of CMBS and RMBS in the United States.

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

Investment funds

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. Certain investment funds classified as other securities in the United States for which the fair value option is elected are classified as Level 3, because a subsidiary measures their fair value using discounted cash flow methodologies and 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.

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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, 2013 and September 30, 2013.

	March 31, 2013			
	Millions of yen Fair value	Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
Financial Assets:				
Available-for-sale securities				
Corporate debt securities	¥ 974	Discounted cash flows	Discount rate	5.4% (5.4%)
	5,550	Appraisals/Broker quotes		
Specified bonds issued by SPEs in Japan	60,013	Discounted cash flows	Discount rate	1.0% 12.0% (4.9%)
	3,231	Appraisals/Broker quotes		
CMBS and RMBS in the U.S., and other asset-backed securities	30,804	Discounted cash flows	Discount rate	2.9% 42.6% (9.3%)
			Probability of default	0.0% 12.8% (1.7%)
	28,095	Appraisals/Broker quotes		
Other debt securities	8,311	Discounted cash flows	Discount rate	11.7% (11.7%)
Other securities				
Investment funds	5,800	Discounted cash flows	Discount rate	13.0% 20.0% (18.6%)
Derivative assets				
Options held/written and other	2,099	Discounted cash flows	Discount rate	10.0% 15.0% (12.3%)
Total Assets	¥ 144,877			

	September 30, 2013			
	Millions of yen Fair value	Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
Financial Assets:				
Available-for-sale securities				
Corporate debt securities	¥ 662	Appraisals/Broker quotes		
Specified bonds issued by SPEs in Japan	11,569	Discounted cash flows	Discount rate	1.0% 11.5% (7.7%)

	3,164	Appraisals/Broker quotes		
CMBS and RMBS in the U.S., and other asset-backed securities	15,160	Discounted cash flows	Discount rate	3.1% 34.1% (5.8%)
			Probability of default	0.0% 12.8% (1.1%)
	23,970	Appraisals/Broker quotes		
Other debt securities	9,240	Discounted cash flows	Discount rate	11.8% (11.8%)
Other securities				
Investment funds	7,582	Discounted cash flows	Discount rate	13.0% 22.5% (19.8%)
Total Assets	¥ 71,347			
Financial Liabilities:				
Derivative liabilities				
Options held/written and other	2,191	Discounted cash flows	Discount rate	10.0% 15.0% (12.2%)
Total Liabilities	¥ 2,191			

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The following tables provide information about the valuation techniques and significant unobservable inputs used in the valuation of Level 3 assets measured at fair value on a nonrecurring basis as of March 31, 2013 and September 30, 2013.

	March 31, 2013			
	Millions of yen			
	Fair value	Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
Assets:				
Real estate collateral-dependent loans (net of allowance for probable loan losses)	¥ 60,564	Discounted cash flows	Discount rate	5.4% 19.0% (8.4%)
		Direct capitalization	Capitalization rate	5.0% 21.0% (10.7%)
Investment in operating leases and other operating assets	21,960	Discounted cash flows	Discount rate	4.4% 12.7% (6.9%)
Land and buildings undeveloped or under construction	11,845	Discounted cash flows	Discount rate	4.7% 9.6% (6.6%)
Certain investment in affiliates	3,704	Discounted cash flows	Discount rate	5.0% 9.2% (8.8%)
	¥ 98,073			

	September 30, 2013			
	Millions of yen			
	Fair value	Valuation technique(s)	Significant unobservable inputs	Range (Weighted average)
Assets:				
Real estate collateral-dependent loans (net of allowance for probable loan losses)	¥ 42,743	Discounted cash flows	Discount rate	4.9% 19.0% (8.4%)
		Direct capitalization	Capitalization rate	5.6% 21.0% (11.5%)
Investment in operating leases and other operating assets	12,585	Discounted cash flows	Discount rate	5.2% 9.5% (5.5%)
Land and buildings undeveloped or under construction	18,382	Discounted cash flows	Discount rate	3.9% 9.9% (7.1%)
	¥ 73,710			

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 (in isolation) 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 valuation process and the main valuation methodologies used for assets and liabilities measured at fair value.

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4. Acquisitions

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

The consideration of ¥250,724 million was paid by means of ¥231,316 million in cash and shares valued at ¥19,408 million issued out of treasury. The 13,902,900 shares held in treasury issued to Rabobank as part of the total consideration was determined based on the closing price of 1,396 yen of the Company s common share on the Tokyo Stock Exchange on July 1, 2013 in accordance with the share purchase agreement executed between the Company and Rabobank as of February 19, 2013.

In addition, the Company will be required to pay contingent consideration depending on the future performance results related to a certain asset management business in each year until December 2015. The preliminary estimate of fair value of such contingent consideration was ¥5,408 million, which is included in the total consideration transferred. However, the Company believes that the upward variation of such consideration, if any, is not significant.

Transaction costs of ¥1,986 million are included in selling, general and administrative expenses in the Company s consolidated statements of income.

Through this acquisition, the Company aims to expand its global asset management business as one of the measures to pursue new business models by combining finance with related services. The rationales for the Company s acquisition of Robeco include the strength of Robeco s global brand, the diversity of its businesses across asset classes and regions, the breadth of its global distribution network and the experience of its investments teams. As a well-managed and relatively autonomous group of businesses with a good performance record, Robeco is the ideal vehicle for the Company to pursue its ambitions in global asset management. Growth opportunities also exist in the pension and asset management markets in Asia and Middle East where the Company has an established network.

The Company allocates the acquisition considerations to Robeco s respective assets acquired and liabilities assumed, and records the assets, liabilities and noncontrolling interest based on their fair values at the acquisition date by the acquisition method of accounting in accordance with ASC 805 (Business Combinations).

The following table provides preliminary fair value amounts allocated to assets acquired and liabilities assumed of Robeco. Because the acquisition occurred during the three months ended September 30, 2013, the purchase price allocation has not yet been finalized as of September 30, 2013. Because the fair value measurements of these assets, liabilities and noncontrolling interest require estimates based on various assumptions, the provisional amounts are subject to change as more information about facts and circumstances that existed at the acquisition date becomes available.

	Millions of yen Preliminary fair value amounts of assets, liabilities and noncontrolling interest	
Cash and Cash Equivalents	¥	43,737
Investment in Securities		3,325
Investment in Affiliates		931
Other Receivables		17,938
Prepaid Expenses		1,908
Office Facilities		1,839
Other Assets		357,818
Total Assets		427,496
Trade Notes, Accounts Payable and Other Liabilities		1,353
Accrued Expenses		55,577
Current and Deferred Income Taxes		61,188
Long-Term Debt		27,638
Total Liabilities		145,756

Noncontrolling Interests		25,607
Net	¥	256,133

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Goodwill and other intangible assets, with a total preliminary fair value amounting to ¥323,946 million, identified in the acquisition are included in other assets in the above table and the Company s consolidated balance sheets as of September 30, 2013. The goodwill is calculated as the excess of consideration transferred and the fair value of noncontrolling interest over the net assets recognized at fair value. The Company calculated the amount of goodwill based on preliminary estimates of fair value of assets acquired, liabilities assumed and noncontrolling interest. The completion of the purchase price allocation could result in an adjustment to the amount of goodwill and other intangible assets. However, such an adjustment, if any, is not expected to have a significant effect on the Company s consolidated statements of income. The goodwill represents the future growth of the ORIX Group from new revenue streams arising from the consolidation of Robeco and synergies with the existing Company s assets and businesses. The goodwill is not deductible for tax purposes. The goodwill and other intangible assets recorded in connection with this acquisition are included in the Overseas Business segment. Certain intangible assets with finite lives recognized in connection with the acquisition are amortized over their useful lives based on their preliminary amounts recognized. Such amortization did not have a significant effect on the Company s consolidated statements of income for the six and three months ended September 30, 2013.

The following unaudited supplemental pro forma financial information presents the combined results of operations of the Company and its subsidiaries as though the acquisition had occurred as of the beginning of the fiscal year ended March 31, 2013 (April 1, 2012):

	Millions of yen	
	Six months ended September 30, 2012	Six months ended September 30, 2013
Total revenues	¥ 558,756	¥ 646,504
Operating Income	86,014	115,067

Total revenues and operating income of Robeco included in the Company s consolidated statements of income for the six and three months ended September 30, 2013 are ¥34,745 million and ¥7,175 million, respectively.

The unaudited supplemental pro forma financial information is based on estimates and assumptions, which the Company believes are reasonable and should not be taken as indicative of what the Company s consolidated financial results would have been had the acquisition been completed on that date. The unaudited supplemental pro forma financial information does not include certain nonrecurring costs directly attributable to the acquisition that would not have been incurred had the acquisition not occurred.

The acquisition accounting has not been completed as of November 13, 2013.

There were no other material acquisitions for the six months ended September 30, 2012 or September 30, 2013.

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5. Credit Quality of Financing Receivables and the Allowance for Credit Losses

The Company and its subsidiaries apply ASC 310 (Receivables). ASC 310 requires an entity to provide the following information disaggregated by portfolio segment and class of financing receivable.

Allowance for credit losses by portfolio segment

Credit quality of financing receivables by class

Impaired loans

Credit quality indicators

Non-accrual and past-due financing receivables

Information about troubled debt restructurings by class

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

The following table provides information about the allowance for credit losses as of March 31, 2013, for the six and three months ended September 30, 2012 and for the six and three months ended September 30, 2013:

	Six months ended September 30, 2012 Millions of yen					
	Loans					
		Corporate				
	Consumer	Non-recourse loans	Other	Purchased loans *1	Direct financing leases	Total
Allowance for credit losses:						
Beginning balance	¥ 16,140	¥ 23,505	¥ 60,266	¥ 19,825	¥ 16,852	¥ 136,588
Provision (Reversal)	941	252	(671)	1,062	1,219	2,803
Charge-offs	(1,703)	(1,537)	(7,682)	(6,913)	(2,574)	(20,409)
Recoveries	206	1	722	0	28	957
Other *2	201	(1,703)	(558)	(103)	(257)	(2,420)
Ending balance	¥ 15,785	¥ 20,518	¥ 52,077	¥ 13,871	¥ 15,268	¥ 117,519
Individually evaluated for impairment	2,396	18,384	43,886	11,904	0	76,570
Not individually evaluated for impairment	13,389	2,134	8,191	1,967	15,268	40,949
Financing receivables:						
Ending balance	¥ 1,148,104	¥ 612,209	¥ 924,528	¥ 80,491	¥ 924,063	¥ 3,689,395
Individually evaluated for impairment	9,421	81,403	142,473	27,562	0	260,859
Not individually evaluated for impairment	1,138,683	530,806	782,055	52,929	924,063	3,428,536

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	Three months ended September 30, 2012 Millions of yen					
	Loans					
		Corporate				
	Consumer	Non-recourse loans	Other	Purchased loans *1	Direct financing leases	Total
Allowance for credit losses:						
Beginning balance	¥ 15,675	¥ 22,246	¥ 58,179	¥ 14,403	¥ 16,114	¥ 126,617
Provision (Reversal)	606	(103)	7	188	891	1,589
Charge-offs	(576)	(958)	(6,134)	(698)	(1,742)	(10,108)
Recoveries	79	0	242	0	7	328
Other *2	1	(667)	(217)	(22)	(2)	(907)
Ending balance	¥ 15,785	¥ 20,518	¥ 52,077	¥ 13,871	¥ 15,268	¥ 117,519

	As of March 31, 2013 Millions of yen					
	Loans					
		Corporate				
	Consumer	Non-recourse loans	Other	Purchased loans *1	Direct financing leases	Total
Allowance for credit losses:						
Ending balance	¥ 14,526	¥ 16,717	¥ 41,875	¥ 15,316	¥ 15,830	¥ 104,264
Individually evaluated for impairment	3,190	14,620	34,206	13,135	0	65,151
Not Individually Evaluated for Impairment	11,336	2,097	7,669	2,181	15,830	39,113
Financing receivables:						
Ending balance	¥ 1,171,142	¥ 568,957	¥ 862,332	¥ 70,801	¥ 989,380	¥ 3,662,612
Individually evaluated for impairment	10,861	61,050	111,722	29,107	0	212,740
Not individually evaluated for impairment	1,160,281	507,907	750,610	41,694	989,380	3,449,872

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	Six months ended September 30, 2013 Millions of yen					
		Loans Corporate				
	Consumer	Non-recourse loans	Other	Purchased loans *1	Direct financing leases	Total
Allowance for credit losses:						
Beginning balance	¥ 14,526	¥ 16,717	¥ 41,875	¥ 15,316	¥ 15,830	¥ 104,264
Provision (Reversal)	2,080	(12)	(212)	1,799	1,574	5,229
Charge-offs	(2,045)	(2,169)	(5,496)	(3,027)	(2,350)	(15,087)
Recoveries	226	140	254	95	41	756
Other *3	3	(5,624)	316	60	(5)	(5,250)
Ending balance	¥ 14,790	¥ 9,052	¥ 36,737	¥ 14,243	¥ 15,090	¥ 89,912
Individually evaluated for impairment	3,427	7,936	29,205	12,640	0	53,208
Not individually evaluated for impairment	11,363	1,116	7,532	1,603	15,090	36,704
Financing receivables:						
Ending balance	¥ 1,202,526	¥ 247,303	¥ 795,606	¥ 59,523	¥ 1,019,265	¥ 3,324,223
Individually evaluated for impairment	11,564	35,869	94,150	25,040	0	166,623
Not individually evaluated for impairment	1,190,962	211,434	701,456	34,483	1,019,265	3,157,600

	Three months ended September 30, 2013 Millions of yen					
		Loans Corporate				
	Consumer	Non-recourse loans	Other	Purchased loans *1	Direct financing leases	Total
Allowance for credit losses:						
Beginning Balance	¥ 15,193	¥ 10,581	¥ 40,667	¥ 14,764	¥ 15,719	¥ 96,924
Provision (Reversal)	608	115	(436)	1,648	946	2,881
Charge-offs	(1,170)	(338)	(3,632)	(2,176)	(1,433)	(8,749)
Recoveries	156	140	163	5	15	479
Other *4	3	(1,446)	(25)	2	(157)	(1,623)
Ending balance	¥ 14,790	¥ 9,052	¥ 36,737	¥ 14,243	¥ 15,090	¥ 89,912

*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 in accordance with ASC 310-30 (Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality).

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

*3 Other mainly includes foreign currency translation adjustments. Additionally, Other in Non-recourse loans includes decreases by ¥6,243 million due to the sale of controlling class interests of certain VIE, which was formerly consolidated, to a third party and resulting in deconsolidation of the VIE.

*4 Other mainly includes foreign currency translation adjustments. Additionally, Other in Non-recourse loans includes decreases by ¥1,371 million due to the sale of controlling class interests of certain VIE, which was formerly consolidated, to a third party and resulting in deconsolidation of the VIE.

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

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

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

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

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

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

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The following table provides information about the impaired loans as of March 31, 2013 and September 30, 2013:

		March 31, 2013		
			Millions of yen	
Portfolio segment	Class	Loans Individually Evaluated for Impairment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded *1:		¥ 52,798	¥ 52,768	¥ 0
Consumer borrowers		1,003	989	0
	Housing loans	1,003	989	0
	Card loans	0	0	0
	Other	0	0	0
Corporate borrowers		51,795	51,779	0
Non-recourse loans	Japan	21,409	21,407	0
	U.S.	5,825	5,825	0
Other	Real estate companies	7,063	7,060	0
	Entertainment companies	6,148	6,147	0
	Other	11,350	11,340	0
Purchased loans		0	0	0
With an allowance recorded *2:		159,942	158,798	65,151
Consumer borrowers		9,858	9,828	3,190
	Housing loans	7,496	7,471	2,565
	Card loans	1,858	1,854	547
	Other	504	503	78
Corporate borrowers		120,977	119,863	48,826
Non-recourse loans	Japan	2,006	2,004	1,021
	U.S.	31,810	31,706	13,599
Other	Real estate companies	40,063	39,896	15,862
	Entertainment companies	5,889	5,843	2,118
	Other	41,209	40,414	16,226
Purchased loans		29,107	29,107	13,135
Total:		¥ 212,740	¥ 211,566	¥ 65,151
Consumer borrowers		10,861	10,817	3,190