Notes to Consolidated Financial Statements

Orient Corporation and Subsidiaries

1. Basis of Presentation

(1) Accounting Principles and Presentation

Orient Corporation (the "Company") and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries and associates (the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (IFRS), and are compiled from the consolidated financial statements prepared by the Companies as required by the Financial Instruments and Exchange Act of Japan.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in yen do not necessarily agree with the sum of the individual amounts.

The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto were translated from the presented Japanese yen amounts into U.S. dollar amounts at the rate of ¥106.27 = U.S. $1, the rate of exchange prevailing at March 31, 2018, and were then rounded down to the nearest thousand. As a result, the totals shown in U.S. dollars do not necessarily agree with the sum of the individual amounts. This translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience of readers outside Japan. Such translation is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

(2) Scope of Consolidation

The Company had 15 and 14 subsidiaries ("controlled companies," the decision-making body of the entity is controlled) at March 31, 2018 and 2017, respectively. The consolidated financial statements include the accounts of the Company and all subsidiaries. The major consolidated subsidiaries are listed below:

	At March 31, 2018	
	Equity ownership percentage, including indirect ownership	Capital stock (Millions of yen/baht)
CAL Credit Guarantee Co., Ltd.	100.0	¥ 50
Orico Auto Leasing (Thailand) Ltd.	95.0	฿937
Orico Forrent Insure Co., Ltd.	100.0	¥391
Orico Business & Communications Co., Ltd.	100.0	¥100
Ohtori Corporation	100.0	¥100
Japan Collection Service Co., Ltd.	100.0	¥700
ORIFA Servicer Corporation	100.0	¥500

(3) Consolidation and Elimination

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated, and the portion thereof attributable to non-controlling interests is charged to non-controlling interests. All consolidated subsidiaries have the same fiscal year-end date as that for the consolidation.

The cost of investments in the common stock of consolidated subsidiaries is eliminated with the underlying equity in net assets of such subsidiaries. The material differences between the cost of investments and the amount of underlying equity in net assets of such subsidiaries are deferred and amortized within 20 years on a straight-line basis. If the difference is not material, it is directly charged or credited to profit for the year.

(4) Investments in Associates

The Company had four associates ("influenced companies," financial and operating or business decision making of the entity that is not a subsidiary can be influenced to a material degree) at March 31, 2018 (four associates in 2017).

All associates are accounted for by the equity method, under which the Company's equity in profit of these associates is included in consolidated profit for the years ended March 31, 2018 and 2017.

All associates accounted for by the equity method have the same fiscal year-end date as that for the consolidation.

(5) Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are included in the consolidated statement of income. The asset and liability and revenue and expense accounts of foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are presented as foreign currency translation adjustments and non-controlling interests under net assets section.

2. Summary of Significant Accounting Policies

(1) Recognition of Consumer Finance Service Revenue

(a) Consumer credit service

Customers purchasing goods from retailers with whom the Companies have sales finance arrangements (the "member merchants") can use installment payments.

Commissions from customers for installment payments are recognized by the "sum-of-the-month-digits" basis over the relevant contract terms as the monthly installments become due under the contracts.

Commissions from member merchants for installment payments are recognized by the "in-a-lump-sum" basis on which commissions from member merchants are recognized as earned at the time installment contracts with member merchants are executed.

(b) Credit card shopping service

The basis of recognizing commission income is almost the same as (a) for consumer credit.

(c) Direct cash loan service

The Companies make direct cash loans to individual customers, which are to be repaid in installments. Commissions on such cash loans are recognized as earned on an interest-bearing basis as monthly payments become due. Card cashing is included in the direct cash loan service, and the commissions are accounted for on the same basis as those on direct cash loans.

(d) Guarantee and loan agent service

The Companies recognize guarantee fees on loans after deducting estimated amount of guarantee fee refunds.

(2) Unearned Finance Income

As described in (1) above, finance income (commissions from customers) except for guarantee and loan agent service is recognized as earned when the monthly installments become due. To achieve this, the commissions recorded as earned in their entirety at the inception of the contracts are adjusted at the balance sheet date, by setting up an unearned finance income account for the unearned portion of commissions applicable to installments which have not yet become due by that date.

(3) Allowances

(a) Allowance for credit losses and write-offs
Finance receivables are written off against the allowance for credit losses when installments have been unpaid for a certain specified period and/or uncollectibility of accounts is clearly demonstrated by conditions such as the customer's bankruptcy, poverty, disappearance or other circumstances prescribed by the Companies.

Write-offs are recorded at the end of March and September.

At the end of each fiscal year, the allowance for credit losses is provided in an amount deemed necessary to cover possible uncollectible accounts based on historical data on credit loss and management's judgment.

(b) Accrued bonuses
Accrued bonuses for employees are recorded at the amount expected to be paid to employees for bonuses.

(c) Accrued bonuses for directors and executive officers
Accrued bonuses for directors and executive officers are recorded at the amount expected to be paid to directors (excluding outside directors) and executive officers (collectively, the "Directors, etc.") for bonuses.

(d) Allowance for point program
Allowance for point program is provided by the Company to cover possible future expenses arising from the redemption of accumulated points on cards by cardholders and for installment points by customers at the end of each fiscal year.

(e) Accrued retirement benefits to directors and corporate auditors
Accrued retirement benefits to directors and corporate auditors for the consolidated subsidiaries are provided for at an amount required in accordance with the rules at the end of the fiscal year.

(f) Allowance for board benefit trust
Allowance for board benefit trust is recorded by the Company at the expected amount of obligations on stock-based compensation to Directors, etc., at the end of the fiscal year.

(g) Allowance for losses on interest refunds
To cover interest refund claims for the interest rates charged in excess of the upper limit imposed by the Interest Rate Restriction Act, the Company has set up an allowance for losses on interest refunds at the end of each fiscal year. Provision for the allowance is estimated based on the historical amount of refunds, taking into consideration the recent refund conditions.

(4) Retirement Benefits

(a) Method of attributing expected retirement benefits to periods
In determining retirement benefit obligations, the benefit formula basis is used for the method of attributing expected retirement benefits to periods.

(b) Accounting treatment of actuarial gains and losses and past service costs
Past service costs of the Company are recognized in profit or loss by the straight-line method over a certain period (13 years), which is within the average remaining years of service of the employees. Actuarial gains and losses are recognized in profit or loss by the straight-line method over certain periods (13 years for the Company and five years for a consolidated subsidiary), which are within the average remaining years of service of the employees, commencing from the following fiscal year.

(5) Financial Instruments

(a) Derivatives
The Companies adopt hedge accounting to all derivatives (see (c) Hedge accounting below).

(b) Securities
Securities held by the Companies are classified as available-for-sale securities.

Marketable securities classified as available-for-sale securities are stated at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, directly included in net assets. Costs of securities sold are calculated by the moving-average method.

Non-marketable securities classified as available-for-sale securities are carried at cost determined by the moving-average method.

In cases where the fair value of available-for-sale securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for the period.

(c) Hedge accounting
Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the period during which the gains or losses on the hedged items or transactions are recognized. The special treatment is applied to the interest rate swaps that meet certain criteria.

The derivatives designated as hedging instruments by the Companies are principally interest rate swap and interest rate option transactions. The related hedged items are interest rates on bank loans.

The Companies enter into derivative transactions in order to avoid interest rate fluctuation risks in future.

The Companies evaluate the effectiveness of their hedging activities by seeking the correlation of the benchmark interest rate fluctuation ranges between the hedging instruments and the related hedged items.

(6) Real Estate for Sale
Real estate for sale, in principle, is stated at acquisition cost, cost being determined by the specific identification method. In cases where the net selling value falls below the acquisition cost at the end of the period, real estate for sale on the consolidated balance sheet is written down to the net selling value, when profitability of assets has decreased. The Companies apply the non-reversal method which prohibits reversal of write-downs of inventories.

(7) Property and Equipment (Excluding Lease Assets)
Depreciation of property and equipment is calculated principally by the declining-balance method, except for buildings and other non-building structures, which are depreciated by the straight-line method (certain facilities attached to buildings and other non-building structures acquired on or before March 31, 2016 are depreciated by the declining-balance method), over the estimated useful lives which are the same standards as prescribed by tax laws.

(8) Intangible Assets
Other intangible assets are mainly comprised of software for internal use, which is amortized by the straight-line method over the estimated internal useful lives of 5 or 10 years. As for goodwill, please refer to 2 (13).

(9) Lease Assets
Lease assets under finance lease transactions which do not transfer ownership of the lease assets to the lessee are depreciated by the straight-line method over the period of the lease, with zero residual value.

(10) Accounting for Deferred Assets
Bond issue cost is amortized by the straight-line method over the maturity period.

(11) Income taxes
Deferred tax assets and liabilities are recognized in the consolidated financial statements with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(12) Accounting for Leased Offices and Other
The Companies use offices leased under cancellable long-term lease agreements. In connection with such agreements, lessors in Japan require leasehold deposits relative to the amount of annual lease rental payments. Such leasehold deposits do not bear interest and are generally returned only when the lease is terminated. The lease terms are generally two years with options for renewals for a similar period, subject to renegotiation of lease rentals. Also, the Companies have cancellable long-term lease commitments for computer equipment and housing for employees. As the lessee of these cancellable lease commitments, the Companies charge the relevant lease rentals to income as incurred.

(13) Amortization Method and Amortization Period of Goodwill
Goodwill is amortized by the straight-line method over 20 years or less.

(14) Cash and Cash Equivalents
Cash and cash equivalents in the consolidated statement of cash flows are composed of cash on hand, bank deposits that can be withdrawn on demand and short-term investments with no significant risk of change in value that have original maturity of three months or less.

(15) Earnings per Share
Basic earnings per share is calculated by deducting the total amount not attributable to common stock shareholders from profit, divided by the weighted average number of shares of common stock outstanding exclusive of number of shares of treasury stock during the year.

The computation of diluted earnings per share reflects the maximum possible dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

(16) Consumption Taxes
Consumption taxes and local consumption taxes are accounted for by exclusion from transaction amounts. Consumption taxes paid not offset by consumption taxes received in accordance with Consumption Tax Act of Japan that arise from the purchases of tangible fixed assets are recorded as "Other assets" and are amortized over five years by the straight-line method.

(17) Change in Presentation Method
Consolidated Statements of Cash Flows

"Purchase of treasury stock," which was included in "other, net" under cash flows from financing activities, has been set down separately for the year ended March 31, 2018 since significance of the amount has increased.

To reflect this change in the method of presentation, the amount in the consolidated statement of cash flows for the year ended March 31, 2017 has been reclassified.

As a result, ¥(15) million of "other, net" under cash flows from financing activities in the consolidated statement of cash flows for the year ended March 31, 2017 has been reclassified to ¥(0) million of "purchase of treasury stock" and ¥(15) million of "other, net" under cash flows from financing activities.

(18) Accounting Standards Issued but Not yet Effective
- "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan ("ASBJ") Statement No. 29, issued on March 30, 2018; the "Standard")
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued on March 30, 2018)

(a) Overview
The Standard is a comprehensive accounting standard for revenue recognition. Revenue is recognized by applying the following five steps.

Step 1: Identify a contract with a customer.
Step 2: Identify performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to each performance obligation identified in the contract.
Step 5: Recognize revenue when or as the entity satisfies a performance obligation.

(b) Scheduled date of adoption
The Companies are currently considering the scheduled date of adoption.

(c) Impact of adopting the Standard, etc.
The effects of adopting the Standard, etc., are currently under evaluation.

(19) Additional Information
Introduction of Performance-based Stock Compensation Plan for Directors, etc.

The Company has introduced a performance-based stock compensation plan, "Board Benefit Trust," (the "Plan") for Directors, etc. in the year ended March 31, 2018 with a view to increase their consciousness to contribute to performance improvement and corporate value increase in the medium- and long-term by clarifying the linkage between compensation for Directors, etc. and the Company's financial performance and stock value, and sharing not only benefits of an increase in the Company's equity value but risks of its decline.

(a) Overview of Plan
The Plan is a performance-based stock compensation plan where a trust (a trust established under the Plan is referred to as the "Trust") acquired the Company's stock using money contributed by the Company and provides Directors, etc. with the Company's stock and money equivalent to the amount of the Company's stock as converted using fair value (the "Company's Stock, etc.") in accordance with the Rules for Stock Compensation Granted to Directors, etc., established by the Company. The timing of Directors, etc. receiving the Company's Stock, etc. is at their retirement from Directors, etc., in principle.

(b) Company's Stock Remaining in Trust
The Company has recorded the Company's stock remaining in the Trust at carrying value in the Trust (excluding the amount of ancillary expenses) as treasury stock under net assets section. As of March 31, 2018, the carrying value of such treasury stock was ¥269 million ($2,531 thousand), and the number of such treasury stock was 1,472 thousand shares.

3. Securities and Investment Securities

Investments in associates included in "Investment securities" at March 31, 2018 and 2017 were ¥5,953 million ($56,017 thousand) and ¥4,570 million, respectively.
Carrying amount on the consolidated balance sheet, cost and their difference of available-for-sale securities at March 31, 2018 and 2017 were as follows:

		Millions of yen		
		2018		
	Type	Carrying amount on the consolidated balance sheet	Cost	Difference
Securities whose carrying amount exceeds their cost	Equity securities	¥4,016	¥1,338	¥2,677
	Bond securities	—	—	—
	Other	41	24	17
	Subtotal	4,057	1,362	2,695
Securities whose carrying amount does not exceed their cost	Equity securities	347	404	(56)
	Bond securities	—	—	—
	Other	—	—	—
	Subtotal	347	404	(56)
Total		¥4,405	¥1,767	¥2,638

		Millions of yen		
		2017		
	Type	Carrying amount on the consolidated balance sheet	Cost	Difference
Securities whose carrying amount exceeds their cost	Equity securities	¥5,065	¥1,694	¥3,370
	Bond securities	—	—	—
	Other	45	24	21
	Subtotal	5,111	1,718	3,392
Securities whose carrying amount does not exceed their cost	Equity securities	347	382	(35)
	Bond securities	—	—	—
	Other	—	—	—
	Subtotal	347	382	(35)
Total		¥5,458	¥2,101	¥3,356

		Thousands of U.S. dollars		
		2018		
	Type	Carrying amount on the consolidated balance sheet	Cost	Difference
Securities whose carrying amount exceeds their cost	Equity securities	$37,790	$12,590	$25,190
	Bond securities	—	—	—
	Other	385	225	159
	Subtotal	38,176	12,816	25,359
Securities whose carrying amount does not exceed their cost	Equity securities	3,265	3,801	(526)
	Bond securities	—	—	—
	Other	—	—	—
	Subtotal	3,265	3,801	(526)
Total		$41,451	$16,627	$24,823

Note Unlisted equity securities (carrying amounts at March 31, 2018 and 2017 were ¥1,220 million ($11,480 thousand) and ¥1,529 million, respectively) are not included in the above table because there were no quoted market prices available and it is extremely difficult to determine the fair value.

Proceeds, gain on sales and loss on sales from the sale of available-for-sale securities for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		
	2018		
Type	Proceeds	Gain on sales	Loss on sales
Equity securities	¥653	¥308	¥0
Bond securities	—	—	—
Other	—	—	—
Total	¥653	¥308	¥0

	Millions of yen		
	2017		
Type	Proceeds	Gain on sales	Loss on sales
Equity securities	¥1,274	¥972	¥6
Bond securities	—	—	—
Other	—	—	—
Total	¥1,274	¥972	¥6

	Thousands of U.S. dollars		
	2018		
Type	Proceeds	Gain on sales	Loss on sales
Equity securities	$6,144	$2,898	$0
Bond securities	—	—	—
Other	—	—	—
Total	$6,144	$2,898	$0

For the year ended March 31, 2018, no impairment loss was recognized for securities. For the year ended March 31, 2017, an impairment loss of ¥0 million was recognized for available-for-sale securities.

4. Direct Installment Receivables

Direct installment receivables are recorded in an amount equivalent to the retail purchase price on installments, plus commissions charged by the Companies to the individual customers, or, as the case may be, at the principal amount of loans plus commissions charged to the customers computed by the add-on method.

Regarding cash advances on loan cards and credit cards, the unused facility balance (including securitized amounts) out of the total facility limit available to customers was ¥1,451,560 million ($13,659,170 thousand) and ¥1,497,786 million as of March 31, 2018 and 2017, respectively.

The full amount of this unused facility balance may not necessarily be used since the Companies can deny loans to any customer when a reasonable reason exists, such as changes in the credit status of the customer, under the terms of the contract.

5. Guaranteed Loan Receivables (Payables)

The Companies have adopted a policy to show the outstanding balance of loan guarantees as an asset (“Guaranteed loan receivables”) and the same amount as a liability (“Guaranteed loan payables”) on the consolidated balance sheet.

The balance of guaranteed loan receivables represents the loans borrowed by customers from financial institutions under the Companies’ guarantee. The balance of this account represents monthly repayments which have not become due at the consolidated balance sheet date.

6. Beneficiary Certificates Retained for Receivable Securitization

Beneficiary certificates retained for receivable securitization include receivables such as securitized direct installment receivables.

7. Inventories

At March 31, 2018 and 2017, merchandise and finished goods of ¥900 million ($8,468 thousand) and ¥880 million were included in “Inventories” in the accompanying consolidated balance sheet.

8. Long-Term Debt under Securitization of Receivables

Long-term debt under securitization of receivables is debt resulting from securitization of direct installment receivables.

9. Short-Term Bank Loans, Long-Term Debt, Lease Obligations and Others

The annual average interest rates applicable to short-term bank loans at March 31, 2018 and 2017 were 0.63% and 0.57%, respectively.
The annual average interest rates applicable to commercial papers at March 31, 2018 and 2017 were 0.06% and 0.07%, respectively.

Short-term bank loans, long-term debt, lease obligations and others at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Short-term bank loans	¥ 50,905	¥ 47,736	$ 479,015
Commercial papers	219,500	176,400	2,065,493
	¥ 270,405	¥224,136	$2,544,509
Long-term debt from banks and other financial institutions, maturing through 2028	¥1,007,652	¥874,086	$9,481,998
Lease obligations	2,310	3,016	21,737
Guarantee deposits received and other	4,918	4,559	46,278
Long-term debt under securitization of receivables, maturing through 2025	8,400	2,400	79,043
Unsecured corporate bonds due on various dates through January 26, 2028 – generally at 0.22 to 0.88% (0.22 to 0.88% in 2017)	210,000	150,000	1,976,098
Less: Portion due within one year	(291,578)	(270,381)	(2,743,747)
	¥ 941,702	¥763,680	$8,861,409

The annual average interest rates applicable to long-term debt from banks and other financial institutions at March 31, 2018 and 2017 were 0.66% and 0.83%, respectively.

The annual average interest rates applicable to lease obligations are not presented since lease obligations are presented on the consolidated balance sheet at the amount from which the amount equivalent to interest included in the total lease payment is not deducted.

The annual average interest rates applicable to long-term debt under securitization of receivables at March 31, 2018 and 2017 were 1.44% and 1.50%, respectively.

The Companies' assets pledged as collateral at March 31, 2018 and 2017 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Beneficiary certificates retained for receivable securitization	¥8,400	¥2,400	$79,043
Buildings and structures	—	185	—
Land	—	570	—
	¥8,400	¥3,155	$79,043

The liabilities secured by the above assets pledged as collateral were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Short-term bank loans	¥ —	¥ 170	$ —
Long-term debt under securitization of receivables	8,400	2,400	79,043
	¥8,400	¥2,570	$79,043

The aggregate annual maturities of long-term debt from banks and other financial institutions at March 31, 2018 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 275,573	$2,593,140
2020	275,162	2,589,272
2021	183,208	1,723,986
2022	157,470	1,481,791
2023	113,579	1,068,777
2024 and thereafter	2,659	25,021
	¥1,007,652	$9,481,998

The aggregate annual maturities of lease obligations at March 31, 2018 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥1,005	$ 9,457
2020	735	6,916
2021	350	3,293
2022	159	1,496
2023	50	470
2024 and thereafter	8	75
	¥2,310	$21,737

The aggregate annual maturities of other interest-bearing debt at March 31, 2018 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥219,500	$2,065,493
2020	—	—
2021	—	—
2022	—	—
2023	—	—
2024 and thereafter	8,400	79,043
	¥227,900	$2,144,537

The aggregate annual maturities of unsecured corporate bonds outstanding at March 31, 2018 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 15,000	$ 141,149
2020	30,000	282,299
2021	25,000	235,249
2022	40,000	376,399
2023	30,000	282,299
2024 and thereafter	70,000	658,699
	¥210,000	$1,976,098

10. Income Taxes

At March 31, 2018 and 2017, significant components of deferred tax assets and liabilities (both current and non-current) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets due to:			
Allowance for credit losses in excess of tax limit	¥ 30,095	¥ 29,976	$ 283,193
Provision of allowance for losses on interest refunds	7,661	7,816	72,089
Impairment losses on fixed assets	8,199	8,297	77,152
Defined benefit liabilities	684	2,052	6,436
Net tax loss carried forward *	53,166	57,631	500,291
Other	8,520	10,660	80,173
Total gross deferred tax assets	108,328	116,435	1,019,365
Less: Valuation allowance	(86,495)	(97,121)	(813,917)
Total deferred tax assets	21,833	19,313	205,448
Deferred tax liabilities	(1,135)	(1,319)	(10,680)
Net deferred tax assets	¥ 20,697	¥ 17,994	$ 194,758

* Deferred tax assets related to tax loss carried forward are recorded because the Japanese accounting standard requires that the benefit of tax loss carried forward be estimated and recorded as an asset with deduction of valuation allowance if it is expected that some portions or all of the deferred tax assets will not be realized.

Note Net deferred tax assets are included in the following items on the consolidated balance sheet.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets (current assets)	¥15,751	¥14,193	$148,216
Deferred tax assets (investments, advances and other assets)	4,945	3,800	46,532

Reconciliations between the statutory tax rates and the effective tax rates for the years ended March 31, 2018 and 2017 were as follows:

	2018	2017
Statutory tax rate	30.7%	30.7%
Add (deduct):		
Valuation allowance	(20.7)	(15.8)
Per capita inhabitant tax	0.5	0.5
Entertainment expenses, etc., not deductible for income tax purposes	0.8	0.7
Other	0.0	(0.2)
Effective tax rate	11.3%	15.9%

11. Retirement Benefit Plans

(1) Overview of Retirement Benefit Plans

The Company and its consolidated subsidiaries have funded and unfunded defined benefit plans and a defined contribution plan for employees' retirement benefits.

The defined benefit corporate pension plans, all of which are funded, provide lump-sum or pension benefits based on salaries and the length of service. The lump-sum payment plans, which are unfunded (some of which are funded due to establishment of a retirement benefit trust), provide lump-sum benefits based on salaries and the length of service.

Certain consolidated subsidiaries use the simplified method, where the amount required for voluntary retirement at the end of the fiscal year is treated as retirement benefit obligations, to calculate defined benefit liabilities and retirement benefit expenses for their defined benefit corporate pension plans and lump-sum payment plans.

(2) Defined Benefit Plans

(a) Reconciliation between retirement benefit obligations at beginning and end of periods

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligations at beginning of period	¥50,530	¥50,919	$475,486
Current service costs	1,695	1,746	15,949
Interest costs	—	—	—
Actuarial gains and losses	(265)	372	(2,493)
Retirement benefits paid	(2,469)	(2,592)	(23,233)
Past service costs	—	—	—
Other	154	83	1,449
Retirement benefit obligations at end of period	¥49,644	¥50,530	$467,149

Note The above table includes plans applying the simplified method.

(b) Reconciliation between plan assets at beginning and end of periods

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Plan assets at beginning of period	¥46,341	¥45,902	$436,068
Expected return on plan assets	837	812	7,876
Actuarial gains and losses	6,690	273	62,952
Contribution from employer	3,231	1,229	30,403
Retirement benefits paid	(1,894)	(1,877)	(17,822)
Other	3	1	28
Plan assets at end of period	¥55,209	¥46,341	$519,516

Note The above table includes plans applying the simplified method.

(c) Reconciliation between retirement benefit obligations and plan assets at end of period and defined benefit liabilities and defined benefit assets on the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligations	¥ 49,111	¥ 50,085	$ 462,134
Plan assets	(55,209)	(46,341)	(519,516)
	(6,098)	3,744	(57,382)
Unfunded retirement benefit obligations	533	444	5,015
Net balance of liability and asset on consolidated balance sheet	(5,565)	4,188	(52,366)
Defined benefit liabilities	1,711	5,921	16,100
Defined benefit assets	(7,276)	(1,732)	(68,467)
Net balance of liability and asset on consolidated balance sheet	¥ (5,565)	¥ 4,188	$ (52,366)

Note The above table includes plans applying the simplified method.

(d) Retirement benefit expenses and breakdown

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current service costs	¥1,695	¥1,746	$15,949
Interest costs	—	—	—
Expected return on plan assets	(837)	(812)	(7,876)
Amortization of actuarial gains and losses	(245)	(475)	(2,305)
Amortization of past service costs	(142)	(142)	(1,336)
Other	275	392	2,587
Retirement benefit expenses on defined benefit plans	¥ 746	¥ 708	$ 7,019

(e) Remeasurements of defined benefit plans in other comprehensive income

Breakdown of items recorded as remeasurements of defined benefit plans, before tax, in other comprehensive income was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Past service costs	¥ (142)	¥(142)	$ (1,336)
Actuarial gains and losses	6,710	(574)	63,141
Total	¥6,568	¥(716)	$61,804

(f) Remeasurements of defined benefit plans in accumulated other comprehensive income

Breakdown of items recorded as remeasurements of defined benefit plans, before tax, in accumulated other comprehensive income was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized past service costs	¥ (1,422)	¥(1,565)	$(13,381)
Unrecognized actuarial gains and losses	(8,838)	(2,127)	(83,165)
Total	¥(10,261)	¥(3,693)	$(96,555)

(g) Plan assets

(i) Breakdown of plan assets

Percentages to total plan assets by major category were as follows:

	2018	2017
Debt securities	32.0%	40.2%
Equity securities	52.9	46.4
Other (Note 2)	15.1	13.4
Total	100.0%	100.0%

Notes 1. Total plan assets include a retirement benefit trust of 36.5% and 27.6% for the years ended March 31, 2018 and 2017, respectively.
2. Other mainly includes life insurance general accounts and alternative investments.

(ii) Determination of expected long-term rate of return

In order to determine an expected long-term rate of return on plan assets, the Companies consider current and expected allocation of plan assets and current and expected long-term rates of return from various assets constituting plan assets.

(h) Actuarial assumptions

Major actuarial assumptions (in weighted average)

	2018	2017
Discount rate	0.0%	0.0%
Expected long-term rate of return	2.5%	2.5%

Note Actuarial assumptions include expected salary increase rates and other factors in addition to the above. The Company has adopted a point system.
Expected point increase rates for the year ended March 31, 2018 were 0.8% to 16.4% (0.8% to 16.4% for the year ended March 31, 2017). Expected salary increase rates of certain consolidated subsidiaries for the year ended March 31, 2018 were 0.0% to 3.4% (0.0% to 3.4% for the year ended March 31, 2017).

(3) Defined Contribution Plan

The amounts to be paid by the Company and certain consolidated subsidiaries to the defined contribution plan were ¥331 million ($3,114 thousand) and ¥319 million for the years ended March 31, 2018 and 2017, respectively.

12. Commitments and Contingent Liabilities

At March 31, 2018 and 2017, the Company guaranteed housing loans of employees from financial institutions amounting to ¥338 million ($3,180 thousand) and ¥520 million, respectively.

13. Net Assets

(1) Common stock and preferred stock at March 31, 2018 and 2017 were as follows:

	Thousands of shares					Per share	
		Issued					
Class of stock	Authorized	At April 1, 2017	Increase	Decrease	At March 31, 2018	Annual dividend ratio *5	Liquidation value (yen)
Stock Issued and Outstanding:							
Common Stock *1	1,825,000	1,718,163	183	—	1,718,346	—	—
1st Series Class I Preferred Stock *2	140,000	140,000	—	70,000	70,000	+1.00% to +2.75%	1,000
	1,965,000	1,858,163	183	70,000	1,788,346		
Treasury Stock:							
Common Stock *3		20	1,473	0	1,493	—	—
1st Series Class I Preferred Stock *4		—	70,000	70,000	—	—	—
		20	71,473	70,000	1,493		

*1. The number of outstanding shares of common stock increased by 183 thousand shares since subscription rights to shares (stock options) were exercised and common stock was issued in exchange.
*2. The number of outstanding shares of 1st series class I preferred stock decreased by 70,000 thousand shares due to the retirement.
*3. The number of shares of common stock for treasury increased by 1,473 thousand shares due to the purchase of the Company's stock by the Company's Board Benefit Trust (BBT trust account) (1,472 thousand shares) and the purchase of shares less than one unit (1 thousand shares) and decreased by 0 thousand shares due to the sale of shares less than one unit.
*4. The number of shares of 1st series class I preferred stock for treasury increased by 70,000 thousand shares due to the purchase (mandatory redemption) and decreased by 70,000 thousand shares due to the retirement.
*5. Spread against yen TIBOR (six months).

Class of stock	Thousands of shares					Per share	
	Authorized	Issued					
		At April 1, 2016	Increase	Decrease	At March 31, 2017	Annual dividend ratio *3	Liquidation value (yen)
Stock Issued and Outstanding:							
Common Stock *1	1,825,000	1,717,951	212	—	1,718,163	—	—
1st Series Class I Preferred Stock	140,000	140,000	—	—	140,000	+1.00% to +2.75%	1,000
	1,965,000	1,857,951	212	—	1,858,163		
Treasury Stock:							
Common Stock *2		22	0	2	20	—	—
		22	0	2	20		

*1. The number of outstanding shares of common stock increased by 212 thousand shares since subscription rights to shares (stock options) were exercised and common stock was issued in exchange.
*2. The number of shares of common stock for treasury increased by 0 thousand shares due to the purchase of shares less than one unit and decreased by 2 thousand shares due to the exercise of subscription rights to shares (stock options).
*3. Spread against yen TIBOR (six months).

Holders or registered pledgees of preferred stock are entitled to receive annual dividends and distribution of residual assets of the Company as set out above in priority to holders of the common stock but pari passu among themselves. The Company may pay one-half of the annual dividend payable on preferred stock as an interim dividend. Dividends on the preferred stock are not cumulative. Holders of preferred stock are not entitled to vote at a general meeting of shareholders.

Japanese companies are subject to the Companies Act. The significant areas in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends at any time during the fiscal year (except for dividends-in-kind) if the company has prescribed so in its articles of incorporation.

The Company does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company stipulate so.

The Companies Act also provides certain limitations on the amounts available for dividends and the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases or decreases and transfer of capital stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the capital stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold.

The Companies Act also provides that capital stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution at the shareholders' meeting.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of net assets.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of net assets or deducted directly from stock acquisition rights.

The appropriation of retained earnings reflected in the accompanying consolidated statement of changes in net assets represents the results of an appropriation made in the fiscal year in which it was approved by the shareholders' meeting and disposed of during the fiscal year, rather than those in the years to which they relate.

(2) Subscription rights to shares for the years ended March 31, 2018 and 2017 were as follows:

Company	Description	Class of stock issued	Number of shares issued				Balance at March 31, 2018	
			At April 1, 2017	Increase	Decrease	At March 31, 2018	Millions of yen	Thousands of U.S. dollars
Parent company	Subscription rights to shares as stock options	Common stock	—	—	—	—	¥76	$715

Company	Description	Class of stock issued	Number of shares issued				Balance at March 31, 2017
			At April 1, 2016	Increase	Decrease	At March 31, 2017	Millions of yen
Parent company	Subscription rights to shares as stock options	Common stock	—	—	—	—	¥96

(3) Dividends for the years ended March 31, 2018 and 2017 were as follows:

Year ended March 31, 2018

(a) Dividends paid

		Total dividends		Dividends per share			
Resolution	Class of stock	Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars	Cut-off date	Effective date
Annual general meeting of shareholders on June 27, 2017	Common stock	¥3,436	$32,332	¥ 2.00	$0.01	March 31, 2017	June 28, 2017
	1st series class I preferred stock	1,589	14,952	11.35	0.10	March 31, 2017	June 28, 2017

(b) Dividends with the cut-off date in the year ended March 31, 2018 and the effective date in the year ending March 31, 2019

			Total dividends		Dividends per share			
Resolution	Class of stock	Source of dividends	Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars	Cut-off date	Effective date
Annual general meeting of shareholders on June 26, 2018	Common stock	Retained earnings	¥3,436	$32,332	¥ 2.00	$0.01	March 31, 2018	June 27, 2018
	1st series class I preferred stock	Retained earnings	1,589	14,952	22.71	0.21	March 31, 2018	June 27, 2018

Note Total dividends by the resolution at the annual general meeting of shareholders held on June 26, 2018 include dividends on the Company's stock held by the Company's Board Benefit Trust (BBT trust account) of ¥2 million ($18 thousand).

Year ended March 31, 2017

(a) Dividends paid

There are no relevant matters.

(b) Dividends with the cut-off date in the year ended March 31, 2017 and the effective date in the year ended March 31, 2018

		Total dividends		Dividends per share		
Resolution	Class of stock	Millions of yen	Source of dividends	Yen	Cut-off date	Effective date
Annual general meeting of shareholders on June 27, 2017	Common stock	¥3,436	Retained earnings	¥ 2.00	March 31, 2017	June 28, 2017
	1st series class I preferred stock	1,589	Retained earnings	11.35	March 31, 2017	June 28, 2017

14. Stock Options

On June 25, 2010, the annual general meeting of shareholders resolved on compensation for the Company's directors (excluding outside directors) of subscription rights to shares as stock options in accordance with provisions in Article 361 of the Companies Act since the retirement benefit plan for the Company's directors, corporate auditors and executive officers had been abolished. The Company has not established any compensation on subscription rights to shares for outside directors and corporate auditors.

On June 27, 2017, the 57th annual general meeting of shareholders resolved to introduce a performance-based stock compensation plan using a trust and abolish compensation on subscription rights to shares as stock options. The Company has not granted any additional subscription rights to shares as stock options since then and will not in future.

Details of the performance-based stock compensation plan are presented in "2. Summary of Significant Accounting Policies, (19) Additional Information."

Stock option expenses are recorded in "Selling, general and administrative expenses" for the years ended March 31, 2018 and 2017 amounting to ¥5 million ($47 thousand) and ¥23 million, respectively.

The stock options outstanding as of March 31, 2018 were as follows:

	2010 Stock Option	2011 Stock Option
Resolved on:	July 29, 2010	July 29, 2011
Grantees:	11 directors 21 executive officers	10 directors 21 executive officers
Number of options granted*1:	Common stock, 476,500 shares	Common stock, 335,000 shares
Grant date:	August 26, 2010	August 25, 2011
Vesting conditions:	(i) Those who receive allotment of these subscription rights to shares (the "Grantees") may exercise the rights during the exercisable period and 10 days from the day following the date on which they lose their positions of both directors and executive officers of the Company. (ii) When the Grantees exercise these subscription rights to shares, they shall collectively exercise all subscription rights to shares held by themselves. (iii) Other conditions for the exercise of these subscription rights to shares are as prescribed in the "Subscription Rights to Shares Allotment Agreement" entered into by and between the Company and each subscription rights holder in accordance with a resolution of the Board of Directors.	
Vesting period:	From June 25, 2010 to June 29, 2011	From June 29, 2011 to June 27, 2012
Exercise period:	From August 27, 2010 to August 26, 2030	From August 26, 2011 to August 25, 2031

Number of subscription rights to shares:	200	190
Number of subscription rights to treasury shares out of subscription rights to shares:	—	—
Class of stock to be issued:	Common stock of the Company	
Number of shares to be issued:	100,000 shares	95,000 shares
Amount to be paid in at the time of exercise of subscription rights to shares:	The exercise price of ¥1 per share ($0.00 per share) multiplied by the number of shares granted.	
Share issuance price and Capital stock in the event of issuance of shares upon exercise of subscription rights to shares:	Issue price: ¥29,000 per 500 shares Capital stock: ¥14,500 per 500 shares	Issue price: ¥38,000 per 500 shares Capital stock: ¥19,000 per 500 shares
Conditions for exercising subscription rights to shares:	• The Grantees may exercise the rights during the exercisable period and 10 days from the day following the date on which they lose their positions of both directors and executive officers of the Company. • When the Grantees exercise these subscription rights to shares, they shall collectively exercise all subscription rights to shares held by themselves. • Other conditions for the exercise of these subscription rights to shares are as prescribed in the "Subscription Rights to Shares Allotment Agreement" entered into by and between the Company and each subscription rights holder in accordance with a resolution of the Board of Directors.	
Matters relating to transfer of subscription rights to shares:	Transfer of the subscription rights to shares shall be subject to approval of the Board of Directors of the Company.	
Matters relating to substitute payment:	—	—
Matters relating to granting of subscription rights to shares in association with acts of organizational restructuring:	In cases where the Company merges (limited to cases where the Company is to be extinguished as a result of the merger), absorption-type split, incorporation-type company split, share exchanges, or share transfers (limited to cases where the Company becomes a wholly-owned subsidiary in either case) (collectively, hereinafter, "Reorganization"), the Company shall, in each case, under the following conditions, grant subscription rights to shares of the companies as listed in Article 236, paragraph 1, item (viii), sub-items (a) to (e) of the Companies Act (hereinafter, the "Company Subject to Reorganization") to holders of these subscription rights to shares that have subscription rights to shares existing as of the effective date of the Reorganization (hereinafter, "Remaining Subscription Rights to Shares"). In this event, the Remaining Subscription Rights to Shares shall be become null and void, and the Company Subject to Reorganization shall newly issue subscription rights to shares. However, it is subject to a condition that the provision that the subscription rights to shares of the Company Subject to Reorganization shall be delivered pursuant to the following conditions is specified in the absorption-type merger contract, consolidated-type merger contract, absorption-type company split contract, incorporation-type company split plan, share exchange contract, or share transfer plan, and the provision is approved by the shareholders' meeting of the Company. (i) Number of subscription rights to shares of the Company Subject to Reorganization to be granted The same number of subscription rights to shares as that of Remaining Subscription Rights to Shares held by each holder of these subscription rights to shares (ii) Class of shares underlying subscription rights to shares Common stock of the Company Subject to Reorganization (iii) Number of shares underlying subscription rights to shares The number of shares shall be rationally adjusted in accordance with the conditions for Reorganization and any fractions less than one share resulting from said adjustment shall be rounded off. (iv) Value of property to be contributed when subscription rights to shares are exercised The value shall be the amount obtained by multiplying the exercise price after reorganization by the number of shares of the Company Subject to Reorganization underlying each subscription right to shares, which is decided pursuant to (iii) above. The exercise price after reorganization shall be ¥1 per share of the shares of the Company Subject to Reorganization that would be granted by exercising the granted subscription rights to shares. (v) Period during which subscription rights to shares be exercised From the latter of the start date of the period during which these subscription rights to shares can be exercised as specified in the aforementioned "Exercise period" and the effective date of Reorganization, until the expiry date of the period during which such subscription rights to shares can be exercised as specified in the "Exercise period." (vi) Other conditions of exercise and terms of acquisition Other conditions shall be determined in accordance with the aforementioned "Conditions for exercising subscription rights to shares" and *3. (vii) Matters relating to capital stock and additional paid-in capital that will be increased in the event of issuance of shares upon exercise of subscription rights to shares To be determined in accordance with *4. (viii) Approval of acquisition of subscription rights to shares Acquisition of subscription rights to shares by transfer shall require the approval by the Company Subject to Reorganization.	

The information provided is relevant as of March 31, 2018.
As of May 31, 2018, there have been no changes in regard to these matters.

*1. The number of stock options is shown in the number of shares.
*2. Details of common stock are presented in "13. Net Assets."
*3. In the event that the following (i), (ii), (iii), (iv), or (v) is approved at a general meeting of shareholders of the Company (or at a meeting of the Board of Directors if a decision at a shareholders' meeting is not necessary), the Company may acquire these subscription rights to shares without compensation on a date separately determined by the Board of Directors of the Company or a Representative Director of the Company to whom authority has been delegated.
(i) a proposal for the approval of a merger agreement under which the Company becomes an absorbed company
(ii) a proposal for the approval of a company split agreement or a company split plan under which the Company becomes a split company
(iii) a proposal for the approval of an share exchange agreement or an share transfer plan under which the Company becomes a wholly-owned subsidiary of another company)
(iv) a proposal for the approval of an amendment to the Articles of Incorporation of the Company to the effect that an acquisition of any shares by transfer is required to be approved by the Company; or
(v) a proposal for the approval of an amendment to the Articles of Incorporation of the Company to the effect that an acquisition of any shares by transfer that will be issued upon exercise of these subscription rights to shares is required to be approved by the Company, or that the Company may repurchase all of such shares with a shareholders' resolution.
*4. The amount of capital stock increased by the issuance of shares upon the exercise of these subscription rights to shares shall be the amount obtained by multiplying the maximum limit of capital increase as calculated in accordance with the provisions of Article 17, paragraph 1 of the Regulation on Accounting of Companies by 0.5 (Any fraction of less the one yen shall be rounded up to the nearest one yen.). Any amounts not recorded as capital stock shall be treated as additional paid-in capital.

	2012 Stock Option	2013 Stock Option
Resolved on:	July 30, 2012	July 30, 2013
Grantees:	10 directors 20 executive officers	10 directors 20 executive officers
Number of options granted*1:	Common stock, 223,500 shares	Common stock, 91,500 shares
Grant date:	August 23, 2012	August 22, 2013
Vesting conditions:	(i) Those who receive allotment of these subscription rights to shares (the "Grantees") may exercise the rights during the exercisable period and 10 days from the day following the date on which they lose their positions of both directors and executive officers of the Company. (ii) When the Grantees exercise these subscription rights to shares, they shall collectively exercise all subscription rights to shares held by themselves.	
Vesting period:	From June 27, 2012 to June 27, 2013	From June 27, 2013 to June 26, 2014
Exercise period:	From August 24, 2012 to August 23, 2032	From August 23, 2013 to August 22, 2033
Number of subscription rights to shares:	178	86
Number of subscription rights to treasury shares out of subscription rights to shares:	—	—
Class of stock to be issued:	Common stock of the Company	
Number of shares to be issued:	89,000 shares	43,000 shares
Amount to be paid in at the time of exercise of subscription rights to shares:	The exercise price of ¥1 per share ($0.00 per share) multiplied by the number of shares granted.	
Share issuance price and Capital stock in the event of issuance of shares upon exercise of subscription rights to shares:	Issue price: ¥53,000 per 500 shares Capital stock: ¥26,500 per 500 shares	Issue price: ¥126,000 per 500 shares Capital stock: ¥63,000 per 500 shares
Conditions for exercising subscription rights to shares:	• The Grantees may exercise the rights during the exercisable period and 10 days from the day following the date on which they lose their positions of both directors and executive officers of the Company. • When the Grantees exercise these subscription rights to shares, they shall collectively exercise all subscription rights to shares held by themselves.	
Matters relating to transfer of subscription rights to shares:	Transfer of the subscription rights to shares shall be subject to approval of the Board of Directors of the Company.	
Matters relating to substitute payment:	—	—
Matters relating to granting of subscription rights to shares in association with acts of organizational restructuring:	In cases where the Company merges (limited to cases where the Company is to be extinguished as a result of the merger), absorption-type split (limited to cases where the Company becomes a split company), incorporation-type company split, share exchanges (limited to cases where the Company becomes a wholly-owned subsidiary), or share transfers (collectively, hereinafter, "Reorganization"), the Company shall, in each case, under the following conditions, grant subscription rights to shares of the companies as listed in Article 236, paragraph 1, item (viii), sub-items (a) to (e) of the Companies Act (hereinafter, the "Company Subject to Reorganization") to holders of these subscription rights to shares that have subscription rights to shares existing as of the effective date of the Reorganization (hereinafter, "Remaining Subscription Rights to Shares"). In this event, the Remaining Subscription Rights to Shares shall be become null and void, and the Company Subject to Reorganization shall newly issue subscription rights to shares. However, it is subject to a condition that the provision that the subscription rights to shares of the Company Subject to Reorganization shall be delivered pursuant to the following conditions is specified in the absorption-type merger contract, consolidated-type merger contract, absorption-type company split contract, incorporation-type company split plan, share exchange contract, or share transfer plan, and the provision is approved by the shareholders' meeting of the Company (when a resolution at the shareholders' meeting is not required, a resolution is made at the Board of Directors' meeting of the Company). (i) Number of subscription rights to shares of the Company Subject to Reorganization to be granted The same number of subscription rights to shares as that of Remaining Subscription Rights to Shares held by each holder of these subscription rights to shares (ii) Class of shares underlying subscription rights to shares Common stock of the Company Subject to Reorganization (iii) Number of shares underlying subscription rights to shares The number of shares shall be rationally adjusted in accordance with the conditions for Reorganization and any fractions less than one share resulting from said adjustment shall be rounded off. (iv) Value of property to be contributed when subscription rights to shares are exercised The value shall be the amount obtained by multiplying the exercise price after reorganization by the number of shares of the Company Subject to Reorganization underlying each subscription right to shares, which is decided pursuant to (iii) above. The exercise price after reorganization shall be ¥1 per share of the shares of the Company Subject to Reorganization that would be granted by exercising the granted subscription rights to shares. (v) Period during which subscription rights to shares be exercised From the latter of the start date of the period during which these subscription rights to shares can be exercised as specified in the aforementioned "Exercise period" and the effective date of Reorganization, until the expiry date of the period during which such subscription rights to shares can be exercised as specified in the "Exercise period." (vi) Other conditions of exercise and terms of acquisition Other conditions shall be determined in accordance with the aforementioned "Conditions for exercising subscription rights to shares" and *3. (vii) Matters relating to capital stock and additional paid-in capital that will be increased in the event of issuance of shares upon exercise of subscription rights to shares To be determined in accordance with *4. (viii) Approval of acquisition of subscription rights to shares Acquisition of subscription rights to shares by transfer shall require the approval by the Company Subject to Reorganization.	

The information provided is relevant as of March 31, 2018.
As of May 31, 2018, there have been no changes in regard to these matters.

As for *1 through *4, please refer to the information below the table for 2010 Stock Option and 2011 Stock Option.

	2014 Stock Option	2015 Stock Option	2016 Stock Option
Resolved on:	July 30, 2014	July 30, 2015	July 28, 2016
Grantees:	10 directors 19 executive officers	10 directors 20 executive officers	10 directors 20 executive officers
Number of options granted*1:	Common stock, 89,000 shares	Common stock, 116,000 shares	Common stock, 116,000 shares
Grant date:	August 21, 2014	August 20, 2015	August 23, 2016
Vesting conditions:	(i) Those who receive allotment of these subscription rights to shares (the "Grantees") may exercise the rights during the exercisable period and 10 days from the day following the date on which they lose their positions of both directors and executive officers of the Company. (ii) When the Grantees exercise these subscription rights to shares, they shall collectively exercise all subscription rights to shares held by themselves.		
Vesting period:	From June 26, 2014 to June 25, 2015	From June 25, 2015 to June 28, 2016	From June 28, 2016 to June 27, 2017
Exercise period:	From August 22, 2014 to August 21, 2034	From August 21, 2015 to August 20, 2035	From August 24, 2016 to August 23, 2036
Number of subscription rights to shares:	96	133	184
Number of subscription rights to treasury shares out of subscription rights to shares:	—	—	—
Class of stock to be issued:	Common stock of the Company		
Number of shares to be issued:	48,000 shares	66,500 shares	92,000 shares
Amount to be paid in at the time of exercise of subscription rights to shares:	The exercise price of ¥1 per share ($0.00 per share) multiplied by the number of shares granted.		
Share issuance price and Capital stock in the event of issuance of shares upon exercise of subscription rights to shares:	Issue price: ¥123,500 per 500 shares Capital stock: ¥61,750 per 500 shares	Issue price: ¥103,500 per 500 shares Capital stock: ¥51,750 per 500 shares	Issue price: ¥100,500 per 500 shares Capital stock: ¥50,250 per 500 shares

The information provided is relevant as of March 31, 2018.
As of May 31, 2018, there have been no changes in regard to these matters.

As for the "conditions for exercising subscription rights to shares," "matters relating to transfer of subscription rights to shares," "matters relating to substitute payment," and "matters relating to granting of subscription rights to shares in association with acts of organizational restructuring," please refer to the table for 2012 Stock Option and 2013 Stock Option, and as for *1 through *4, please refer to the information below the table for 2010 Stock Option and 2011 Stock Option.

The movement in stock options for the years ended March 31, 2017 and 2018 was as follows. The number of stock options is shown in the number of shares.

Year ended March 31, 2017

	2010 Stock Option	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 Stock Option	2015 Stock Option	2016 Stock Option
Non-vested:	(Number of shares)	(Number of shares)	(Number of shares)	(Number of shares)	(Number of shares)	(Number of shares)	(Number of shares)
Outstanding as of March 31, 2016	204,500	184,500	155,000	70,000	81,000	109,000	—
Granted	—	—	—	—	—	—	116,000
Forfeited	—	—	—	—	—	—	—
Vested	76,500	58,000	41,500	17,000	17,000	21,000	2,500
Outstanding as of March 31, 2017	128,000	126,500	113,500	53,000	64,000	88,000	113,500
Vested:							
Outstanding as of March 31, 2016	—	—	—	2,000	2,000	7,000	—
Vested	76,500	58,000	41,500	17,000	17,000	21,000	2,500
Exercised	67,500	51,000	36,500	17,000	17,000	25,500	—
Forfeited	—	—	—	—	—	—	—
Outstanding as of March 31, 2017	9,000	7,000	5,000	2,000	2,000	2,500	2,500

Year ended March 31, 2018

	2010 Stock Option	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 Stock Option	2015 Stock Option	2016 Stock Option
Non-vested:	(Number of shares)	(Number of shares)	(Number of shares)	(Number of shares)	(Number of shares)	(Number of shares)	(Number of shares)
Outstanding as of March 31, 2017	128,000	126,500	113,500	53,000	64,000	88,000	113,500
Granted	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—
Vested	28,000	31,500	24,500	10,000	16,000	21,500	21,500
Outstanding as of March 31, 2018	100,000	95,000	89,000	43,000	48,000	66,500	92,000
Vested:							
Outstanding as of March 31, 2017	9,000	7,000	5,000	2,000	2,000	2,500	2,500
Vested	28,000	31,500	24,500	10,000	16,000	21,500	21,500
Exercised	37,000	38,500	29,500	12,000	18,000	24,000	24,000
Forfeited	—	—	—	—	—	—	—
Outstanding as of March 31, 2018	—	—	—	—	—	—	—
Exercise price	¥1 per share ($0.00 per share)	¥1 per share ($0.00 per share)	¥1 per share ($0.00 per share)	¥1 per share ($0.00 per share)	¥1 per share ($0.00 per share)	¥1 per share ($0.00 per share)	¥1 per share ($0.00 per share)
Average stock price upon exercise	¥195.48 ($1.83)	¥195.36 ($1.83)	¥195.33 ($1.83)	¥195.33 ($1.83)	¥195.00 ($1.83)	¥195.00 ($1.83)	¥195.00 ($1.83)
Fair value per share at the grant date	¥57.00 per share ($0.53 per share)	¥75.00 per share ($0.70 per share)	¥105.00 per share ($0.98 per share)	¥251.00 per share ($2.36 per share)	¥246.00 per share ($2.31 per share)	¥206.00 per share ($1.93 per share)	¥200.00 per share ($1.88 per share)

Since it is extremely difficult to estimate the number of future forfeitures, the Company adopts a method where the actual number of forfeitures is used.

15. Financial Instruments

Overviews

(1) Policy for financial instruments

The Companies' main operation is "consumer finance service," and the Companies also engage in the credit collection and credit-related businesses. The Companies raise funds by direct finance such as loans, corporate bonds, commercial papers and securitization of receivables. Also, the Companies enter into interest rate option transactions such as interest rate cap transactions and interest rate swap transactions to cut down and equalize finance cost.

(2) Types of financial instruments and related risk

Financial assets held by the Companies are mainly operating receivables from individuals and are exposed to credit risk. Due to changes such as customers' income environment, there is a possibility of failure to perform their contractual obligations. Investment securities mainly consist of equity securities. The Companies own the above securities for business promotion purpose. They are exposed to credit risk of the issuers, interest rate fluctuation risk, and market fluctuation risk. Assets and liabilities denominated in foreign currencies are exposed to foreign currency risk.

Loans, unsecured corporate bonds and commercial papers are exposed to liquidity risk which is the risk of insufficient financing because the Companies cannot access to market under certain environment. The Companies have floating interest rate loans which are exposed to interest rate fluctuation risk; however, the Companies utilize derivative transactions such as interest rate swap transactions and interest rate cap transactions to hedge the above risk.

In the interest rate swap transactions, the Company adopts deferral hedge accounting to reduce interest rate fluctuation risk in loans as hedged items. The Company evaluates the effectiveness of their hedging activities by seeking the correlation of the benchmark interest rate fluctuation ranges between the hedging instruments and the related hedged items. No interest rate cap transactions are currently executed. There is no derivative transaction for speculative purpose.

(3) Risk management of financial instruments

(a) Credit risk management

The Company has established the "risk management group" as a separate and independent body from sales promotion function to manage credit risk. "Credit division" in the "risk management group" manages the individual customers' credit condition and credit standing.

The credit condition and credit standing are periodically reported to the "credit committee," in which the measures for appropriate credit are discussed and determined.

For operating receivables, the Company has established a system to perform credit inspection individually based on the "work authorization rules" and "credit procedures."

For delinquent receivables, the Company has established the "administration group" as a specialized group in relation to collection of receivables and manages receivables in the early stage to mitigate the risk. In addition, the Company corresponds to the effect of the risk exposure by recognizing appropriate allowance based on the "allowance for credit losses and write-offs rules, bylaws and related operating principles."

The Company has established a system in which the status of these credit risk management is discussed in the "overall risk management committee" that is held once every three months, and the contents are reviewed at the management meeting and Board of Directors' meeting.

(b) Market risk management

(i) Interest rate risk management

The Company has established the "ALM division" in the "finance department," as a special division of ALM. Based on the ALM operation principles determined by the management meeting, the "ALM committee" that is held monthly in principle controls interest rate risk through gap position and maturity ladder approach.

The Company has established a system in which the status of these interest rate risk management is discussed in the "overall risk management committee" that is held once every three months, and the contents are reviewed at the management meeting and Board of Directors' meeting.

Also, interest rate swap transactions are utilized to hedge interest rate fluctuation risk.

(ii) Foreign currency risk management

The Companies manage foreign currency risk on an individual transaction basis.

(iii) Price fluctuation risk management

Most of the investment securities the Companies own are for business promotion purpose, and the Companies manage the risk by monitoring counterparties' market environment and financial condition periodically.

(iv) Derivative transactions

The Company has established internal rules for derivative transactions which were determined by the Board of Directors and defined the related policies, standards of treatment, management method and reporting structure.

Execution of derivative transactions requires the approval from the Board of Directors, and the execution and management are operated under mutual supervision system.

(v) Quantitative information in connection with market risk

The Company quantitatively analyzes, for all financial instruments, the impact on profit and loss for the immediate five years using a reasonably anticipated range of interest rate fluctuations to manage interest rate fluctuation risk. The impact is calculated by classifying applicable financial instruments into a fixed-rate group and a floating-rate group and breaking down the balances by the appropriate durations based on respective rollover dates.

The major financial instruments exposed to interest rate risk, which is the primary risk factor for the Companies, are short-term bank loans, long-term debt, commercial papers, securitized receivables, unsecured corporate bonds and interest rate swaps.

Assuming risk factors other than interest rates stay constant, as of March 31, 2018, the Companies estimate that profit before income taxes would decrease by ¥737 million ($6,935 thousand) for the year ending March 31, 2019 (decrease by ¥672 million for the year ending March 31, 2018 as of March 31, 2017) if the benchmark interest rate rose by 10 basis points (0.1%), and that profit before income taxes would increase by ¥737 million ($6,935 thousand) for the year ending March 31, 2019 (increase by ¥672 million for the year ending March 31, 2018 as of March 31, 2017) if the benchmark interest rate fell by 10 basis points (0.1%). This impact was calculated based on the assumption that risk factors other than interest rates stay constant, and a correlation between interest rates and other risk factors was not taken into account.

In addition, if any interest rate fluctuation exceeds the reasonably anticipated range, the impact may exceed the calculated amounts.

(c) Liquidity risk management in connection with financing

The Company has established the "ALM division" in the "finance department," as a special division of ALM. The "ALM committee" that is held monthly in principle performs liquidity risk management by such means as diversification of the financing method, acquisition of commitment lines from multiple financial institutions, and adjustment between current and long-term balances considering the market environment.

The Company has established a system in which the status of these liquidity risk management is discussed in the "overall risk management committee," which is held once every three months, and the contents are reviewed at the management meeting and Board of Directors' meeting.

(4) Supplemental explanation on fair value of financial instruments

The fair values of financial instruments include values which are reasonably calculated in case market prices do not exist as well as the values based on market prices. As the calculation of those values includes certain assumptions, those values may vary when different assumptions are applied. Also, for the contract amount regarding derivative transactions in "(a) Fair value of financial instruments," the contract amount itself does not indicate market risk related to derivative transactions.

Estimated Fair Value of Financial Instruments

(a) Fair value of financial instruments

Carrying amount on the consolidated balance sheet, fair value and their difference of financial instruments at March 31, 2018 and 2017 were as follows. The financial instruments whose fair value is extremely difficult to determine are excluded from the table below. (Please refer to (b) below.)

		Millions of yen		
		2018		
		Carrying amount on the consolidated balance sheet *1	Fair value *1	Difference
(i)	Cash and bank deposits	¥ 194,241	¥ 194,241	¥ —
(ii)	Operating receivables *2	1,458,770	1,491,851	33,081
(iii)	Investment securities			
	Available-for-sale securities	4,405	4,405	—
(iv)	Notes and accounts payable	(133,822)	(133,822)	—
(v)	Short-term bank loans	(50,905)	(50,905)	—
(vi)	Accrued expenses and other current liabilities			
	Commercial papers	(219,500)	(219,500)	—
(vii)	Unsecured corporate bonds (including current portion of unsecured corporate bonds)	(210,000)	(210,377)	(377)
(viii)	Long-term debt (including current portion of long-term debt)	(1,007,652)	(1,008,592)	(940)
(ix)	Derivative transactions *3			
	Hedge accounting is applied	(184)	(184)	—

		Millions of yen		
		2017		
		Carrying amount on the consolidated balance sheet *1	Fair value *1	Difference
(i)	Cash and bank deposits	¥ 198,498	¥ 198,498	¥ —
(ii)	Operating receivables *2	1,325,870	1,353,056	27,185
(iii)	Investment securities			
	Available-for-sale securities	5,458	5,458	—
(iv)	Notes and accounts payable	(114,585)	(114,585)	—
(v)	Short-term bank loans	(47,736)	(47,736)	—
(vi)	Accrued expenses and other current liabilities			
	Commercial papers	(176,400)	(176,400)	—
(vii)	Unsecured corporate bonds	(150,000)	(149,742)	257
(viii)	Long-term debt (including current portion of long-term debt)	(874,086)	(875,044)	(957)
(ix)	Derivative transactions *3			
	Hedge accounting is applied	(272)	(272)	—

		Thousands of U.S. dollars		
		2018		
		Carrying amount on the consolidated balance sheet *1	Fair value *1	Difference
(i)	Cash and bank deposits	$ 1,827,806	$ 1,827,806	$ —
(ii)	Operating receivables *2	13,727,016	14,038,308	311,291
(iii)	Investment securities			
	Available-for-sale securities	41,451	41,451	—
(iv)	Notes and accounts payable	(1,259,264)	(1,259,264)	—
(v)	Short-term bank loans	(479,015)	(479,015)	—
(vi)	Accrued expenses and other current liabilities			
	Commercial papers	(2,065,493)	(2,065,493)	—
(vii)	Unsecured corporate bonds (including current portion of unsecured corporate bonds)	(1,976,098)	(1,979,646)	(3,547)
(viii)	Long-term debt (including current portion of long-term debt)	(9,481,998)	(9,490,844)	(8,845)
(ix)	Derivative transactions *3			
	Hedge accounting is applied	(1,731)	(1,731)	—

*1. The liability position is shown as negative.
*2. Operating receivables include direct installment receivables and beneficiary certificates retained for receivable securitization, and allowance for credit losses is deducted from the amount. Carrying amount on the consolidated balance sheet of the direct installment receivables includes the amount equivalent to unearned finance income. Fair values of debt guarantees (Guaranteed loan receivables) as of March 31, 2018 and 2017 were ¥38,804 million ($365,145 thousand) and ¥29,120 million, respectively.
*3. Net receivables and payables arising from derivative transactions are presented on a net basis, and the payables position is shown as negative.

Valuation method for fair value of financial instruments and information on investment securities and derivative transactions are as follows:

(i) Cash and bank deposits

For bank deposits without maturities, fair value is based on carrying value since the fair value approximates the carrying value. For deposits with maturities, as they are short-term within one year, fair value is based on carrying value since the fair value approximates the carrying value.

(ii) Operating receivables

For direct installment receivables, fair value is measured by discounting the estimated future cash flows of the principal and interest, which includes beneficiary certificates retained for receivable securitization, using the market interest rate. For delinquent receivables, fair value is based on carrying value, net of applicable allowance for credit losses, since the uncollectible amount is estimated considering the collectability and accordingly the fair value approximates such amount.

(iii) Investment securities

For fair value of investment securities, equity securities are based on the price on stock exchanges. Fair value of investment trusts is based on the public daily net asset value per unit.

(iv) Notes and accounts payable

Fair value is based on carrying value since the fair value approximates the carrying value when it is scheduled to be settled in a short period of time. Those related to collection guarantees are excluded.

(v) Short-term bank loans and (vi) Commercial papers

Fair value is based on carrying value since the fair value approximates the carrying value considering it is scheduled to be settled in a short period of time.

(vii) Unsecured corporate bonds and current portion of unsecured corporate bonds

Fair value of bonds is based on the market price.

(viii) Long-term debt and current portion of long-term debt

For floating rate long-term debt, fair value is based on carrying value since the carrying value is assumed to approximate the fair value because the interest rate reflects the market interest and the Companies' credit condition in a short period of time. For fixed rate long-term debt, fair value is measured as the net present value by discounting the total amount of principal and interest by category of the term (for those loans which meet certain criteria to adopt the exceptional treatment of interest rate swap transactions, fair value is determined as the total amount of principal and interest using the interest rate of interest rate swap transactions) using the interest rate applied to the same kind of loan.

(ix) Derivative transactions

Information of fair value for derivative transactions is described in Note 16. Derivative Transactions.

(x) Debt guarantees

Fair value is measured by discounting the estimated future cash flows of guarantee fees under contracts, net of applicable credit risk, etc., using the market interest rate.

(b) Financial instruments whose fair value is deemed to be extremely difficult to determine at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unlisted equity securities	¥7,174	¥6,099	$67,507

The above securities are not included in (iii) Investment securities in the table above, as there are no market prices available, their future cash flows cannot be estimated and it is deemed to be extremely difficult to determine the fair value.

(5) The redemption schedule for financial receivables and securities with maturities subsequent to March 31, 2018 and 2017 was as follows:

	Millions of yen					
	2018					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Bank deposits	¥194,044	¥ —	¥ —	¥ —	¥ —	¥ —
Operating receivables	610,206	181,233	125,973	91,491	79,051	296,616
Total	¥804,251	¥181,233	¥125,973	¥91,491	¥79,051	¥296,616

	Millions of yen					
	2017					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Bank deposits	¥198,315	¥ —	¥ —	¥ —	¥ —	¥ —
Operating receivables	545,763	164,513	107,850	80,191	66,837	287,438
Total	¥744,079	¥164,513	¥107,850	¥80,191	¥66,837	¥287,438

	Thousands of U.S. dollars					
	2018					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Bank deposits	$1,825,952	$ —	$ —	$ —	$ —	$ —
Operating receivables	5,742,034	1,705,401	1,185,405	860,929	743,869	2,791,154
Total	$7,567,996	$1,705,401	$1,185,405	$860,929	$743,869	$2,791,154

(6) The repayment schedules for long-term debt, unsecured corporate bonds and other interest-bearing debt are disclosed in Note 9. Short-Term Bank Loans, Long-Term Debt, Lease Obligations and Others.

16. Derivative Transactions

Derivative transactions to which hedge accounting was applied at March 31, 2018 and 2017 were as follows:

Interest-rate related:

		Millions of yen		
		2018		
		Contract amount, etc.		
Hedge accounting method and transaction type	Hedged item	Total	Over one year	Fair value *1
Principle method				
Interest rate swap transactions (Payable fixed/ Receivable floating)	Loans	¥19,000	¥19,000	¥(184)
Exceptional treatment				
Interest rate swap transactions (Payable fixed/ Receivable floating)	Loans	47,087	43,837	*2
		¥66,087	¥62,837	¥ —

Hedge accounting method and transaction type	Hedged item	Millions of yen 2017 Contract amount, etc. Total	 Over one year	 Fair value*1
Principle method				
Interest rate swap transactions (Payable fixed/ Receivable floating)	Loans	¥ 19,000	¥19,000	¥(272)
Exceptional treatment				
Interest rate swap transactions (Payable fixed/ Receivable floating)	Loans	62,835	56,235	*2
		¥81,835	¥75,235	¥ —

Hedge accounting method and transaction type	Hedged item	Thousands of U.S. dollars 2018 Contract amount, etc. Total	 Over one year	 Fair value *1
Principle method				
Interest rate swap transactions (Payable fixed/ Receivable floating)	Loans	$178,789	$178,789	$(1,731)
Exceptional treatment				
Interest rate swap transactions (Payable fixed/ Receivable floating)	Loans	443,088	412,505	*2
		$621,878	$591,295	$ —

*1 Fair value is determined at the quoted price obtained from the counterparty financial institutions.
*2 As interest rate swap transactions to which the exceptional treatment is applied are accounted for with loans as hedged items, fair value of the interest rate swap transactions is included in the fair value of such loans.

17. Breakdown of Consumer Finance Service Revenue

Consumer finance service revenue for the years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen 2018	2017	Thousands of U.S. dollars 2018
Consumer credit	¥ 72,438	¥ 61,626	$ 681,641
Credit card shopping	46,275	45,210	435,447
Direct cash loans	27,377	28,927	257,617
Guarantee and loan agent services	59,434	61,125	559,273
Other	1,948	1,846	18,330
	¥207,475	¥198,736	$1,952,338

The amounts of revenue on securitization of direct installment receivables included in consumer finance service revenue were as follows:

	Millions of yen 2018	2017	Thousands of U.S. dollars 2018
Consumer credit	¥ 48,567	¥ 42,134	$ 457,015
Credit card shopping	16,146	16,695	151,933
Direct cash loans	14,167	14,900	133,311
	¥ 78,881	¥ 73,730	$ 742,269

18. Breakdown of Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Provision of allowance for point program	¥ 3,348	¥ 4,361	$ 31,504
Provision of allowance for credit losses	42,154	35,315	396,668
Provision of allowance for losses on interest refunds	15,389	17,172	144,810
Employees' salaries	32,028	30,280	301,383
Retirement benefit expenses	1,078	1,028	10,143
Provision of accrued bonuses	3,873	3,817	36,444
Provision of accrued bonuses for directors and executive officers	41	—	385
Provision of allowance for board benefit trust	35	—	329
Outsourcing fee	21,486	18,385	202,183
Other	66,051	60,604	621,539
	¥185,487	¥170,966	$1,745,431

19. Impairment Loss

For the year ended March 31, 2018, the Company recorded an impairment loss on the following asset group:

Location	Use	Class
Kyoto and other four locations	Welfare facilities	Buildings and structures, and land

The Company and its consolidated subsidiaries classify assets used for consumer finance service as the consumer finance service group, and group other assets by the smallest unit whose cash flows are separately identifiable in principle.

During the year ended March 31, 2018, the Company discontinued using the welfare facilities and decided to sell them. Accordingly, the carrying amount of such facilities was reduced to the recoverable amount, and the reduction was recognized as an impairment loss of ¥198 million ($1,863 thousand) under "Special Gain (Loss)."

The impairment loss is comprised of buildings and structures of ¥74 million ($696 thousand) and land of ¥123 million ($1,157 thousand).

The recoverable amount of such asset group was measured at the net selling price based on the real estate appraisal value or other value.

For the year ended March 31, 2017, no impairment loss was recorded.

20. Cash Flow Information

Reconciliation of cash and cash equivalents on the consolidated statement of cash flows and cash and bank deposits on the consolidated balance sheet was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and bank deposits	¥194,241	¥198,498	$1,827,806
Short-term loans receivable included in other current assets	49,999	—	470,490
Cash and cash equivalents	¥244,240	¥198,498	$2,298,296

During the year ended March 31, 2018, the Company acquired shares in RECRUIT FORRENT INSURE Co., Ltd. (current Orico Forrent Insure Co., Ltd.), which became a consolidated subsidiary of the Company. The breakdown of assets and liabilities of such consolidated subsidiary as of the date of consolidation and reconciliation between the acquisition cost and net expenditure for the acquisition are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 8,956	$ 84,275
Non-current assets	3,641	34,261
Goodwill	2,471	23,252
Current liabilities	(9,959)	(93,714)
Long-term liabilities	(696)	(6,549)
Acquisition cost of shares	4,412	41,516
Cash and cash equivalents	(1,991)	(18,735)
Less: Expenditure for acquisition	¥ 2,421	$ 22,781

During the year ended March 31, 2017, there was no new consolidated subsidiary acquired by purchase of shares.

21. Comprehensive Income

Reclassification adjustments and income tax effects on components of other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Valuation difference on available-for-sale securities:			
Gains arising during the year	¥1,049	¥2,506	$ 9,871
Reclassification adjustments	(1,768)	0	(16,636)
Amount before income tax effect	(718)	2,506	(6,756)
Income tax effect	219	(766)	2,060
Total	(499)	1,740	(4,695)
Deferred gains on hedges:			
Gains arising during the year	7	58	65
Reclassification adjustments	80	79	752
Amount before income tax effect	88	137	828
Income tax effect	—	—	—
Total	88	137	828
Foreign currency translation adjustments:			
Gains arising during the year	81	6	762
Reclassification adjustments	—	—	—
Amount before income tax effect	81	6	762
Income tax effect	—	—	—
Total	81	6	762
Remeasurements of defined benefit plans, net of tax:			
Gains (losses) arising during the year	6,956	(99)	65,455
Reclassification adjustments	(387)	(617)	(3,641)
Amount before income tax effect	6,568	(716)	61,804
Income tax effect	(0)	1	(0)
Total	6,567	(714)	61,795
Share of other comprehensive income of associates accounted for using equity method:			
Gains arising during the year	1	1	9
Reclassification adjustments	—	—	—
Total	1	1	9
Total other comprehensive income	¥6,239	¥1,171	$58,708

22. Business Combinations

During the year ended March 31, 2018, the Company engaged in the following business combination through acquisition.

(1) Overview of business combination

(a) Name and business description of acquiree

Name of acquiree: RECRUIT FORRENT INSURE Co., Ltd.
Business description: Settlement and guarantee services for rents

(b) Primary reasons for business combination

The Company determined to enter into this transaction with a view to secure trading area that contributes to substantial increase in sales and market share in the settlement and guarantee services for rents, which is a growing market and a pillar of the settlement and guarantee business positioned as one of the growth engines in the medium-term business plan.

(c) Business combination date

October 3, 2017

(d) Legal form of business combination

Acquisition of shares with cash as consideration

(e) Name of company after combination

Orico Forrent Insure Co., Ltd.

(f) Percentage of voting rights acquired

100%

(g) Main grounds for determining acquirer

It is because the Company acquired the shares with cash as consideration.

(2) Period of acquiree's financial performance included in consolidated financial statements

From October 3, 2017 to March 31, 2018

(3) Acquisition cost of acquiree and its breakdown by type of consideration

Consideration: Cash ¥4,412 million ($41,516 thousand)
Acquisition cost: ¥4,412 million ($41,516 thousand)

(4) Details and amounts of main acquisition-related costs

Advisory fees, charges, etc.: ¥134 million ($1,260 thousand)

(5) Amount of and cause for goodwill arising on business combination, and amortization method and amortization period of goodwill

(a) Amount of goodwill arising on business combination

¥2,471 million ($23,252 thousand)

(b) Cause for goodwill arising on business combination

It arose from the future excess earning power that is expected through business development in future.

(c) Amortization method and amortization period

Goodwill is amortized by the straight-line method over 10 years.

(6) Assets acquired and liabilities assumed on business combination date and their breakdown

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 8,956	$ 84,275
Non-current assets	3,641	34,261
Total assets	¥12,597	$118,537
Current liabilities	9,959	93,714
Long-term liabilities	696	6,549
Total liabilities	¥10,656	$100,272

(7) Of acquisition cost, amount allocated to intangible assets other than goodwill, and amortization period by class

Class	Amount: Millions of yen	Amount: Thousands of U.S. dollars	Amortization period
Customer-related assets	¥2,009	$18,904	13 years

(8) Estimated amounts of impact on the consolidated statement of income for the year ended March 31, 2018 as though the business combination was completed as of the beginning of fiscal year, and explanation on its estimation

	Millions of yen	Thousands of U.S. dollars
Operating revenues	¥3,388	$31,881
Operating profit	117	1,100

Explanation on estimating the amounts:
Differences between operating revenues and operating profit that were estimated as though the business combination had been completed at the beginning of the fiscal year and operating revenues and operating profit in the consolidated statement of income are presented as the estimated amounts of impact.

In addition, amortization was estimated as though intangible assets including goodwill that were recognized at the business combination date had arose at the beginning of the year ended March 31, 2018.

The Company did not receive an audit certificate on the estimated amounts.

23. Related Party Transactions

For the year ended March 31, 2018

(1) Transactions with a major shareholder of the Company were as follows:

Name	Voting rights (%)	Business relationship	Details of transaction		Transaction amount: Millions of yen	Transaction amount: Thousands of U.S. dollars	Account	Balance: Millions of yen	Balance: Thousands of U.S. dollars
Mizuho Bank, Ltd.	Direct 48.68	Borrowing of funds	Borrowing of funds, net		¥ 40,000	$ 376,399	Current portion of long-term debt	¥ 38,000	$ 357,579
							Long-term debt	132,000	1,242,119
			Interest payments		966	9,090	Accrued expenses	6	56
		Loan business alliance	Loan guarantee	Debt guarantee	11,494	108,158	Guaranteed loan payables	426,051	4,009,137
				Receipt of guarantee fee	1,318	12,402	—	—	—
			Bank guarantee	Debt guarantee	296,910	2,793,921	Guaranteed loan payables	562,351	5,291,719
				Receipt of guarantee fee	18,670	175,684	Other current assets	1,648	15,507
		Major shareholder	Purchase of preferred stock		73,629	692,848	—	—	—

Notes 1. Interest and guarantee fee rates were determined based on the terms and conditions generally applied to other third-party transactions.
2. Mizuho Bank, Ltd. also falls under subsidiaries of other affiliated company.

(2) Transactions with a subsidiary of the Company's other affiliated company were as follows:

Name	Voting rights (%)	Business relationship	Details of transaction		Transaction amount: Millions of yen	Transaction amount: Thousands of U.S. dollars	Account	Balance: Millions of yen	Balance: Thousands of U.S. dollars
Mizuho Trust & Banking Co., Ltd.	Direct 0.06	Loan business alliance	Loan guarantee	Debt guarantee	¥3,011	$28,333	Guaranteed loan payables	¥94,937	$893,356
				Receipt of guarantee fee	627	5,900	—	—	—

Note Interest and guarantee fee rates were determined based on the terms and conditions generally applied to other third-party transactions.

For the year ended March 31, 2017

(1) Transactions with a major shareholder of the Company were as follows:

Name	Voting rights (%)	Business relationship	Details of transaction		Transaction amount: Millions of yen	Account	Balance: Millions of yen
Mizuho Bank, Ltd.	Direct 48.68	Borrowing of funds	Borrowing of funds, net		¥ 20,000	Current portion of long-term debt	¥ 29,000
						Long-term debt	101,000
			Interest payments		1,019	Accrued expenses	11
		Loan business alliance	Loan guarantee	Debt guarantee	81,498	Guaranteed loan payables	608,949
				Receipt of guarantee fee	8,761	—	—
			Bank guarantee	Debt guarantee	292,638	Guaranteed loan payables	545,778
				Receipt of guarantee fee	15,920	Other current assets	1,433

Notes 1. Interest and guarantee fee rates were determined based on the terms and conditions generally applied to other third-party transactions.
2. Mizuho Bank, Ltd. also falls under subsidiaries of other affiliated company.

(2) Transactions with a subsidiary of the Company's other affiliated company were as follows:

Name	Voting rights (%)	Business relationship	Details of transaction		Transaction amount: Millions of yen	Account	Balance: Millions of yen
Mizuho Trust & Banking Co., Ltd.	Direct 0.06	Loan business alliance	Loan guarantee	Debt guarantee	¥20,601	Guaranteed loan payables	¥147,787
				Receipt of guarantee fee	2,936	—	—

Note Interest and guarantee fee rates were determined based on the terms and conditions generally applied to other third-party transactions.

24. Special Purpose Companies Subject to Disclosure

The Company securitizes credit receivables and other receivables in order to diversify sources of funding and secure stable financing. For a certain part of such securitization, the Company uses limited liability companies as special purpose companies.

The Company entrusts the receivables described above to a trust bank, and certain senior portions of the trust beneficiary rights are transferred to the special purpose companies. The special purpose companies raise funds through issuing bonds and other securities backed by asset-based lending based on the senior trust beneficiary rights transferred by the Company, and the Company receives the funds as proceeds from the sale of the senior trust beneficiary rights for financing. Moreover, loans have been executed in certain securitization matters.

The Company did not hold stock and other securities with voting rights of the special purpose companies and did not dispatch any officers or employees to these companies.

	2018	2017	2018
Number of special purpose companies	9	6	—
Total assets as of the latest fiscal year-end (simple total)	¥103,091 million	¥64,952 million	$970,085 thousand
Total liabilities as of the latest fiscal year-end (simple total)	¥103,730 million	¥64,748 million	$976,098 thousand

Note The number of companies whose accounts for the first business year were not settled was three for the year ended March 31, 2018 (two for the year ended March 31, 2017), and their accounts were not added to the total assets and total liabilities.
Initial net assets of the companies whose accounts for the first business year were not settled (simple total) were ¥125 million ($1,176 thousand) for the year ended March 31, 2018 (¥105 million for the year ended March 31, 2017).

Amounts of transactions with the special purpose companies for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Millions of yen
	2018		
	Amount or balance at March 31, 2018 of main transactions	Gains or losses: Item	Gains or losses: Amount
Transferred assets			
Senior trust beneficiary rights *1	¥107,400	—	¥—
Loans receivable *2	8,400	Interest income	66

	Millions of yen	2017	Millions of yen
	Amount or balance at March 31, 2017 of main transactions	Gains or losses	
		Item	Amount
Transferred assets			
Senior trust beneficiary rights *1	¥73,200	—	¥—
Loans receivable *2	2,400	Interest income	4

	Thousands of U.S. dollars	2018	Thousands of U.S. dollars
	Amount or balance at March 31, 2018 of main transactions	Gains or losses	
		Item	Amount
Transferred assets			
Senior trust beneficiary rights *1	$1,010,633	—	$—
Loans receivable *2	79,043	Interest income	621

*1 Amounts of transfer value are stated.
*2 Balances at the end of the respective fiscal year are stated.

25. Per Share Information

The bases for calculating basic earnings per share and diluted earnings per share are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Basic earnings per share:			
Profit attributable to owners of parent	¥ 28,021	¥ 28,690	$263,677
Profit not attributable to common stock shareholders:	5,219	2,161	49,110
Preferred dividends	1,589	1,589	14,952
Difference arising from retirement of preferred stock	3,629	—	34,148
Amount for which shareholders excluding common stock shareholders can participate in dividends after dividends for the period are paid from profit attributable to owners of parent in consolidated statement of income	—	572	—
Profit attributable to owners of parent related to common stock	22,802	26,528	214,566
Weighted average number of shares for common stock (thousands of shares)	1,717,441	1,718,092	
Weighted average number of shares for preferred stock (thousands of shares)	81,506	140,000	
Diluted earnings per share:			
Profit adjustment attributable to owners of parent	—	—	—
Increase in shares of common stock (thousands of shares):	555	713	
Subscription rights to shares	555	713	

Note The number of shares of the Company's stock owned by Trust & Custody Services Bank, Ltd. in the Company's Board Benefit Trust was included in the number of shares of treasury stock that was deducted from the number of outstanding shares as of March 31, 2018 for calculating net assets per share. The number of such shares as of March 31, 2018 was 1,472 thousand shares.
For calculating basic earnings per share and diluted earnings per share, the number of such shares was included in the number of shares of treasury stock that was deducted to calculate the weighted average number of shares. The weighted average number of such shares for the year ended March 31, 2018 was 858 thousand shares.

26. Segment Information

(1) Overview of reportable segments

The reportable segments of the Company are components for which separate financial information is available and whose operating results are regularly reviewed by the Board of Directors to assess their business performance and make decisions about resources allocation.

The Company consists of the following four reportable segments which are core businesses of the Company:

- "Installment credit" – consumer credit service and credit guarantee service focusing on auto loans and shopping credit;
- "Credit cards and direct cash loans" – consumer credit cards, credit card shopping service focusing on individual customers, and consumer loans service;
- "Bank loan guarantee" – guarantee service for personal loans provided by affiliated financial institutions; and
- "Settlement and guarantee" – settlement and guarantee services for rents and accounts receivable, guarantee service for small leases, and collection agent service.

(2) Calculation method for the amounts of operating revenues, profit and assets for each reportable segment

The accounting policies of the reportable segments are consistent with those described in Note 2. Summary of Significant Accounting Policies. Inter-segment revenues or transfers are recorded based on the prices used in ordinary transactions with independent third parties.

(3) Information about operating revenues, profit and assets by reportable segment

	Millions of yen						
	2018						
	Reportable segments						
	Installment credit	Credit cards and direct cash loans	Bank loan guarantee	Settlement and guarantee	Total	Other *1	Total
Operating revenues							
Operating revenues to external customers *2	¥ 77,512	¥ 73,495	¥ 43,488	¥ 10,872	¥ 205,368	¥ 11,031	¥ 216,399
Inter-segment revenues or transfers	—	1	—	0	1	8,958	8,960
Total	77,512	73,496	43,488	10,873	205,370	19,989	225,360
Segment profit	61,573	60,452	24,760	6,524	153,310	4,523	157,834
Segment assets *3	3,027,238	623,512	1,358,272	98,221	5,107,245	153,262	5,260,507

	Millions of yen						
	2017						
	Reportable segments						
	Installment credit	Credit cards and direct cash loans	Bank loan guarantee	Settlement and guarantee	Total	Other *1	Total
Operating revenues							
Operating revenues to external customers *2	¥ 76,458	¥ 73,897	¥ 39,333	¥ 6,810	¥ 196,501	¥ 11,042	¥ 207,543
Inter-segment revenues or transfers	—	1	—	0	2	8,551	8,553
Total	76,458	73,899	39,333	6,811	196,503	19,593	216,096
Segment profit	61,827	61,890	24,102	6,087	153,907	4,922	158,830
Segment assets *3	2,908,433	590,324	1,349,651	65,422	4,913,833	180,768	5,094,601

	Thousands of U.S. dollars						
	2018						
	Reportable segments						
	Installment credit	Credit cards and direct cash loans	Bank loan guarantee	Settlement and guarantee	Total	Other *1	Total
Operating revenues							
Operating revenues to external customers *2	$ 729,387	$ 691,587	$ 409,221	$ 102,305	$ 1,932,511	$ 103,801	$ 2,036,313
Inter-segment revenues or transfers	—	9	—	0	9	84,294	84,313
Total	729,387	691,596	409,221	102,314	1,932,530	188,096	2,120,636
Segment profit	579,401	568,852	232,991	61,390	1,442,646	42,561	1,485,216
Segment assets *3	28,486,289	5,867,243	12,781,330	924,258	48,059,141	1,442,194	49,501,336

*1. "Other" represents business segments that are not included in the reportable segments and include operations such as housing loans for which the Companies currently do not provide new loans and servicer business.

*2. Operating revenues to external customers by each reportable segment consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Installment credit:			
Consumer credit	¥63,641	¥57,059	$598,861
Guarantee and loan agent services	13,870	19,399	130,516
Credit cards and direct cash loans:			
Credit card shopping	46,275	45,210	435,447
Direct cash loans	27,219	28,687	256,130
Bank loan guarantee:			
Guarantee and loan agent services	43,488	39,333	409,221
Settlement and guarantee:			
Consumer credit	8,797	4,567	82,779
Guarantee and loan agent services	1,252	1,404	11,781
Other	823	838	7,744

*3. Segment assets include the balance of securitized direct installment receivables.

(4) Reconciliations between total of operating revenues, segment profit and segment assets for the reportable segments and the amounts recorded on the consolidated financial statements

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Operating revenues:			
Total reportable segments	¥ 205,370	¥ 196,503	$ 1,932,530
Other business segments	19,989	19,593	188,096
Corporate revenues	7,998	6,150	75,261
Inter-segment eliminations	(8,960)	(8,553)	(84,313)
Operating revenues on the consolidated financial statements	¥ 224,398	¥ 213,693	$ 2,111,583
Segment profit:			
Total reportable segments	¥ 153,310	¥ 153,907	$ 1,442,646
Other business segments	4,523	4,922	42,561
Corporate expenses *	(119,333)	(117,250)	(1,122,922)
Other	(8,412)	(8,064)	(79,156)
Operating profit on the consolidated financial statements	¥ 30,088	¥ 33,515	$ 283,127
Segment assets:			
Total reportable segments	¥5,107,245	¥4,913,833	$48,059,141
Other business segments	153,262	180,768	1,442,194
Corporate assets	1,622,194	1,412,757	15,264,834
Securitized direct installment receivables	(1,404,553)	(1,175,544)	(13,216,834)
Other	(2,807)	(2,755)	(26,413)
Total assets on the consolidated financial statements	¥5,475,341	¥5,329,058	$51,522,922

* Corporate expenses represent mainly selling, general and administrative expenses excluding provision of allowance for credit losses.

(5) Related information

(a) Information by product and service has been omitted for the years ended March 31, 2018 and 2017 since it is consistent with the reportable segment information.

(b) Information by geographical area has been omitted for the years ended March 31, 2018 and 2017 since operating revenues from external customers in Japan constituted more than 90% of operating revenues in the consolidated statement of income and the balance of property and equipment located in Japan constituted more than 90% of the balance in the consolidated balance sheet.

(c) Information by major customer has been omitted for the years ended March 31, 2018 and 2017 since there was no specific external customer representing 10% or more of operating revenues in the consolidated statement of income.

(d) Information about impairment losses on fixed assets

For the year ended March 31, 2018, an impairment loss on the Company's certain assets recorded in "Other" amounted to ¥198 million ($1,863 thousand). Details are stated in Note 19. Impairment Loss.

For the year ended March 31, 2017, no impairment loss was recorded.

(e) Information about goodwill

	Millions of yen				
	2018				
	Installment credit	Credit cards and direct cash loans	Bank loan guarantee	Settlement and guarantee	Total
Amortization	—	—	—	¥ 123	¥ 123
Balance at end of year	—	—	—	2,347	2,347

	Thousands of U.S. dollars				
	2018				
	Installment credit	Credit cards and direct cash loans	Bank loan guarantee	Settlement and guarantee	Total
Amortization	—	—	—	$ 1,157	$ 1,157
Balance at end of year	—	—	—	22,085	22,085

Notes 1. The amount of "settlement and guarantee" arose from consolidation of RECRUIT FORRENT INSURE Co., Ltd. (current Orico Forrent Insure Co., Ltd.) due to the acquisition of its shares.

2. Amortization of goodwill that was incurred from the business combination and not allocated to the reportable segments since it was not allocable was ¥18 million ($169 thousand), and the unamortized balance was ¥14 million ($131 thousand).

As of and for the year ended March 31, 2017, goodwill was previously incurred from business combinations and was not allocated to the reportable segments since it was not allocable. For the year ended March 31, 2017, amortization of unallocated goodwill was ¥61 million, and as of March 31, 2017, the unamortized balance was ¥32 million.

(f) Information about gain on negative goodwill

For the years ended March 31, 2018 and 2017, no gain on negative goodwill were recorded.

27. Subsequent Events

On May 25, 2018, the Board of Directors' meeting resolved that the Company would migrate to the next version of an enterprise system under development in August 2018.

At present, total investment is expected to be approximately ¥140 billion ($1.31 billion), and annual depreciation of the next version of the enterprise system is expected to be around ¥14 billion ($0.13 billion).

The Company plans to record one-time expenses associated with the migration, etc., and is carefully examining the amount.