November 24, 2016

Financial Results for the Six Months Ended September 30, 2016

Meiji Yasuda Life Insurance Company (President: Akio Negishi) announces financial results for the Six Months ended September 30, 2016.

≪Contents≫

Notes:

This document is a translation from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

Meiji Yasuda Life Insurance Company

1. Unaudited Consolidated Balance Sheets

(Millions of Yen)

	As of March 31, 2016	As of September 30, 2016
ASSETS:		
Cash and deposits	481,381	721,644
Call loans	90,000	90,000
Monetary claims bought	223,659	218,305
Securities	30,624,492	30,120,292
Loans	5,634,123	5,484,645
Tangible fixed assets	930,595	923,489
Intangible fixed assets	527,144	471,727
Due from agents	1,831	983
Reinsurance receivables	115,877	105,650
Other assets	480,002	457,853
Net defined benefit assets	37,298	48,880
Deferred tax assets	2,485	1,922
Customers' liabilities under acceptances and guarantees	20,854	20,858
Allowance for possible loan losses	(5,457)	(5,096)
Total assets	39,164,289	38,661,157

1. Unaudited Consolidated Balance Sheets (continued)

(Millions of Yen)

	As of March 31, 2016	As of September 30, 2016
LIABILITIES:		
Policy reserves and other reserves	33,790,403	33,914,565
Reserve for outstanding claims	707,333	650,278
Policy reserves	32,842,168	32,957,802
Policyholders' dividend reserves	240,902	306,484
Due to agents	2,835	1,698
Reinsurance payables	832	1,015
Bonds payable	293,445	288,197
Other liabilities	478,051	351,458
Net defined benefit liabilities	12,447	11,350
Accrued retirement benefits for directors and executive officers	82	8
Reserve for contingent liabilities	1	2
Reserve for price fluctuation	522,116	466,923
Deferred tax liabilities	329,406	234,462
Deferred tax liabilities for land revaluation	82,137	82,125
Acceptances and guarantees	20,854	20,858
Total liabilities	35,532,618	35,372,667
NET ASSETS:		
Foundation funds	260,000	310,000
Reserve for redemption of foundation funds	470,000	520,000
Reserve for revaluation	452	452
Surplus	506,083	395,396
Total funds, reserve and surplus	1,236,536	1,225,849
Net unrealized gains on available-for-sale securities	2,291,022	2,017,271
Deferred unrealized gains on derivatives under hedge accounting	38,659	48,340
Land revaluation differences	119,894	119,964
Foreign currency translation adjustments	(26,190)	(104,621)
Remeasurements of defined benefit plans	(32,200)	(21,789)
Total accumulated other comprehensive income	2,391,186	2,059,166
Non-controlling interests	3,947	3,474
Total net assets	3,631,671	3,288,490
Total liabilities and net assets	39,164,289	38,661,157

2. Unaudited Consolidated Statements of Income

(Millions of Yen)

	Six months ended September 30	
	2015	2016
ORDINARY INCOME:	2,279,623	1,939,787
Insurance premiums and other	1,824,630	1,467,875
Investment income	406,218	399,905
Interest, dividends and other income	344,214	360,903
Gains on money held in trust	0	―
Gains on sales of securities	7,542	9,141
Other ordinary income	48,774	72,006
ORDINARY EXPENSES:	2,125,433	1,870,419
Benefits and other payments	1,178,973	1,151,727
Claims paid	284,214	296,218
Annuity payments	341,645	318,523
Benefit payments	215,027	245,273
Surrender benefits	229,638	239,814
Provision for policy reserves and other reserves	540,867	243,920
Provision for policy reserves	540,707	243,839
Provision for interest on policyholders' dividend reserves	159	80
Investment expenses	114,478	171,000
Interest expenses	1,626	13,199
Losses on sales of securities	1,806	26,763
Losses on valuation of securities	7,751	63,230
Investment losses on separate accounts	27,765	14,952
Operating expenses	193,173	213,091
Other ordinary expenses	97,941	90,681
Ordinary profit	154,189	69,368
Extraordinary gains	103	55,346
Gains on disposals of fixed assets	103	201
Reversal of reserve for price fluctuation	―	55,145
Extraordinary losses	14,005	1,370
Losses on disposals of fixed assets	1,645	632
Impairment losses	754	432
Provision for reserve for contingent liabilities	4	0
Provision for reserve for price fluctuation	11,228	―
Contributions for promotion of social welfare project	373	303
Other extraordinary losses	―	1
Surplus before income taxes and non-controlling interests	140,287	123,344
Income taxes	15,875	15,545
Current	25,742	6,291
Deferred	(9,867)	9,253
Net surplus	124,412	107,799
Net surplus attributable to non-controlling interests	127	460
Net surplus attributable to the Parent Company	124,284	107,339

3. Unaudited Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Six months ended September 30	
	2015	2016
Net surplus	124,412	107,799
Other comprehensive income (loss)	(304,406)	(332,052)
Net unrealized gains (losses) on available-for-sale securities	(309,283)	(274,402)
Deferred unrealized gains (losses) on derivatives under hedge accounting	(4,451)	9,680
Land revaluation differences	208	―
Foreign currency translation adjustments	750	(60,619)
Remeasurements of defined benefit plans	12,176	10,416
Share of other comprehensive income (loss) of associates accounted for under the equity method	(3,807)	(17,128)
Comprehensive income (loss)	(179,994)	(224,253)
Comprehensive income (loss) attributable to the Parent Company	(180,119)	(224,751)
Comprehensive income (loss) attributable to non-controlling interests	124	498

4. Unaudited Consolidated Statements of Cash Flows

(Millions of Yen)

	Six months ended September 30	
	2015	2016
I. Cash flows from operating activities		
Surplus before income taxes and non-controlling interests	140,287	123,344
Depreciation	10,608	19,195
Impairment losses	754	432
Amortization of goodwill	―	2,393
Increase (Decrease) in reserve for outstanding claims	(1,124)	(866)
Increase (Decrease) in policy reserves	540,660	272,838
Provision for interest on policyholders' dividend reserves	159	80
Increase (Decrease) in allowance for possible loan losses	(36)	(361)
Increase (Decrease) in net defined benefit liabilities	45	34
Increase (Decrease) in accrued retirement benefits for directors and executive officers	(9)	(74)
Increase (Decrease) in reserve for price fluctuation	11,228	(55,145)
Interest, dividends, and other income	(344,214)	(360,903)
Losses (Gains) on securities	40,370	315,129
Interest expenses	1,626	13,199
Losses (Gains) on tangible fixed assets	1,540	627
Others, net	(110,868)	1,744
Subtotal	291,028	331,671
Interest, dividends, and other income received	375,993	403,767
Interest paid	(1,508)	(13,868)
Policyholders' dividends paid	(116,960)	(100,230)
Income taxes refunded (paid)	(65,768)	4,908
Net cash provided by operating activities	482,784	626,248

4. Unaudited Consolidated Statements of Cash Flows (continued)

(Millions of Yen)

	Six months ended September 30	
	2015	2016
Ⅱ. Cash flows from investing activities		
Net decrease (increase) in deposits	(10,021)	24,487
Purchase of monetary claims bought	(10,800)	(18,000)
Proceeds from sales and redemption of monetary claims bought	15,187	23,042
Purchase of securities	(1,377,218)	(1,518,331)
Proceeds from sales and redemption of securities	1,073,278	1,143,385
Loans extended	(485,859)	(506,042)
Proceeds from collection of loans	518,418	587,898
Net increase (decrease) in cash collateral under securities borrowing / lending transactions	(127,100)	(20,090)
Total investment activities (IIa)	(404,114)	(283,649)
[I + IIa]	78,669	342,599
Purchase of tangible fixed assets	(5,960)	(6,265)
Proceeds from sales of tangible fixed assets	714	1
Purchase of intangible fixed assets	(8,606)	(8,533)
Others, net	(1,351)	(511)
Net cash used in investing activities	(419,318)	(298,957)
Ⅲ. Cash flows from financing activities		
Repayments of debt	－	(100,000)
Proceeds from issuance of foundation funds	－	100,000
Redemption of foundation funds	－	(50,000)
Payment of interest on foundation funds	(2,101)	(2,101)
Acquisition of stock of subsidiaries without change in scope of consolidation	－	(841)
Others, net	(294)	(325)
Net cash used in financing activities	(2,395)	(53,267)
Ⅳ. Effect of foreign exchange rate changes on cash and cash equivalents	289	(9,443)
Ⅴ. Net increase (decrease) in cash and cash equivalents	61,358	264,580
Ⅵ. Cash and cash equivalents at the beginning of the year	579,044	532,547
Ⅶ. Cash and cash equivalents at the end of the period	640,403	797,127

5. Unaudited Consolidated Statements of Changes in Net Assets

(Millions of Yen)

Six months ended September 30, 2015

	Funds, reserves and surplus				
	Foundation funds	Reserve for redemption of foundation funds	Reserve for revaluation	Surplus	Total funds, reserves and surplus
Beginning balance	260,000	470,000	452	472,533	1,202,986
Changes in the period					
Additions to policyholders' dividend reserves				(180,044)	(180,044)
Payment of interest on foundation funds				(2,101)	(2,101)
Net surplus attributable to the Parent Company				124,284	124,284
Reversal of land revaluation differences				214	214
Net changes, excluding funds, reserves and surplus					
Net changes in the period	—	—	—	(57,646)	(57,646)
Ending balance	260,000	470,000	452	414,887	1,145,340

	Accumulated other comprehensive income (loss)							
	Net unrealized gains (losses) on available -for-sale securities	Deferred unrealized gains (losses) on derivatives under hedge accounting	Land revaluation differences	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Beginning balance	2,838,597	15,456	118,988	22,894	(22,862)	2,973,074	4,274	4,180,335
Changes in the period								
Additions to policyholders' dividend reserves								(180,044)
Payment of interest on foundation funds								(2,101)
Net surplus attributable to the Parent Company								124,284
Reversal of land revaluation differences								214
Net changes, excluding funds, reserves and surplus	(309,753)	(4,451)	(5)	(2,588)	12,181	(304,618)	(170)	(304,789)
Net changes in the period	(309,753)	(4,451)	(5)	(2,588)	12,181	(304,618)	(170)	(362,435)
Ending balance	2,528,843	11,004	118,982	20,305	(10,680)	2,668,455	4,104	3,817,899

5. Unaudited Consolidated Statements of Changes in Net Assets (continued)

(Millions of Yen)

Six months ended September 30, 2016

	Funds, reserves and surplus				
	Foundation funds	Reserve for redemption of foundation funds	Reserve for revaluation	Surplus	Total funds, reserves and surplus
Beginning balance	260,000	470,000	452	506,083	1,236,536
Changes in the period					
Issuance of foundation funds	100,000				100,000
Additions to policyholders' dividend reserves				(165,707)	(165,707)
Additions to reserve for redemption of foundation funds		50,000			50,000
Payment of interest on foundation funds				(2,101)	(2,101)
Net surplus attributable to the Parent Company				107,339	107,339
Redemption of foundation funds	(50,000)				(50,000)
Reversal of reserve for fund redemption				(50,000)	(50,000)
Reversal of land revaluation differences				(70)	(70)
Changes in equity attributable to the Parent Company arising from transactions with non-controlling interests				(147)	(147)
Net changes, excluding funds, reserves and surplus					
Net changes in the period	50,000	50,000	—	(110,687)	(10,687)
Ending balance	310,000	520,000	452	395,396	1,225,849

	Accumulated other comprehensive income (loss)							
	Net unrealized gains (losses) on available -for-sale securities	Deferred unrealized gains (losses) on derivatives under hedge accounting	Land revaluation differences	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Beginning balance	2,291,022	38,659	119,894	(26,190)	(32,200)	2,391,186	3,947	3,631,671
Changes in the period								
Issuance of foundation funds								100,000
Additions to policyholders' dividend reserves								(165,707)
Additions to reserve for redemption of foundation funds								50,000
Payment of interest on foundation funds								(2,101)
Net surplus attributable to the Parent Company								107,339
Redemption of foundation funds								(50,000)
Reversal of reserve for fund redemption								(50,000)
Reversal of land revaluation differences								(70)
Changes in equity attributable to the Parent Company arising from transactions with non-controlling interests								(147)
Net changes, excluding funds, reserves and surplus	(273,750)	9,680	70	(78,431)	10,410	(332,020)	(473)	(332,493)
Net changes in the period	(273,750)	9,680	70	(78,431)	10,410	(332,020)	(473)	(343,180)
Ending balance	2,017,271	48,340	119,964	(104,621)	(21,789)	2,059,166	3,474	3,288,490

Notes to the Consolidated Financial Statements

Summary of Significant Accounting Policies

1. Consolidated subsidiaries
The number of consolidated subsidiaries was 17 as of September 30, 2016. The consolidated subsidiaries include as follows:

Meiji Yasuda General Insurance Co., Ltd. (Japan)
Meiji Yasuda Asset Management Company Ltd. (Japan)
Meiji Yasuda System Technology Company Limited (Japan)
Pacific Guardian Life Insurance Company, Limited (U.S.A.)
StanCorp Financial Group, Inc. (U.S.A.)
Meiji Yasuda Realty USA Incorporated (U.S.A.)

The subsidiaries excluded from consolidation include subsidiaries such as Meiji Yasuda Life Planning Center Company, Limited.

The respective and aggregate effects of the companies which are excluded from consolidation, based on total assets, revenues, net income and surplus for the six months ended September 30, 2016 are immaterial. This exclusion from consolidation would not prevent a reasonable understanding of the consolidated financial position of MEIJI YASUDA LIFE INSURANCE COMPANY (hereafter, “the Company”) and its subsidiaries and the results of their operations.

2. Affiliates
The number of affiliates accounted for by the equity method was 11 as of September 30, 2016. The affiliates accounted for by the equity method include as follows:

Founder Meiji Yasuda Life Insurance Co., Ltd. (China)
PT Avrist Assurance (Indonesia)
TU Europa S.A. (Poland)
TUiR Warta S.A. (Poland）
Thai Life Insurance Public Company Limited (Thailand)

One subsidiary of Thai Life Insurance Public Company Limited was excluded from the scope of the equity method from the six months ended September 30, 2016 due to its decreased importance.

The subsidiaries not consolidated, e.g., Meiji Yasuda Life Planning Center Company, Limited and others, and certain affiliates are excluded from the scope of the equity method due to their immaterial effect, individually and in aggregate, on the consolidated net income and consolidated surplus.

3. Interim closing dates of consolidated subsidiaries
The interim closing dates of consolidated overseas subsidiaries are June 30. The consolidated financial statements include the accounts of such subsidiaries as of June 30, 2016, with appropriate adjustments made for material transactions occurring between their respective interim closing dates and the date of the consolidated financial statements.

Notes to the Unaudited Consolidated Balance Sheet as of September 30, 2016

1. Securities
   Securities held by the Company are classified and accounted for as follows:

   a. Trading securities are stated at market value at the balance sheet date. The cost of sales is determined by the moving average method.

   b. Held-to-maturity debt securities are stated at amortized cost using the moving average method and the amortization is calculated using the straight-line method.

   c. Policy-reserve-matching bonds are stated at amortized cost in accordance with the “Temporary Treatment of Accounting and Auditing Concerning Policy-Reserve-Matching Bonds in the Insurance Industry,” (Japanese Institute of Certified Public Accountants (JICPA), issued on November 16, 2000). The cost of sales is determined by the moving average method and the amortization of discount/premium is calculated using the straight-line method.

   d. Equity securities issued by subsidiaries and affiliates are stated at cost using the moving average method. The subsidiaries are prescribed under Article 2, Paragraph 12 of the “Insurance Business Act” and Article 13-5-2, Paragraph 3 of the “Order for Enforcement of the Insurance Business Act.” The affiliates are under Paragraph 4 of the order.

   e. Available-for-sale securities
      i) Securities of which market value is readily available
         Stocks are stated at the average of the market value during the final month of the six months ended September 30, 2016. Others are stated at market value at the balance sheet date. The cost of sales is determined by the moving average method.

      ii) Securities of which market value is extremely difficult to determine
         Bonds (including foreign bonds) of which premium or discount are regarded as interest rate adjustment are stated at amortized cost using the moving average method. The amortization is calculated using the straight-line method. Other securities are stated at cost using the moving average method.

      iii) Unrealized gains and losses on available-for-sale securities are reported as a component of net assets in the consolidated balance sheets.

2. Policy-reserve-matching bonds
   The Company classifies bonds held with the aim of matching the duration to outstanding insurance liabilities within the sub-groups (categorized by insurance type, investment policy and other factors) of individual life insurance, individual annuities and group pensions as policy-reserve-matching bonds in accordance with the “Temporary Treatment of Accounting and Auditing Concerning Policy-Reserve-Matching Bonds in the Insurance Industry” (JICPA, issued on November 16, 2000).

3. Derivative transactions
   Derivative transactions are stated at fair value.

4. Revaluation of land

The Company revalued certain parcels of land owned for operational use as of March 31, 2000, as permitted by the “Act on Revaluation of Land”.

The difference in value before and after revaluation is directly included in net assets in the consolidated balance sheets and presented as land revaluation differences, after net of income taxes which is presented as deferred tax liabilities for land revaluation in the consolidated balance sheets. As a revaluation method stipulated in Article 3, Paragraph 3 of the act, the Company used the publicly announced appraisal value with certain adjustments (detailed in Article 2, Item 1 of the “Order for Enforcement of the Act on Revaluation of Land”) for the revaluation.

The Company also revalued certain parcels of land acquired from former Yasuda Mutual Life Insurance Company upon the merger on January 1, 2004 as of March 31, 2001, as permitted by the act. As a revaluation method stipulated in Article 3, Paragraph 3 of the act, the former company used the publicly announced appraisal value with certain adjustments (detailed in Article 2, Item 1 of the order) and appraisal value (detailed in Article 2, Item 5 of the order) for the revaluation.

5. Tangible fixed assets

Tangible fixed assets (excluding leased assets) owned by the Company are depreciated as follows:

a. Buildings

Calculated using the straight-line method.

b. Other tangible fixed assets

Calculated using the declining-balance method.

Tangible fixed assets owned by the Company’s overseas consolidated subsidiaries are depreciated by mainly using the straight-line method.

Leased assets related to finance leases that do not transfer ownership to the lessees are depreciated by using the straight-line method, with the lease period being considered as useful lives of assets and residual value being set at zero.

6. Foreign currency translation

Assets and liabilities denominated in foreign currencies, except for equity securities issued by unconsolidated subsidiaries and affiliates, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Equity securities issued by unconsolidated subsidiaries and affiliates are translated into Japanese yen at the exchange rates on the dates of acquisition. Assets, liabilities, revenues and expenses of the Company’s overseas consolidated subsidiaries are translated into Japanese yen at the exchange rate at the end of their period, and translation adjustments are included in “foreign currency translation adjustments” in the net assets section of the consolidated balance sheets.

7. Allowance for possible loan losses

Allowance for possible loan losses of the Company is provided pursuant to its standards for self assessment of asset quality and internal rules for write-offs of loans and allowance for possible loan losses.

For loans to borrowers that are legally bankrupt (hereafter, “bankrupt borrowers”) and for loans to borrowers that are not yet legally bankrupt but substantially bankrupt (hereafter, “substantially bankrupt borrowers”), an allowance is provided based on the total amounts of the loans after deduction of charge-offs and any amounts expected to be collected through the disposal of collaterals and the execution of guarantees.

For loans to borrowers that have high possibility of bankruptcy (hereafter, “borrowers with high possibility of bankruptcy”), an allowance is provided at the amount deemed necessary based on an overall solvency assessment, net of the expected collection by disposal of collaterals and by executing guarantees.

For other loans, an allowance is provided by multiplying the claim amount by an anticipated default rate calculated based on the Company’s actual default experience for a certain period in the past.

All loans are assessed by the department concerned based on the Company’s standards for the self-assessment of asset quality and an independent department is responsible for audit of its self-assessment. The allowance for possible loan losses is provided based on the result of the assessment.

For loans with collaterals to bankrupt borrowers and substantially bankrupt borrowers, the amount of loans exceeding the value of estimated recovery through disposal of collaterals or execution of guarantees is deemed uncollectible and written off. The amount of loans written off for the period amounted to ¥46 million.

8. Net defined benefit liabilities and assets

Net defined benefit liabilities and assets are provided based on the estimate of retirement benefit obligations and plan assets at the balance sheet date.

Assumptions of the Company used in accounting for the defined benefit plans for the six months ended September 30, 2016 were as follows:

Method of attributing benefit to period of service	Benefit formula basis
Amortization period for actuarial differences	10 years
Amortization period for past service cost	10 years

9. Accrued Retirement Benefits for Directors and Executive Officers

Accrued retirement benefits for directors and executive officers of the Company are provided based on a portion accrued for the period of the estimated payable amount.

In 2008, the Compensation Committee of the Company decided to terminate the retirement allowance scheme for directors and executive officers of the Company effective June 30, 2008. No provisions have been made for incumbent directors and executive officers since that date.

10. Reserve for Contingent Liabilities

Reserve for contingent liabilities of the Company is provided for the amount of estimated possible losses in the future with respect to the loan commitments outstanding pursuant to Article 24-4 of the “Ordinance for Enforcement of the Insurance Business Act”.

11. Reserve for price fluctuation

Reserve for price fluctuation of the Company and the domestic consolidated insurance subsidiary is calculated pursuant to Article 115 of the “Insurance Business Act”.

12. Method of hedge accounting

Methods of hedge accounting of the Company are in accordance with the “Accounting Standard for Financial Instruments” (ASBJ, issued on March 10, 2008). These methods consist primarily of:

- the special hedge accounting using interest rate swaps to hedge against cash flow volatility related to loans receivable and payable;
- the fair value hedge accounting using forward exchange contracts to hedge against exchange rate fluctuation risk related to foreign currency denominated bonds;
- the deferred hedge accounting using currency swaps to hedge against exchange rate fluctuation risk related to foreign currency denominated bonds;
- the allocation method using currency swaps to hedge against exchange rate fluctuation risk related to foreign currency denominated loans and bonds payable; and
- the deferred hedge accounting using interest rate swaps to hedge against interest rate fluctuation risk related to insurance liabilities.

Hedge effectiveness for the deferred hedge accounting to hedge against interest rate fluctuation risk related to insurance liabilities is assessed by verifying the correlation between interest rates that would be used in calculating theoretical prices of hedged items and hedging instruments.

13. Policy reserves

Policy reserves of the Company are provided pursuant to Article 116 of the “Insurance Business Act”.

Premium reserves, a main component of policy reserves, are calculated according to the following method:

a. For contracts that are subject to the standard policy reserve requirements, the premium reserves are calculated pursuant to the method stipulated by the Prime Minister (Ministry of Finance Notification No. 48 in 1996).

b. For contracts that are not subject to the standard policy reserve requirements, the premium reserves are calculated using the net level premium method.

The policy reserves of the Company include an amount to be additionally set aside as the difference arising from calculations of premium reserves using the expected rate of interest of 2.75% for individual annuity contracts concluded on or before April 1, 1996 pursuant to Article 69, Paragraph 5 of the “Ordinance for Enforcement of the Insurance Business Act”. The accumulation of the amount was completed on schedule over a period of three years starting in the year ended March 31, 2008. Besides, an additional reserve corresponding to the period after the beginning of annuity payment shall be accumulated at the beginning of the payment of the above annuity contracts.

The policy reserves also include reserves which are additionally set aside for variable life insurance contracts, and single premium endowment contracts concluded on or after September 2, 1995 pursuant to Article 69, Paragraph 5 of the ordinance.

Policy reserves of certain overseas consolidated subsidiaries are calculated based on the each country's accounting standard, such as U.S. GAAP.

14. Accounting for consumption taxes
National and local consumption taxes of the Company are accounted for using the tax-excluded method. Non-deductible consumption taxes are recognized as expenses for the period, except for those relating to purchases of depreciable fixed assets which are not charged to expense but deferred as prepaid expenses and amortized over a five-year period on the straight-line basis pursuant to the "Corporation Tax Act".

15. Intangible fixed assets
Capitalized software for internal use owned by the Company and subsidiaries (included in intangible fixed assets in the consolidated balance sheets) is amortized using the straight-line method over the estimated useful lives. Intangible fixed assets owned by certain overseas consolidated subsidiaries are amortized based on the each country's accounting standard, such as U.S. GAAP.

16. Income taxes
The corporate income tax, inhabitant tax, and income taxes-deferred for the six months ended September 30, 2016, are calculated based on the assumption of additions and reversals of the policyholders' dividend reserves and the reserve for reduction entry of real estate due to the appropriation of surplus in the current fiscal year.

17. Financial Instruments
The amounts of the principal financial assets and liabilities reported in the consolidated balance sheets as of September 30, 2016, and fair values and the differences between them, were as follows:

			Millions of Yen
	Balance sheet amount	Fair value	Difference
Cash and deposits	¥721,644	¥721,644	¥ —
Available-for-sale securities (CDs)	20,999	20,999	—
Monetary claims bought	218,305	234,825	16,520
Held-to-maturity debt securities	192,655	209,176	16,520
Available-for-sale securities	25,649	25,649	—
Securities	29,479,307	32,231,885	2,752,577
Trading securities	1,441,138	1,441,138	—
Held-to-maturity debt securities	4,618,632	5,608,744	990,112
Policy-reserve-matching bonds	7,153,288	8,915,754	1,762,465
Available-for-sale securities	16,266,247	16,266,247	—
Loans	5,484,645	5,831,206	346,560
Policy loans	270,850	270,850	—
Industrial and consumer loans	5,213,795	5,560,356	346,560
Allowance for possible loan losses (*1)	(3,619)	—	—
	5,481,026	5,831,206	350,180
Bonds payable	288,197	328,235	40,038
Derivative financial instruments (*2)	125,082	125,082	—
Hedge accounting is not applied	1,378	1,378	—
Hedge accounting is applied	123,704	123,704	—

(*1) The amounts are general allowance for possible losses on loans and specific allowance for possible loan losses related to the loans.
(*2) The amounts of receivables and payables arising from derivative transactions are shown as net amounts.

Note:

a. Method used to determine the fair value of financial instruments

i) Assets

Cash and deposits

The Company and subsidiaries regard book value as fair value with the assumption that fair value approximates book value due to short-term nature of these contracts. Fair value of deposits deemed as securities transactions based on “Accounting Standard for Financial Instruments” (ASBJ, issued on March 10, 2008) is calculated in the same method shown in “Securities.”

Monetary claims bought

Fair value of monetary claims bought deemed as securities transactions based on “Accounting Standard for Financial Instruments” (ASBJ, issued on March 10, 2008) is calculated using the same method shown in “Securities” and the fair value of these monetary claims bought is stated at theoretical prices calculated by discounting the future cash flows to the present value or at the fair value obtained from counterparties at the balance sheet date.

Securities

As for available-for-sale securities, domestic stocks of which market value is readily available are stated at the average of the market value during the final month of the six months ended September 30, 2016. Other securities are stated at market value at the balance sheet date.

Unlisted stocks and others of which market value is not readily available are not subject to fair value disclosure and are therefore not included in the table above because these are regarded as extremely difficult to determine fair value. The amount of the unlisted stocks and others reported in the consolidated balance sheets was ¥640,985 million as of September 30, 2016. Impairment losses on the unlisted stocks and others were ¥34 million for the six months ended September 30, 2016.

Loans

As credit exposure for policy loans without specific repayment periods is limited to the amount of the cash surrender value, the Company and subsidiaries regard book value as fair value with the assumption that fair value approximates book value in light of factors such as projected repayment period and interest condition.

As for industrial and consumer loans, their fair value of these loans is primarily stated at theoretical prices calculated by discounting the future cash flows to the present value. The fair value of loans of the Company to bankrupt borrowers, substantially bankrupt borrowers and borrowers with high possibility of bankruptcy is stated at the amounts arrived at by deducting estimated losses from the book value before direct write-off.

ii) Liabilities

Bonds payable

The fair value of bonds payable is stated at the market price at the balance sheet date, or based on data provided by pricing vendors.

iii) Derivative financial instruments

Listed transactions

The fair value of listed transactions, such as stock index futures and bond futures, is stated at the closing or settlement prices at the balance sheet date.

OTC transactions

The fair value of Over–the-Counter (OTC) transactions, such as foreign exchange contracts, is stated at theoretical prices based on the TTM, WM Reuters rate or discount rate at the balance sheet date, or fair value obtained from counterparties at the balance sheet date.

Since OTC transactions of currency swaps contracts subject to the allocation method are treated as an integral part of the hedged foreign currency denominated loans and bonds payable, their fair value is included in the fair value of hedged loans and bonds payable in the table above.

Interest rate swap transactions

The fair value of interest rate swap transactions is stated at theoretical prices calculated by discounting the net future cash flows to the present value, or fair value obtained from counterparties at the balance sheet date.

Since interest rate swaps subject to the special hedge accounting are treated as an integral part of the hedged loan, their fair value is included in the fair value of hedged loans in the table above.

b. Securities by holding purpose

Held-to-maturity debt securities

The amounts reported in the consolidated balance sheets and fair values of the held-to-maturity debt securities by security type at the end of the period, and the differences between them, were shown in the following table.

			Millions of Yen
	Balance sheet amount	Fair value	Difference
Securities whose fair value exceeds the balance sheet amount			
1) National & local government bonds	¥3,883,872	¥4,771,337	¥887,465
2) Corporate bonds	616,412	711,221	94,808
3) Others	281,606	306,255	24,648
Total	4,781,892	5,788,814	1,006,922
Securities whose fair value does not exceed the balance sheet amount			
1) National & local government bonds	—	—	—
2) Corporate bonds	—	—	—
3) Others	29,396	29,106	(289)
Total	29,396	29,106	(289)

(*) This table includes financial instruments that are deemed appropriate to be treated as securities under the “Financial Instruments and Exchange Act”.

Policy-reserve-matching bonds

The carrying amounts in the consolidated balance sheets of policy-reserve-matching bonds by security type were shown in the following table, along with their fair values and the differences between these amounts.

			Millions of Yen
	Balance sheet amount	Fair value	Difference
Securities whose fair value exceeds the balance sheet amount			
1) National & local government bonds	¥7,114,690	¥8,872,878	¥1,758,188
2) Corporate bonds	38,098	42,377	4,278
3) Others	—	—	—
Total	7,152,788	8,915,255	1,762,466
Securities whose fair value does not exceed the balance sheet amount			
1) National & local government bonds	—	—	—
2) Corporate bonds	500	498	(1)
3) Others	—	—	—
Total	500	498	(1)

Available-for-sale securities

With regard to available-for-sale securities, acquisition costs, amortized costs, the amounts reported in the consolidated balance sheets and the respective differences by each type of securities were shown in the following table.

			Millions of Yen
	Acquisition or amortized costs	Balance sheet amount	Difference
Securities whose balance sheet amount exceeds the acquisition or amortized costs			
(1) Domestic stocks	¥1,397,309	¥3,154,408	¥1,757,099
(2) Bonds	4,779,707	5,318,960	539,253
1) National & local government bonds	3,507,355	3,957,435	450,080
2) Corporate bonds	1,272,352	1,361,524	89,172
(3) Others	4,839,974	5,467,851	627,876
Total	11,016,991	13,941,220	2,924,229
Securities whose balance sheet amount does not exceed the acquisition or amortized costs			
(1) Domestic stocks	259,578	240,670	(18,908)
(2) Bonds	166,129	165,159	(970)
1) National & local government bonds	—	—	—
2) Corporate bonds	166,129	165,159	(970)
(3) Others	2,065,350	1,965,846	(99,504)
Total	2,491,059	2,371,676	(119,383)

(*) This table includes financial instruments that are deemed appropriate to be treated as securities under the “Financial Instruments and Exchange Act”. “Acquisition or amortized costs” in the table above refers to book values after deduction of impairment losses.

With regards to bonds among available-for-sale securities denominated in foreign currencies, translation adjustments caused by significant yen appreciation are recorded in “Losses on valuation of securities”.
Although the existence of “significant yen appreciation” was determined based on the exchange rate at the end of each period so far, the Company changed the method to make such determination based on the average exchange rate during the final month of the period from the six months ended September 30, 2016.
This change has no impact on gains and losses for the six month ended September 30, 2016.

18. Fair Values of Investment and Rental Property

The note of fair values of investment and rental property was omitted due to no significant changes in the balance sheet amounts and fair values from the end of the previous fiscal year.

19. Loans

The aggregate amounts of risk-monitored loans, which comprised of (1) loans to bankrupt borrowers, (2) loans in arrears, (3) loans in arrears for three months or longer, and (4) restructured loans, were ¥30,454 million as of September 30, 2016.

There were no loans to bankrupt borrowers as of September 30, 2016. The aggregate amount of loans in arrears was ¥3,999 million as of September 30, 2016.

The amounts of loans deemed uncollectible and directly deducted from the loans in the consolidated balance sheets as of September 30, 2016 were ¥44 million for loans to bankrupt borrowers, and ¥2 million for loans in arrears.

Loans to bankrupt borrowers represent the loans on which interest is not accrued due to unlikelihood of repayment of principal or interest resulting from delinquent principal or interest for a certain period or for other reasons (hereafter, “non-accrual loans”) and also meet the conditions stipulated in Article 96, Paragraph 1, Items 3 and 4 of the “Order for Enforcement of the Corporation Tax Act” (Cabinet Order No. 97 in 1965). Loans in arrears represent non-accrual loans excluding the loans to bankrupt borrowers (defined in the above) and loans of which interest payments are postponed in order to support these borrowers recovering from financial difficulties.

There were no loans in arrears for three months or longer as of September 30, 2016.

Loans in arrears for three months or longer represent the loans on which payments of principal or interest are past due over three months from the day following the contractual due date.
Loans in arrears for three months or longer do not include loans classified as loans to bankrupt borrowers or loans in arrears.

The amount of restructured loans was ¥26,455 million as of September 30, 2016.

Restructured loans represent the loans which have been restructured to provide relief to the borrowers by reducing or waiving interest payments, by rescheduling repayments of principal or payments of interest, or by waiving claims for borrowers in order to support their recovery from financial difficulties. Restructured loans do not include loans classified as loans in arrears for three months or longer, loans in arrears or loans to bankrupt borrowers.

20. Separate Accounts

The total amount of assets held in separate account defined in Article 118, Paragraph 1 of the "Insurance Business Act" was ¥797,466 million as of September 30, 2016. The amount of separate account liabilities was the same as this figure.

21. Policyholders' Dividend Reserves

Changes in policyholders' dividend reserves for the six months ended September 30, 2016 were as follows:

	Millions of Yen
Balance at the beginning of the fiscal year	¥240,902
Transfer from surplus in the previous fiscal year	165,707
Dividend payments to policyholders during the period	(100,230)
Interest accrued during the period	105
Balance at the end of the period	¥306,484

22. Foundation Funds

The Company offered foundation funds in the amount of ¥100,000 million pursuant to Article 60 of the "Insurance Business Act" in the six months ended September 30, 2016.

23. Reserve for Redemption of Foundation Funds

The Company redeemed foundation funds and also established for reserve for redemption of foundation funds pursuant to Article 56 of the "Insurance Business Act" in the amount of ¥50,000 million as of September 30, 2016.

24. Pledged Assets

Assets pledged as collateral were cash and deposits in the amount of ¥7,435 million, securities in the amount of ¥4,760 million, and loans in the amount of ¥50,113 million as of September 30, 2016.

25. Securities Lending

Securities loaned under security lending agreements, including securities under securities borrowing transactions, amounted to ¥1,179,300 million as of September 30, 2016.

26. Securities Borrowed

Assets that can be sold or resecured are marketable securities borrowed under borrowing agreements. These assets were held without disposal totaling ¥12,527 million at fair value as of September 30, 2016.

27. Loan Commitments

The amount of loan commitments outstanding was ¥60,397 million as of September 30, 2016.

28. Subordinated Bonds

As of September 30, 2016, bonds payable in liabilities included foreign currency-denominated subordinated bonds of ¥261,509 million, and the repayments of which are subordinated to other obligations.

29. Contributions to the Life Insurance Policyholders Protection Corporation

The Company estimated future contributions to the Life Insurance Policyholders Protection

Corporation in the amount of ¥49,705 million as of September 30, 2016, pursuant to Article 259 of the “Insurance Business Act”.

These contributions are recognized as operating expenses when contributed.

Notes to the Unaudited Consolidated Statements of Income for the Six Months Ended September 30, 2016

1. Impairment of Fixed Assets

The details of the impairment losses on fixed assets of the Company are as follows:

(1) Method for grouping the assets

The Company groups all the fixed assets held and utilized for the Company's insurance business as one asset group for the impairment test.

For real estate for non-insurance business and idle assets, each asset is treated as an independent unit for the impairment test.

(2) Description of impairment losses recognized

For the six months ended September 30, 2016, the Company recognized impairment losses on real estate for non-insurance business that experienced a significant deterioration of profitability and on the idle assets that experienced a significant decline in fair value. For these assets, the Company reduced the carrying amount to a recoverable amount which is either fair value less costs to dispose or value-in-use, and recognized impairment losses as extraordinary losses in the consolidated statements of income.

(3) Details of fixed assets resulting in impairment losses

For the six months ended September 30, 2016

Asset group	Number of properties impaired	Millions of Yen		
		Land	Buildings	Total
Real estate for non-insurance business	0	¥ —	¥ —	¥ —
Idle assets	11	219	139	359
Total	11	¥219	¥139	¥359

(4) Calculation method of recoverable amounts

The recoverable amounts of real estate for non-insurance business are determined at net realizable value or value in use. The recoverable amounts for idle assets are net realizable value. Value in use is determined as the estimated net future cash flows, reflecting the volatility risk, discounted at 1.97% for the six months ended September 30, 2016. Net realizable value is calculated based on the appraisal value with reference to “Real Estate Appraisal Standards” or the publicly announced appraisal value.

Notes to the Unaudited Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2016

1. Scope of Cash and Cash Equivalents

For the purpose of presenting the consolidated statements of cash flows, cash and cash equivalents are comprised of cash on hand, demand deposits and all highly liquid short-term investments with a maturity of three months or less when purchased, which are readily convertible into cash and present insignificant risk of change in value.

2. Reconciliation of Cash and Cash Equivalents

The components of cash and cash equivalents in the consolidated statements of cash flows as of September 30, 2016 were as follows:

	Millions of Yen
Cash and deposits	¥ 707,053
Call loans	90,000
Securities	74
Cash and cash equivalents	¥ 797,127