ORIX CORP
Form 6-K
February 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 February 2013.

Commission File Number: 001-14856

ORIX Corporation

(Translation of Registrant s Name into English)

Mita NN Bldg., 4-1-23 Shiba, 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 February 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 nine months ended December 31, 2011 and 2012.

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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: February 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 February 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 nine months ended December 31, 2011 and 2012.

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, except as modified to account for stock splits in accordance with the usual practice in Japan.

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)		
	Nine months ended December 31, 2011	**Nine months ended December 31, 2012**	**Fiscal year ended March 31, 2012**
Total revenues	¥ 702,014	¥ 783,427	¥ 969,683
Income before income taxes and discontinued operations	102,303	134,555	127,248
Net income attributable to ORIX Corporation shareholders	66,640	90,140	83,509
Comprehensive Income attributable to ORIX Corporation shareholders	44,427	108,415	83,653
ORIX Corporation shareholders equity	1,342,689	1,479,499	1,380,736
Total assets	8,173,257	8,241,801	8,332,830
Earnings per share for net income attributable to ORIX Corporation shareholders			
Basic (yen)	619.87	838.30	776.76
Diluted (yen)	518.12	703.51	650.34
ORIX Corporation shareholders equity ratio (%)	16.4	18.0	16.6
Cash flows from operating activities	211,490	278,191	332,994
Cash flows from investing activities	60,039	43,560	41,757
Cash flows from financing activities	(334,458)	(435,476)	(318,477)
Cash and cash equivalents at end of period	662,894	676,333	786,892

	Three months ended December 31, 2011	**Three months ended December 31, 2012**
Total revenues	¥ 228,844	¥ 273,306
Net income attributable to ORIX Corporation shareholders	21,946	30,300
Earnings per share for net income attributable to ORIX Corporation shareholders		
Basic (yen)	204.13	281.77

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, 2012 related to the operations of subsidiaries, business units, and certain properties, which have been sold or are to be disposed of by sale without significant continuing involvement as of December 31, 2012 have been reclassified retrospectively.

2. Prior-year amounts have been adjusted for the retrospective adoption of Accounting Standards Update 2010-26 (Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ASC 944 (Financial Services Insurance)) on April 1, 2012.

3. Consumption tax is excluded from the stated amount of total revenues.

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(2) Overview of Activities

For the nine months ended December 31, 2012, no significant changes were made in the Company and its subsidiaries operations.

For the three months ended June 30, 2012, the Company purchased all shares (4,004,824 shares, 51% of the outstanding shares) of ORIX Credit Corporation held by Sumitomo Mitsui Banking Corporation, resulting in the reclassification of ORIX Credit Corporation from an equity-method affiliate to a wholly-owned subsidiary of the Company.

2. Risk Factors

Investing in our securities involves risks. You should carefully consider the risks described under Risk Factors in our Form 20-F for the fiscal year ended March 31, 2012 as well as all the other information herein and 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 which are anticipated to 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

The global economy continues to be in a state of weak recovery, although it carries downside risks that include lingering European sovereign debt issues and decelerating growth in emerging economies. With elections and changes in the top leadership of major nations settled, economic policies of the new administrations are attracting more attention.

The United States economy is making a slow recovery, underpinned by an improving residential property market and a positive recovery trend in consumer spending. Also, the fiscal cliff, which had clouded the country s economic outlook, has temporarily been avoided.

Although the slowdown in Europe is weakening the pace of growth in some parts of Asia including China and India, constraining them from leading the global economy, some countries in Southeast Asia such as Indonesia continue to maintain high growth compared to advanced economies.

The Japanese economy is showing signs of bottoming out with the Bank of Japan s additional monetary easing policies and expansion of public investments, although it continues to be weak due to the economic slowdown of overseas economies. Under the new regime which took over at the end of the calendar year 2012, aggressive fiscal and monetary policies are anticipated, and particular attention is focused on future economic growth strategies.

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Financial Highlights

Financial Results for the Nine Months Ended December 31, 2012

Total revenues	¥783,427 million (Up 12% year on year)
Total expenses	¥663,036 million (Up 10% year on year)
Income before income taxes and discontinued operations	¥134,555 million (Up 32% year on year)
Net income attributable to ORIX Corporation Shareholders	¥90,140 million (Up 35% year on year)
Earnings per share for net income attributable to ORIX Corporation Shareholders	
(Basic)	¥838.30 (Up 35% year on year)
(Diluted)	¥703.51 (Up 36% year on year)
ROE (Annualized) *1	8.4% (6.7% during the same period of the previous fiscal year)
ROA (Annualized) *2	1.45% (1.06% 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.

Total revenues for the nine-month period ended December 31, 2012 (hereinafter the third consolidated period) increased 12% to ¥783,427 million compared to ¥702,014 million during the same period of the previous fiscal year. Compared to the same period of the previous fiscal year, brokerage commissions and net gains on investment securities increased due to the sale of shares of Aozora Bank, life insurance premiums and related investment income increased due to an increase in number of policies in force, and other operating revenues increased mainly due to increases in revenues from the real estate operating business and fee revenues in the United States.

Total expenses increased 10% to ¥663,036 million compared to ¥601,394 million during the same period of the previous fiscal year. Other operating expenses increased mainly due to the expansion of the real estate operating business, and selling, general and administrative expenses increased due to consolidation of ORIX Credit Corporation as well as other corporate acquisitions. In addition, write-downs of securities increased compared to the same period of the previous fiscal year, primarily due to increased write-downs in Real Estate segment. Meanwhile, compared to the same period of the previous fiscal year, interest expense decreased due to a decrease in the balance of liabilities, provision for doubtful receivables and probable loan losses decreased due to a decrease in the amount of non-performing loans, and write-downs of long-lived assets decreased primarily due to reduced write-down from the Real Estate segment.

Equity in net income of affiliates increased compared to the same period of the previous fiscal year due to the absence of a valuation loss for the investment in Monex Group Inc. that was recognized during the same period of the previous fiscal year.

As a result of the foregoing, income before income taxes and discontinued operations for the third consolidated period increased 32% to ¥134,555 million compared to ¥102,303 million during the same period of the previous fiscal year, and net income attributable to ORIX Corporation shareholders increased 35% to ¥90,140 million compared to ¥66,640 million during the same period of the previous fiscal year.

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Segment Information

Total revenues and profits by segment for the nine months ended December 31, 2011 and 2012 are as follows:

	Millions of yen							
	Nine months ended December 31, 2011		Nine months ended December 31, 2012		Change (revenues)		Change (profits)	
	Segment Revenues	Segment Profits	Segment Revenues	Segment Profits	Amount	Percent (%)	Amount	Percent (%)
Corporate Financial Services	¥ 53,523	¥ 14,749	¥ 53,668	¥ 18,207	¥ 145	0	¥ 3,458	23
Maintenance Leasing	175,455	27,117	176,593	26,634	1,138	1	(483)	(2)
Real Estate	148,511	(2,877)	163,293	4,153	14,782	10	7,030	
Investment and Operation	56,679	17,810	86,069	32,710	29,390	52	14,900	84
Retail	116,969	13,580	136,935	33,558	19,966	17	19,978	147
Overseas Business	133,286	39,308	145,096	34,326	11,810	9	(4,982)	(13)
Total	684,423	109,687	761,654	149,588	77,231	11	39,901	36
Difference between Segment Total and Consolidated Amounts	17,591	(7,384)	21,773	(15,033)	4,182	24	(7,649)	
Total Consolidated Amounts	¥ 702,014	¥ 102,303	¥ 783,427	¥ 134,555	¥ 81,413	12	¥ 32,252	32

Total assets by segment as of March 31, 2012 and December 31, 2012 are as follows:

	Millions of yen					
	March 31, 2012		December 31, 2012		Change	
	Segment Assets	Composition ratio (%)	Segment Assets	Composition ratio (%)	Amount	Percent (%)
Corporate Financial Services	¥ 898,776	10.8	¥ 885,067	10.7	¥ (13,709)	(2)
Maintenance Leasing	537,782	6.5	595,785	7.2	58,003	11
Real Estate	1,369,220	16.4	1,211,166	14.7	(158,054)	(12)
Investment and Operation	471,145	5.7	402,385	4.9	(68,760)	(15)
Retail	1,738,454	20.9	1,934,870	23.5	196,416	11
Overseas Business	986,762	11.7	1,144,020	13.9	157,258	16
Total	6,002,139	72.0	6,173,293	74.9	171,154	3
Difference between Segment Total and Consolidated Amounts	2,330,691	28.0	2,068,508	25.1	(262,183)	(11)
Total Consolidated Amounts	¥ 8,332,830	100.0	¥ 8,241,801	100.0	¥ (91,029)	(1)

Segment profits increased 36% to ¥149,588 million compared to ¥109,687 million in the same period of the previous fiscal year.

From April 1, 2012, Accounting Standards Update 2010-26 (Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ASC 944 (Financial Services Insurance)) is retrospectively applied to prior periods financial statements. Due to this change, the reclassified figures are shown for nine months ended December 31, 2011, three months ended December 31, 2011 and as of March 31, 2012.

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Segment information for the third consolidated period is as follows:

Corporate Financial Services Segment

This segment is involved in lending, leasing and the commission business for the sale of financial products.

Segment assets decreased 2% compared to March 31, 2012 to ¥885,067 million as a result of the increase in investment in direct financing leases not fully offsetting the decrease in the balance of installment loans.

Installment loan revenues decreased in line with a decrease in the average balance of installment loans despite a steady trend in new business volume. Meanwhile, direct financing lease revenues remained robust, backed by solid new transaction volume and increased average balance. As a result, segment revenues remained relatively flat compared to the same period of the previous fiscal year at ¥53,668 million.

Segment expenses decreased compared to the same period of the previous fiscal year, resulting from a decrease in provision for doubtful receivables and probable loan losses.

As a result of the foregoing, segment profits increased 23% to ¥18,207 million compared to ¥14,749 million during the same period of the previous fiscal year.

Maintenance Leasing Segment

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

Production of Japanese companies improved and continues to be in moderate recovery. Although the outlook of the business environment is not optimistic, segment revenues remained stable due to ORIX s ability to provide customers with high value-added services that meet corporate customers cost reduction needs.

Segment revenues remained robust at ¥176,593 million, a similar level to the same period of the previous fiscal year due to solid revenues from operating leases. Meanwhile, segment expenses increased slightly as a result of an increase in costs of operating leases in line with increased investment in operating leases, despite a decrease in selling, general and administrative expenses compared to the same period of the previous fiscal year.

As a result of the foregoing, segment profits decreased 2% to ¥26,634 million compared to ¥27,117 million during the same period of the previous fiscal year.

Segment assets increased 11% compared to March 31, 2012 to ¥595,785 million due to increases in both investment in operating leases and 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 is showing signs of recovery. The vacancy ratio passed its peak and rent levels appear to be bottoming out, while acquisition of properties by J-REITs and overseas investors is increasing. Under this environment, the real estate investment business is pursuing a policy of turning over assets while carefully monitoring the market and making appropriate asset sales. The number of condominiums delivered increased to 910 units from 732 units during the same period of the previous fiscal year.

Segment revenues increased 10% to ¥163,293 million compared to ¥148,511 million during the same period of the previous fiscal year due to an increase in revenue from the operating business, an increase in real estate sales revenues resulting from an increase in the delivery of condominium units, and an increase in gains on sales of real estate under operating leases.

Segment expenses increased compared to the same period of the previous fiscal year due to increases in operating business expenses, costs of real estate sales and write-downs of securities, which was partially offset by a decrease in write-downs of long-lived assets.

As a result of the foregoing, segment profits recorded a profit of ¥4,153 million, up from a loss of ¥2,877 million during the same period of the previous fiscal year.

Segment assets decreased 12% compared to March 31, 2012 to ¥1,211,166 million due to sales of real estate under operating leases, as well as decreases in installment loans and investment in securities.

Investment and Operation Segment

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

In terms of the environment business in Japan, following the introduction of a renewable energy feed-in tariff program, an increasing number of companies have been entering into the power generation business through various ventures such as the mega solar projects. Also, ORIX anticipates expanded business opportunities in the loan servicing business when the SME Financing Facilitation Act (commonly known as the loan repayment moratorium law for SMEs) expires on March 31, 2013, which could lead to more non-performing loans owned by financial institutions becoming available for sale.

Segment revenues increased 52% to ¥86,069 million compared to ¥56,679 million during the same period of the previous fiscal year due to the recognition of gains on sales of Aozora Bank shares, an increase in revenues from large collections in the servicing business, and recognition of revenues from Kawachiya Corporation and KINREI CORPORATION that were acquired during the three-month periods ended March 31, 2012 and June 30, 2012, respectively.

Similarly, segment expenses increased compared to the same period of the previous fiscal year due to increases in costs relating to the aforementioned consolidated subsidiaries.

In addition, equity in net income of affiliates increased compared to the same period of the previous fiscal year.

As a result of the foregoing, segment profits increased 84% to ¥32,710 million compared to ¥17,810 million during the same period of the previous fiscal year.

Segment assets decreased 15% compared to March 31, 2012 to ¥402,385 million due to decreases in investment in securities and installment loans.

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Retail Segment

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

Life insurance premiums grew steadily in the life insurance business due to an increase in the number of policies in force, despite a decrease in insurance-related investment income compared to the same period of the previous fiscal year.

A steady increase of installment loans centered on individual home loans was seen in the banking business, and both revenues and profits remained strong.

Revenue and profit contributions from the card loan business began in the three-month period ended September 30, 2012 due to consolidation of ORIX Credit Corporation.

As a result, segment revenues increased 17% to ¥136,935 million compared to ¥116,969 million during the same period of the previous fiscal year.

Segment expenses increased due to an increase in selling, general and administrative expenses as a result of consolidation of ORIX Credit Corporation, as well as an increase in insurance related expenses.

Segment profits increased 147% to ¥33,558 million compared to ¥13,580 million during the same period of the previous fiscal year due to gains associated with the consolidation of ORIX Credit Corporation which was formerly an equity-method affiliate, and the absence of a write-down that was recognized for investment in equity-method affiliate Monex Group Inc. during the same period of the previous fiscal year.

Segment assets increased 11% compared to March 31, 2012 to ¥1,934,870 million mainly due to an increase in installment loans as a result of consolidation of ORIX Credit Corporation.

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.

The United States economy is slowly improving as consumer spending and the residential property market make a gradual recovery. Meanwhile, although there is a hint of an economic slowdown in China and India, some countries in Southeast Asia such as Indonesia continue to maintain relatively high growth.

Segment revenues increased 9% to ¥145,096 million compared to ¥133,286 million in the same period of the previous fiscal year as a result of strong growth in direct financing leases in Asia, automobile and aircraft operating leases, as well as an increase in gains from sales of loans and fee revenues in the United States compared to the same period of the previous fiscal year, despite a decrease in gains on sales of investment securities in the United States.

Segment expenses increased compared to the same period of the previous fiscal year due to an increase in selling, general and administrative expenses, despite decreases in write-downs of securities and provision for doubtful receivables and probable loan losses.

In addition, equity in net income (loss) of affiliates decreased compared to the same period of the previous fiscal year.

As a result of the foregoing, segment profits decreased 13% to ¥34,326 million compared to ¥39,308 million during the same period of the previous fiscal year.

Segment assets increased 16% compared to March 31, 2012 to ¥1,144,020 million due to increases in investment in operating leases including aircraft and investment in direct financing leases in Asia, in addition to the effect of yen depreciation.

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(2) Financial Condition

	As of March 31, 2012	As of December 31, 2012	Change Amount	Change Percent (%)
Total assets (millions of yen)	8,332,830	8,241,801	(91,029)	(1)
(Segment assets)	6,002,139	6,173,293	171,154	3
Total liabilities (millions of yen)	6,874,726	6,680,115	(194,611)	(3)
(Short- and long-term debt)	4,725,453	4,477,274	(248,179)	(5)
(Deposits)	1,103,514	1,135,323	31,809	3
ORIX Corporation shareholders equity (millions of yen)	1,380,736	1,479,499	98,763	7
ORIX Corporation shareholders equity per share (yen)	12,841.46	13,757.65	916.19	7
ORIX Corporation shareholders equity ratio	16.6%	18.0%	1.4%	
Adjusted ORIX Corporation shareholders equity ratio*	18.8%	19.9%	1.1%	
D/E ratio (Debt-to-equity ratio) (Short-and long-term debt (excluding deposits) / ORIX Corporation shareholders equity)	3.4x	3.0x	(0.4)x	
Adjusted D/E ratio*	2.8x	2.5x	(0.3)x	

* Adjusted ORIX Corporation shareholders equity ratio and adjusted D/E ratio are non-GAAP financial measures presented on an adjusted basis which excludes certain assets or liabilities attributable to consolidated VIEs and reverses the cumulative effect on our retained earnings of applying the accounting standards for the consolidation of VIE s under ASU 2009-16 and ASU 2009-17, effective April 1, 2010. For a discussion of this and other non-GAAP financial measures, including a quantitative reconciliation to the most directly comparable GAAP financial measures, see 5. Non-GAAP Financial Measures.

Total assets decreased 1% to ¥8,241,801 million from ¥8,332,830 million on March 31, 2012. Investment in direct financing leases increased due to robust new transactions in the Asian region, and investment in operating leases increased primarily due to strong auto leasing and aircraft leasing overseas. On the other hand, cash and cash equivalents decreased, while investment in securities also decreased primarily due to sales and redemption of available-for-sale securities. Segment assets increased 3% compared to March 31, 2012 to ¥6,173,293 million. For more information about assets attributed to segment assets, see Note 19 Segment Information.

The balance of interest bearing liabilities is controlled at an appropriate level depending on the situation of assets, cash flow and liquidity on-hand in addition to the domestic and overseas financial environment. As a result, long-term and short-term debt decreased compared to March 31, 2012.

ORIX Corporation shareholders equity increased 7% compared to March 31, 2012 to ¥1,479,499 million primarily due to an increase in retained earnings.

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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 and maintaining adequate liquidity, formulate funding policies that are able to respond to significant volatility in financial markets, and conduct funding activities while controlling our liquidity risks. 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 actual implementation, we adjust our funding plan timely based on changes in the external funding environment and our funding needs in light of our business activities, and endeavor to maintain flexible funding activities.

We have endeavored to diversify our funding sources, promote longer liability maturities, stagger interest and principal repayment dates, and otherwise maintain an adequate level of 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 those from short- and long-term debt and deposits on a consolidated basis was ¥5,612,597 million as of December 31, 2012.

Borrowings were procured from a diverse range of financial institutions including major banks, regional banks, foreign banks, life and casualty insurance companies. The number of financial institutions from which we procured borrowings exceeded 200 as of December 31, 2012. Procurement from the capital markets was composed of bonds including unsecured convertible bonds, medium term notes, commercial paper, and payables under securitized lease, loan receivables and investment in securities (including asset backed securities). Three domestic and overseas subsidiaries accept 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 nine months ended December 31, 2012, we secured longer borrowing maturities from a range of domestic financial institutions, issued domestic straight bonds to institutional and retail investors, issued asset backed securities, distributed Australian dollar-denominated medium-term notes, and issued Korean won-denominated bonds and Thai baht-denominated bonds. 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, 2012	**December 31, 2012**
Borrowings from financial institutions	¥ 275,580	¥ 160,755
Notes	1,955	567
Commercial paper	180,438	169,373
Total	¥ 457,973	¥ 330,695

Short-term debt as of December 31, 2012 was ¥330,695 million, which accounted for 7% of the total amount of short and long-term debt (excluding deposits) as compared to 10% as of March 31, 2012.

While the amount of short-term debt as of December 31, 2012 was ¥330,695 million, the sum of cash and cash equivalents and the unused amount of the committed credit facilities as of December 31, 2012 was ¥1,091,205 million.

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(b) Long-term debt

	Millions of yen	
	March 31, 2012	December 31, 2012
Borrowings from financial institutions	¥ 2,001,727	¥ 2,054,016
Bonds	1,330,137	1,318,158
Medium-term notes	60,911	59,788
Payable under securitized lease and loan receivables and investment in securities	874,705	714,617
Total	¥ 4,267,480	¥ 4,146,579

The balance of long-term debt as of December 31, 2012 was ¥4,146,579 million, which accounted for 93% of the total amount of short and long-term debt (excluding deposits) as compared to 90% as of March 31, 2012. On an adjusted basis, our ratio of long-term debt to total debt (excluding deposits) was 91% as of December 31, 2012 as compared to 88% as of March 31, 2012. 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, 2012	December 31, 2012
Deposits	¥ 1,103,514	¥ 1,135,323

Apart from the short-term and long-term debt noted above, ORIX Bank Corporation, ORIX Savings Bank, 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 decreased by ¥110,559 million to ¥676,333 million compared to March 31, 2012.

Cash flows from operating activities provided ¥278,191 million in the nine months ended December 31, 2012, up from ¥211,490 million during the same period of the previous fiscal year, resulting from an increase in net income and a decrease in restricted cash, in addition to adjustments made for the non-cash revenue and expense items such as depreciation and amortization and provision for doubtful receivables and probable loan losses and equity in net (income) loss of affiliates (excluding interest on loans) compared to the same period of the previous fiscal year.

Cash flows from investing activities provided ¥43,560 million in the nine months ended December 31, 2012, down from ¥60,039 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 lease equipment.

Cash flows from financing activities used ¥435,476 million in the nine months ended December 31, 2012, while having used ¥334,458 million during the same period of the previous fiscal year. This change was due to an increase in net decrease in debt with maturities of three months or less for the nine months ended December 31, 2012.

(5) Challenges to be addressed

There were no significant changes for the nine months ended December 31, 2012.

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(6) Research and Development Activity

There were no significant changes for the nine months ended December 31, 2012.

(7) Major facilities

There were no significant changes in major facilities for the nine months ended December 31, 2012.

5. Non-GAAP Financial Measures

The sections (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 December 31, 2012, 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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		2012	
		As of March 31,	As of December 31,
		(Millions of yen, except percentage data)	
Total assets	(a)	8,332,830	8,241,801
Deduct: Payables under securitized leases, loan receivables and investment in securities*		874,705	714,617
Adjusted total assets	(b)	7,458,125	7,527,184
Short-term debt	(c)	457,973	330,695
Long-term debt	(d)	4,267,480	4,146,579
Deduct: Payables under securitized leases, loan receivables and investment in securities*		874,705	714,617
Adjusted long-term debt	(e)	3,392,775	3,431,962
Long- and short-term debt (excluding deposits)	(f)=(c)+(d)	4,725,453	4,477,274
Adjusted short- and long-term debt (excluding deposits)	(g)=(c)+(e)	3,850,748	3,762,657
ORIX Corporation shareholders equity	(h)	1,380,736	1,479,499
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, effective April 1, 2010		(19,248)	(17,738)
Adjusted ORIX Corporation shareholders equity	(i)	1,399,984	1,497,237
ORIX Corporation shareholders equity ratio	(h)/(a)	16.6%	18.0%
Adjusted ORIX Corporation shareholders equity ratio	(i)/(b)	18.8%	19.9%
D/E ratio	(f)/(h)	3.4x	3.0x
Adjusted D/E ratio	(g)/(i)	2.8x	2.5x
Long-term debt ratio	(d)/(f)	90%	93%
Adjusted long-term debt ratio	(e)/(g)	88%	91%

* 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) Issued Shares, Common Stock and Additional Paid-in Capital

The number of issued shares, the amount of common stock and additional paid-in capital for the three months ended December 31, 2012 is as follows:

In thousands		Millions of yen			
Number of issued shares		Common stock		Additional paid-in capital	
Increase, net	December 31, 2012	Increase, net	December 31, 2012	Increase, net	December 31, 2012
17	110,271	¥ 60	¥ 144,086	¥ 60	¥ 171,265

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

Not applicable (this item is not subject to disclosure in quarterly reports for the first and third quarters).

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7. Directors and Executive Officers

Between the filing date of Form 20-F for the fiscal year ended March 31, 2012 and December 31, 2012, director and executive officer personnel changes are as follows:

(1) New Executive Officer

Name	Title	Areas of duties	The day of appointment	Shareholdings as of December 31, 2012
Yuki Ohshima	Corporate Executive Vice President	Head of Global Business and Alternative Investment Headquarters Regional Director for China	September 10, 2012	4,050

(2) Ex-Executive Officer

Name	Title	Areas of duties	The day of retirement
Hideo Ichida	Executive Officer	Domestic Sales Administrative Headquarters: General Manager, Overseas New Business Development and Promotion Department	December 31, 2012

(3) Changes of Position

Name	New Position	Ex-Position	The day of changes
Komei Ikebukuro	Executive Officer Responsible for Group Legal and Compliance Department Responsible for Group Internal Audit Department	Executive Officer Responsible for Legal and Compliance Department Responsible for Group Internal Audit Department	July 1, 2012
Kazuo Kojima	Director and Corporate Executive Vice President Responsible for Investment and Operation Headquarters	Director and Corporate Executive Vice President Head of Domestic Sales Administrative Headquarters	September 10, 2012
Katsutoshi Kadowaki	Corporate Executive Vice President Head of Domestic Sales Administrative Headquarters Head of Tokyo Sales President, NS Lease Co., Ltd.	Corporate Senior Vice President Deputy Head of Domestic Sales Administrative Headquarters: Head of District Sales	September 10, 2012
Hideo Ichida	Executive Officer	Executive Officer	September 10, 2012

	Domestic Sales Administrative Headquarters: General Manager, Overseas New Business Development and Promotion Department	Head of Global Business Administrative Headquarters	
Yasuyuki Ijiri	Executive Officer	Executive Officer	September 10, 2012
	Domestic Sales Administrative Headquarters: Head of District Sales	Domestic Sales Administrative Headquarters: Head of Tokyo Sales	
		President, NS Lease Co., Ltd.	
Hideto Nishitani	Executive Officer	Executive Officer	October 1, 2012
	Chairman, ORIX USA Corporation	Deputy President, ORIX USA Corporation	

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8. Financial Information

(1) Condensed Consolidated Balance Sheets (Unaudited)

	Millions of yen	
Assets	**March 31, 2012**	**December 31, 2012**
Cash and Cash Equivalents	¥ 786,892	¥ 676,333
Restricted Cash	123,295	94,477
Time Deposits	24,070	11,569
Investment in Direct Financing Leases	900,886	955,087
Installment Loans	2,769,898	2,782,375
(The amounts of ¥19,397 million of installment loans as of March 31, 2012 and ¥14,183 million of installment loans as of December 31, 2012 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	(136,588)	(112,649)
Investment in Operating Leases	1,309,998	1,386,042
Investment in Securities	1,147,390	1,059,326
Other Operating Assets	206,109	214,994
Investment in Affiliates	331,717	322,686
Other Receivables	188,108	177,996
Inventories	79,654	57,638
Prepaid Expenses	39,547	42,544
Office Facilities	123,338	118,226
Other Assets	438,516	455,157
Total Assets	¥ 8,332,830	¥ 8,241,801

Note 1: Prior-year amounts have been adjusted for the retrospective adoption of Accounting Standards Update 2010-26 (Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ASC 944 (Financial Services Insurance)) on April 1, 2012.

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

	Millions of yen	
Assets	**March 31, 2012**	**December 31, 2012**
Cash and Cash Equivalents	¥ 11,836	¥ 8,393
Investment in Direct Financing Leases (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses)	232,575	197,787
Installment Loans (Net of Allowance for Doubtful Receivables on Direct Financing Leases and Probable Loan Losses)	709,863	568,304
Investment in Operating Leases	269,267	220,574
Investment in Securities	50,059	37,340
Investment in Affiliates	13,899	13,840
Other	91,240	85,205
	¥ 1,378,739	¥ 1,131,443

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Liabilities and Equity	Millions of yen March 31, 2012	December 31, 2012
Liabilities:		
Short-Term Debt	¥ 457,973	¥ 330,695
Deposits	1,103,514	1,135,323
Trade Notes, Accounts Payable and Other Liabilities	290,466	278,348
Accrued Expenses	110,057	104,400
Policy Liabilities	405,017	418,498
Current and Deferred Income Taxes	98,127	123,898
Security Deposits	142,092	142,374
Long-Term Debt	4,267,480	4,146,579
Total Liabilities	6,874,726	6,680,115
Redeemable Noncontrolling Interests	37,633	38,355
Commitments and Contingent Liabilities		
Equity:		
Common Stock	144,026	144,086
Additional Paid-in Capital	179,223	179,527
Retained Earnings	1,202,450	1,282,645
Accumulated Other Comprehensive Income (Loss)	(96,056)	(77,870)
Treasury Stock, at Cost	(48,907)	(48,889)
ORIX Corporation Shareholders Equity	1,380,736	1,479,499
Noncontrolling Interests	39,735	43,832
Total Equity	1,420,471	1,523,331
Total Liabilities and Equity	¥ 8,332,830	¥ 8,241,801

Note 1: Prior-year amounts have been adjusted for the retrospective adoption of Accounting Standards Update 2010-26 (Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ASC 944 (Financial Services Insurance)) on April 1, 2012.

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

Liabilities	Millions of yen March 31, 2012	December 31, 2012
Short-Term Debt	¥ 1,233	¥ 1,299
Trade Notes, Accounts Payable and Other Liabilities	8,120	3,329
Security Deposits	8,333	5,653
Long-Term Debt	1,039,927	842,499
Other	5,829	5,970
	¥ 1,063,442	¥ 858,750

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(2) Condensed Consolidated Statements of Income (Unaudited)

	Millions of yen	
	Nine months ended December 31, 2011	**Nine months ended December 31, 2012**
Revenues:		
Direct financing leases	¥ 37,998	¥ 40,090
Operating leases	215,808	222,297
Interest on loans and investment securities	112,369	116,971
Brokerage commissions and net gains on investment securities	19,606	28,193
Life insurance premiums and related investment income	93,147	100,574
Real estate sales	26,162	30,307
Gains on sales of real estate under operating leases	2,105	2,972
Other operating revenues	194,819	242,023
Total revenues	702,014	783,427
Expenses:		
Interest expense	84,267	77,782
Costs of operating leases	137,264	145,969
Life insurance costs	66,387	70,887
Costs of real estate sales	27,389	31,716
Other operating expenses	115,689	143,716
Selling, general and administrative expenses	141,845	163,351
Provision for doubtful receivables and probable loan losses	8,244	4,631
Write-downs of long-lived assets	10,693	4,247
Write-downs of securities	9,865	20,761
Foreign currency transaction loss (gain), net	(249)	(24)
Total expenses	601,394	663,036
Operating Income	100,620	120,391
Equity in Net Income (Loss) of Affiliates	(1,847)	10,258
Gains on Sales of Subsidiaries and Affiliates and Liquidation Losses, Net	3,530	3,906
Income before Income Taxes and Discontinued Operations	102,303	134,555
Provision for Income Taxes	33,087	42,322
Income from Continuing Operations	69,216	92,233
Discontinued Operations:		
Income from discontinued operations, net	138	4,435
Provision for income taxes	(24)	(1,673)
Discontinued operations, net of applicable tax effect	114	2,762
Net Income	69,330	94,995
Net Income Attributable to the Noncontrolling Interests	903	2,412
Net Income Attributable to the Redeemable Noncontrolling Interests	1,787	2,443

Net Income Attributable to ORIX Corporation Shareholders	¥ 66,640	¥ 90,140

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. Prior-year amounts have been adjusted for the retrospective adoption of Accounting Standards Update 2010-26 (Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ASC 944 (Financial Services Insurance)) on April 1, 2012.

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	Millions of yen	
	Nine months ended December 31, 2011	**Nine months ended December 31, 2012**
Income attributable to ORIX Corporation shareholders:		
Income from continuing operations	¥ 66,414	¥ 87,780
Discontinued operations	226	2,360
Net income attributable to ORIX Corporation shareholders	66,640	90,140

	Yen	
	Nine months ended December 31, 2011	**Nine months ended December 31, 2012**
Amounts per Share of Common Stock for Income attributable to ORIX Corporation shareholders:		
Basic:		
Income from continuing operations	¥ 617.77	¥ 816.35
Discontinued operations	2.10	21.95
Net income attributable to ORIX Corporation shareholders	619.87	838.30
Diluted:		
Income from continuing operations	¥ 516.41	¥ 685.30
Discontinued operations	1.71	18.21
Net income attributable to ORIX Corporation shareholders	518.12	703.51

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	Millions of yen	
	Three months ended December 31, 2011	Three months ended December 31, 2012
Revenues:		
Direct financing leases	¥ 12,899	¥ 13,710
Operating leases	71,103	75,496
Interest on loans and investment securities	36,896	38,270
Brokerage commissions and net gains on investment securities	657	14,929
Life insurance premiums and related investment income	29,763	33,646
Real estate sales	9,960	11,975
Gains on sales of real estate under operating leases	1,852	277
Other operating revenues	65,714	85,003
Total revenues	228,844	273,306
Expenses:		
Interest expense	27,241	25,173
Costs of operating leases	45,667	49,634
Life insurance costs	21,158	24,287
Costs of real estate sales	10,828	10,771
Other operating expenses	38,633	50,354
Selling, general and administrative expenses	48,989	58,886
Provision for doubtful receivables and probable loan losses	(529)	1,828
Write-downs of long-lived assets	8,793	110
Write-downs of securities	3,236	9,085
Foreign currency transaction loss (gain), net	(153)	335
Total expenses	203,863	230,463
Operating Income	24,981	42,843
Equity in Net Income (Loss) of Affiliates	962	3,278
Gains on Sales of Subsidiaries and Affiliates and Liquidation Losses, Net	1,187	489
Income before Income Taxes and Discontinued Operations	27,130	46,610
Provision for Income Taxes	3,651	15,913
Income from Continuing Operations	23,479	30,697
Discontinued Operations:		
Income (Loss) from discontinued operations, net	(1,639)	1,670
Provision for income taxes	690	(586)
Discontinued operations, net of applicable tax effect	(949)	1,084
Net Income	22,530	31,781
Net Income Attributable to the Noncontrolling Interests	62	525
Net Income Attributable to the Redeemable Noncontrolling Interests	522	956
Net Income Attributable to ORIX Corporation Shareholders	¥ 21,946	¥ 30,300

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. Prior-year amounts have been adjusted for the retrospective adoption of Accounting Standards Update 2010-26 (Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ASC 944 (Financial Services Insurance)) on April 1, 2012.

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	Millions of yen	
	Three months ended December 31, 2011	Three months ended December 31, 2012
Income attributable to ORIX Corporation shareholders:		
Income from continuing operations	¥ 22,939	¥ 29,648
Discontinued operations	(993)	652
Net income attributable to ORIX Corporation shareholders	21,946	30,300

	Yen	
	Three months ended December 31, 2011	Three months ended December 31, 2012
Amounts per Share of Common Stock for Income attributable to ORIX Corporation shareholders:		
Basic:		
Income from continuing operations	¥ 213.36	¥ 275.71
Discontinued operations	(9.23)	6.06
Net income attributable to ORIX Corporation shareholders	204.13	281.77
Diluted:		
Income from continuing operations	¥ 178.20	¥ 231.40
Discontinued operations	(7.53)	5.02
Net income attributable to ORIX Corporation shareholders	170.67	236.42

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

	Millions of yen	
	Nine months ended December 31, 2011	Nine months ended December 31, 2012
Net Income	¥ 69,330	¥ 94,995
Other comprehensive income (loss), net of tax:		
Net change of unrealized gains (losses) on investment in securities	(4,335)	(192)
Net change of defined benefit pension plans	105	142
Net change of foreign currency translation adjustments	(22,888)	22,308
Net change of unrealized gains (losses) on derivative instruments	(128)	325
Total other comprehensive income (loss)	(27,246)	22,583
Comprehensive Income	42,084	117,578
Comprehensive Income (Loss) Attributable to the Noncontrolling Interests	(1,771)	4,734
Comprehensive Income (Loss) Attributable to the Redeemable Noncontrolling Interests	(572)	4,429
Comprehensive Income Attributable to ORIX Corporation Shareholders	¥ 44,427	¥ 108,415

	Millions of yen	
	Three months ended December 31, 2011	Three months ended December 31, 2012
Net Income	¥ 22,530	¥ 31,781
Other comprehensive income (loss), net of tax:		
Net change of unrealized gains (losses) on investment in securities	1,348	(3,637)
Net change of defined benefit pension plans	(11)	(37)
Net change of foreign currency translation adjustments	4,529	45,424
Net change of unrealized gains (losses) on derivative instruments	(794)	(351)
Total other comprehensive income (loss)	5,072	41,399
Comprehensive Income	27,602	73,180
Comprehensive Income Attributable to the Noncontrolling Interests	867	4,641
Comprehensive Income Attributable to the Redeemable Noncontrolling Interests	989	5,094
Comprehensive Income Attributable to ORIX Corporation Shareholders	¥ 25,746	¥ 63,445

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

Nine months ended December 31, 2011

	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	¥ 143,995	¥ 179,137	¥ 1,141,559	¥ (96,180)	¥ (49,170)	¥ 1,319,341	¥ 21,687	¥ 1,341,028
Cumulative effect of change in accounting principle*			(12,759)			(12,759)	0	(12,759)
Contribution to subsidiaries						0	20,935	20,935
Transaction with noncontrolling interests		48		(25)		23	(321)	(298)
Comprehensive income (loss), net of tax:								
Net income			66,640			66,640	903	67,543
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				(4,425)		(4,425)	90	(4,335)
Net change of defined benefit pension plans				105		105	0	105
Net change of foreign currency translation adjustments				(17,774)		(17,774)	(2,755)	(20,529)
Net change of unrealized gains (losses) on derivative instruments				(119)		(119)	(9)	(128)
Total other comprehensive income (loss)						(22,213)	(2,674)	(24,887)
Total comprehensive income (loss)						44,427	(1,771)	42,656
Cash dividends			(8,599)			(8,599)	(1,684)	(10,283)
Conversion of convertible bond	1	1				2	0	2
Exercise of stock options	11	11				22	0	22
Acquisition of treasury stock					(1)	(1)	0	(1)
Other, net		13	52		168	233	0	233
Ending Balance	¥ 144,007	¥ 179,210	¥ 1,186,893	¥ (118,418)	¥ (49,003)	¥ 1,342,689	¥ 38,846	¥ 1,381,535

* Cumulative effect of change in accounting principle represents the cumulative effect of the retrospective adoption of Accounting Standards Update 2010-26 (Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ASC 944 (Financial Services Insurance)).

Changes in the redeemable noncontrolling interests are not included in the table. For further information, see Note 9 Redeemable Noncontrolling Interests.

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Nine months ended December 31, 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	892	892
Transaction with noncontrolling interests		93		(89)		4	(144)	(140)
Comprehensive income (loss), net of tax:								
Net income			90,140			90,140	2,412	92,552
Other comprehensive income (loss)								
Net change of unrealized gains (losses) on investment in securities				(655)		(655)	463	(192)
Net change of defined benefit pension plans				141		141	1	142
Net change of foreign currency translation adjustments				18,460		18,460	1,862	20,322
Net change of unrealized gains (losses) on derivative instruments				329		329	(4)	325
Total other comprehensive income (loss)						18,275	2,322	20,597
Total comprehensive income (loss)						108,415	4,734	113,149
Cash dividends			(9,676)			(9,676)	(1,385)	(11,061)
Conversion of convertible bond	1	1				2	0	2
Exercise of stock options	59	59				118	0	118
Other, net		151	(269)		18	(100)	0	(100)
Ending Balance	¥ 144,086	¥ 179,527	¥ 1,282,645	¥ (77,870)	¥ (48,889)	¥ 1,479,499	¥ 43,832	¥ 1,523,331

Changes in the redeemable noncontrolling interests are not included in the table. For further information, see Note 9 Redeemable Noncontrolling Interests.

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

	Millions of yen	
	Nine months ended December 31, 2011	Nine months ended December 31, 2012
Cash Flows from Operating Activities:		
Net income	¥ 69,330	¥ 94,995
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	121,735	132,298
Provision for doubtful receivables and probable loan losses	8,244	4,631
Increase in policy liabilities	1,193	13,481
Equity in net (income) loss of affiliates (excluding interest on loans)	2,753	(9,849)
Gains on sales of subsidiaries and affiliates and liquidation losses, net	(3,530)	(3,906)
Gains on sales of available-for-sale securities	(8,370)	(14,511)
Gains on sales of real estate under operating leases	(2,105)	(2,972)
Gains on sales of operating lease assets other than real estate	(12,346)	(10,182)
Write-downs of long-lived assets	10,693	4,247
Write-downs of securities	9,865	20,761
Decrease (Increase) in restricted cash	(2,995)	32,157
Decrease (Increase) in trading securities	34,071	(6,064)
Decrease in inventories	11,879	20,997
Decrease in other receivables	12,276	21,502
Decrease in trade notes, accounts payable and other liabilities	(10,061)	(27,520)
Other, net	(31,142)	8,126
Net cash provided by operating activities	211,490	278,191
Cash Flows from Investing Activities:		
Purchases of lease equipment	(439,772)	(532,442)
Principal payments received under direct financing leases	256,458	280,516
Installment loans made to customers	(513,861)	(614,541)
Principal collected on installment loans	671,225	800,468
Proceeds from sales of operating lease assets	145,728	120,262
Investment in affiliates, net	1,278	(36,880)
Proceeds from sales of investment in affiliates	2,864	3,154
Purchases of available-for-sale securities	(532,962)	(494,099)
Proceeds from sales of available-for-sale securities	242,844	303,966
Proceeds from redemption of available-for-sale securities	265,673	274,319
Purchases of held-to-maturity securities	0	(31,441)
Purchases of other securities	(39,147)	(20,096)
Proceeds from sales of other securities	15,304	29,576
Purchases of other operating assets	(13,532)	(10,825)
Acquisitions of subsidiaries, net of cash acquired	(3,548)	(39,187)
Sales of subsidiaries, net of cash disposed	3,458	0
Other, net	(1,971)	10,810
Net cash provided by investing activities	60,039	43,560
Cash Flows from Financing Activities:		
Net decrease in debt with maturities of three months or less	(53,346)	(120,211)
Proceeds from debt with maturities longer than three months	1,065,639	1,027,336
Repayment of debt with maturities longer than three months	(1,346,528)	(1,357,108)
Net increase in deposits due to customers	3,500	28,473

Cash dividends paid to ORIX Corporation shareholders	(8,599)	(9,676)
Contribution from noncontrolling interests	20,258	686
Cash dividends paid to redeemable noncontrolling interests	(124)	(4,985)
Net decrease in call money	(10,000)	0
Other, net	(5,258)	9
Net cash used in financing activities	(334,458)	(435,476)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(6,304)	3,166
Net decrease in Cash and Cash Equivalents	(69,233)	(110,559)
Cash and Cash Equivalents at Beginning of Period	732,127	786,892
Cash and Cash Equivalents at End of Period	¥ 662,894	¥ 676,333

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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. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in our March 31, 2012 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.

(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. 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.

Under Japanese GAAP, the net actuarial gain (loss) is fully amortized over a certain term within the average remaining service period of employees. The pension liabilities are recorded for the difference between the plan assets and the benefit obligation, net of unrecognized prior service cost and net actuarial gain (loss), on the consolidated balance sheets.

(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 investor or 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.

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(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.

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 stated at cost less accumulated depreciation, which was ¥404,818 million and ¥422,558 million as of March 31, 2012 and December 31, 2012, 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.

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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.

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.

(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.

Amortization charged to income for the nine months ended December 31, 2011 and 2012 amounted to ¥5,146 million and ¥5,042 million, respectively.

Amortization charged to income for the three months ended December 31, 2011 and 2012 amounted to ¥1,498 million and ¥1,746 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.

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(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.

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 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 the 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. 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 (1) the Company and its subsidiaries intend to sell the debt security, (2) it is more likely than not that the Company and its subsidiaries will be required to sell the debt security before recovery of its amortized cost basis, or (3) the present value of estimated cash flows will not fully cover the amortized cost of the security. 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 securities 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 securities is other than temporary.

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(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 32.3% and 31.7% for the nine months ended December 31, 2011 and 2012, respectively. These rates are 11.6% and 34.2% for the three months ended December 31, 2011 and 2012, respectively. For the nine months ended December 31, 2011, the Company and its subsidiaries in Japan were subject to a National Corporate tax of 30%, an Inhabitant tax of approximately 6% and a deductible Enterprise tax of approximately 8%, which in the aggregate resulted in a statutory income tax rate of approximately 40.9%. For the nine months ended December 31, 2012, as a result of the tax reforms as discussed in the following paragraph, the National Corporation tax was reduced from 30% to approximately 28% and accordingly, the statutory income tax rate was reduced to 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, a change in valuation allowance, the effect of lower income tax rates on foreign subsidiaries and a life insurance subsidiary in Japan, reversal of undistributed earnings of affiliates and the effect of the tax reforms as discussed in the following paragraph.

On November 30, 2011, the bill for reconstruction funding after the March 11, 2011 Great East Japan Earthquake and the bill for the 2011 tax reform were approved by the National Diet of Japan. From fiscal years beginning on or after April 1, 2012, the Japanese corporation tax rate is reduced, and as a result, the statutory income tax rate for fiscal years beginning between April 1, 2012 and March 31, 2015 is reduced to approximately 38.3%. The rate for fiscal years beginning on or after April 1, 2015 will be reduced to approximately 35.9%. In addition, tax loss carry-forward rules are amended. The Carry-forward period is extended to nine years, compared to seven years under the pre-amendment rules. Further, the deductible amount is limited to 80% of taxable income for the year, while total amount of taxable income for the year was available for the deduction under the pre-amendment rules. The amendment to the carry-forward period is applicable for tax losses incurred in fiscal years ending on or after April 1, 2008 and the amendment to the deductible amount is applicable for fiscal years beginning on or after April 1, 2012. Increase and decrease of the deferred tax assets and liabilities due to these tax reforms resulted in a decrease of provision for income taxes by ¥6,641 million in the accompanying consolidated statements of income for the nine months ended December 31, 2011.

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 consolidated subsidiaries have elected to file a consolidated tax return.

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(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 special-purpose entities 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 their 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.

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, which is not held as a hedge, such as those held for trading use, and the ineffective portion of the change in fair value of a derivative that qualifies as a hedge, are recorded in earnings.