November 22, 2018

Financial Results for the Six Months Ended September 30, 2018

Meiji Yasuda Life Insurance Company (President: Akio Negishi) announces financial results for the Six Months ended September 30, 2018.

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1. Unaudited Consolidated Balance Sheets

(Millions of Yen)

	As of March 31, 2018	As of September 30, 2018
ASSETS:		
Cash and deposits	646,020	1,038,134
Call loans	90,000	90,000
Monetary claims bought	214,730	214,912
Money held in trust	13,076	20,606
Securities	33,128,510	33,947,600
Loans	5,276,491	5,172,001
Tangible fixed assets	915,808	909,849
Intangible fixed assets	485,067	466,754
Due from agents	1,569	1,022
Reinsurance receivables	121,167	164,988
Other assets	518,444	502,202
Net defined benefit assets	113,534	121,455
Deferred tax assets	2,375	2,672
Customers' liabilities under acceptances and guarantees	21,727	21,848
Allowance for possible loan losses	(5,100)	(4,940)
Total assets	41,543,423	42,669,109

1. Unaudited Consolidated Balance Sheets (continued)

(Millions of Yen)

	As of March 31, 2018	As of September 30, 2018
LIABILITIES:		
Policy reserves and other reserves	34,871,021	35,252,340
Reserve for outstanding claims	735,955	722,507
Policy reserves	33,901,297	34,213,573
Policyholders' dividend reserves	233,768	316,259
Due to agents	2,931	1,757
Reinsurance payables	1,199	1,312
Bonds payable	482,356	589,064
Other liabilities	891,457	1,487,776
Net defined benefit liabilities	6,328	7,587
Reserve for contingent liabilities	1	1
Reserve for price fluctuation	685,414	766,277
Deferred tax liabilities	377,710	384,383
Deferred tax liabilities for land revaluation	79,522	79,515
Acceptances and guarantees	21,727	21,848
Total liabilities	37,419,670	38,591,867
NET ASSETS:		
Foundation funds	260,000	260,000
Reserve for redemption of foundation funds	620,000	670,000
Reserve for revaluation	452	452
Surplus	504,951	380,255
Total funds, reserve and surplus	1,385,404	1,310,708
Net unrealized gains on available-for-sale securities	2,583,926	2,643,368
Deferred unrealized gains on derivatives under hedge accounting	35,881	31,440
Land revaluation differences	118,189	118,272
Foreign currency translation adjustments	(27,485)	(49,378)
Remeasurements of defined benefit plans	23,861	22,164
Total accumulated other comprehensive income	2,734,374	2,765,867
Non-controlling interests	3,974	666
Total net assets	4,123,752	4,077,241
Total liabilities and net assets	41,543,423	42,669,109

2. Unaudited Consolidated Statements of Income

(Millions of Yen)

	Six months ended September 30	
	2017	2018
ORDINARY INCOME:	2,028,127	2,145,397
Insurance premiums and other	1,482,827	1,560,134
Investment income	477,157	525,677
Interest, dividends and other income	407,239	439,191
Gains on money held in trust	14	120
Gains on sales of securities	4,594	12,615
Investment gains on separate accounts	35,574	20,263
Other ordinary income	68,141	59,585
ORDINARY EXPENSES:	1,843,342	1,936,706
Benefits and other payments	1,213,395	1,201,459
Claims paid	391,100	365,088
Annuity payments	318,750	297,534
Benefit payments	260,171	267,450
Surrender benefits	205,026	220,293
Provision for policy reserves and other reserves	213,021	291,677
Provision for policy reserves	212,966	291,626
Provision for interest on policyholders' dividend reserves	54	50
Investment expenses	93,040	124,345
Interest expenses	15,995	14,995
Losses on sales of securities	10,373	20,071
Losses on valuation of securities	562	1,648
Operating expenses	234,962	233,193
Other ordinary expenses	88,921	86,029
Ordinary profit	184,785	208,691
Extraordinary gains	0	13
Gains on disposals of fixed assets	0	13
Extraordinary losses	70,119	82,692
Losses on disposals of fixed assets	572	612
Impairment losses	142	945
Provision for reserve for contingent liabilities	0	0
Provision for reserve for price fluctuation	68,999	80,870
Contributions for promotion of social welfare project	402	263
Surplus before income taxes and non-controlling interests	114,666	126,011
Income taxes	12,695	13,571
Current	29,801	27,864
Deferred	(17,105)	(14,293)
Net surplus	101,970	112,440
Net surplus attributable to non-controlling interests	217	1,368
Net surplus attributable to the Parent Company	101,752	111,072

3. Unaudited Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Six months ended September 30	
	2017	2018
Net surplus	101,970	112,440
Other comprehensive income (loss)	165,603	31,424
Net unrealized gains (losses) on available-for-sale securities	185,394	60,981
Deferred unrealized gains (losses) on derivatives under hedge accounting	(3,504)	(4,440)
Foreign currency translation adjustments	(23,853)	(13,210)
Remeasurements of defined benefit plans	3,109	(1,693)
Share of other comprehensive income (loss) of associates accounted for under the equity method	4,457	(10,212)
Comprehensive income (loss)	267,574	143,865
Comprehensive income (loss) attributable to the Parent Company	267,355	142,482
Comprehensive income (loss) attributable to non-controlling interests	218	1,382

4. Unaudited Consolidated Statements of Cash Flows

(Millions of Yen)

	Six months ended September 30	
	2017	2018
I. Cash flows from operating activities		
Surplus before income taxes and non-controlling interests	114,666	126,011
Depreciation	23,520	22,789
Impairment losses	142	945
Amortization of goodwill	3,907	3,856
Increase (Decrease) in reserve for outstanding claims	(185)	(43)
Increase (Decrease) in policy reserves	246,520	335,432
Provision for interest on policyholders' dividend reserves	54	50
Increase (Decrease) in allowance for possible loan losses	(743)	(159)
Increase (Decrease) in net defined benefit liabilities	(39)	2,831
Increase (Decrease) in reserve for price fluctuation	68,999	80,870
Interest, dividends, and other income	(407,239)	(439,191)
Losses (Gains) on securities	(59,537)	(268,320)
Interest expenses	15,995	14,995
Losses (Gains) on tangible fixed assets	550	599
Others, net	606	122,230
Subtotal	7,221	2,900
Interest, dividends, and other income received	438,799	464,725
Interest paid	(16,322)	(15,932)
Policyholders' dividends paid	(101,536)	(103,310)
Income taxes refunded (paid)	(11,565)	(39,207)
Net cash provided by operating activities	316,598	309,175

4. Unaudited Consolidated Statements of Cash Flows (continued)

(Millions of Yen)

	Six months ended September 30 2017	Six months ended September 30 2018
Ⅱ. Cash flows from investing activities		
Net decrease (increase) in deposits	(10,656)	(15,470)
Purchase of monetary claims bought	(14,000)	(8,800)
Proceeds from sales and redemption of monetary claims bought	10,710	8,417
Increase of money held in trust	(2,500)	(5,800)
Purchase of securities	(1,525,924)	(2,420,337)
Proceeds from sales and redemption of securities	1,404,729	1,872,351
Loans extended	(565,745)	(542,682)
Proceeds from collection of loans	601,963	632,265
Net increase (decrease) in cash collateral under securities borrowing / lending transactions	(96,299)	464,576
Total investment activities (IIa)	(197,721)	(15,480)
[I + IIa]	118,876	293,694
Purchase of tangible fixed assets	(7,196)	(5,857)
Proceeds from sales of tangible fixed assets	290	130
Purchase of intangible fixed assets	(8,261)	(10,444)
Others, net	(476)	(486)
Net cash used in investing activities	(213,365)	(32,138)
Ⅲ. Cash flows from financing activities		
Proceeds from issuance of bonds payable	—	106,014
Proceeds from issuance of foundation funds	50,000	50,000
Redemption of foundation funds	(100,000)	(50,000)
Payment of interest on foundation funds	(1,846)	(1,171)
Acquisition of stock of subsidiaries without change in scope of consolidation	—	(2,498)
Others, net	(1,487)	(378)
Net cash used in financing activities	(53,333)	101,965
Ⅳ. Effect of foreign exchange rate changes on cash and cash equivalents	(3,579)	(439)
Ⅴ. Net increase (decrease) in cash and cash equivalents	46,319	378,562
Ⅵ. Cash and cash equivalents at the beginning of the year	577,833	720,180
Ⅶ. Cash and cash equivalents at the end of the period	624,152	1,098,742

5. Unaudited Consolidated Statements of Changes in Net Assets

(Millions of Yen)

Six months ended September 30, 2017

	Funds, reserves and surplus				
	Foundation funds	Reserve for redemption of foundation funds	Reserve for revaluation	Surplus	Total funds, reserves and surplus
Beginning balance	310,000	520,000	452	514,726	1,345,179
Changes in the period					
Issuance of foundation funds	50,000				50,000
Additions to policyholders' dividend reserves				(169,815)	(169,815)
Additions to reserve for redemption of foundation funds		100,000			100,000
Payment of interest on foundation funds				(1,846)	(1,846)
Net surplus attributable to the Parent Company				101,752	101,752
Redemption of foundation funds	(100,000)				(100,000)
Reversal of reserve for fund redemption				(100,000)	(100,000)
Reversal of land revaluation differences				24	24
Net changes, excluding funds, reserves and surplus					
Net changes in the period	(50,000)	100,000	—	(169,883)	(119,883)
Ending balance	260,000	620,000	452	344,843	1,225,296

	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	2,542,572	39,643	117,025	(19,750)	15,701	2,695,192	3,974	4,044,345
Changes in the period								
Issuance of foundation funds								50,000
Additions to policyholders' dividend reserves								(169,815)
Additions to reserve for redemption of foundation funds								100,000
Payment of interest on foundation funds								(1,846)
Net surplus attributable to the Parent Company								101,752
Redemption of foundation funds								(100,000)
Reversal of reserve for fund redemption								(100,000)
Reversal of land revaluation differences								24
Net changes, excluding funds, reserves and surplus	185,944	(3,504)	(24)	(19,943)	3,106	165,577	(15)	165,561
Net changes in the period	185,944	(3,504)	(24)	(19,943)	3,106	165,577	(15)	45,678
Ending balance	2,728,516	36,138	117,001	(39,694)	18,808	2,860,770	3,958	4,090,024

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

(Millions of Yen)

Six months ended September 30, 2018

	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	620,000	452	504,951	1,385,404
Changes in the period					
Issuance of foundation funds	50,000				50,000
Additions to policyholders' dividend reserves				(185,731)	(185,731)
Additions to reserve for redemption of foundation funds		50,000			50,000
Payment of interest on foundation funds				(1,171)	(1,171)
Net surplus attributable to the Parent Company				111,072	111,072
Redemption of foundation funds	(50,000)				(50,000)
Reversal of reserve for fund redemption				(50,000)	(50,000)
Reversal of land revaluation differences				(83)	(83)
Changes in equity attributable to the Parent Company arising from transactions with non-controlling interests				1,216	1,216
Net changes, excluding funds, reserves and surplus					
Net changes in the period	—	50,000	—	(124,696)	(74,696)
Ending balance	260,000	670,000	452	380,255	1,310,708

	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	2,583,926	35,881	118,189	(27,485)	23,861	2,734,374	3,974	4,123,752
Changes in the period								
Issuance of foundation funds								50,000
Additions to policyholders' dividend reserves								(185,731)
Additions to reserve for redemption of foundation funds								50,000
Payment of interest on foundation funds								(1,171)
Net surplus attributable to the Parent Company								111,072
Redemption of foundation funds								(50,000)
Reversal of reserve for fund redemption								(50,000)
Reversal of land revaluation differences								(83)
Changes in equity attributable to the Parent Company arising from transactions with non-controlling interests								1,216
Net changes, excluding funds, reserves and surplus	59,441	(4,440)	83	(21,893)	(1,697)	31,493	(3,307)	28,185
Net changes in the period	59,441	(4,440)	83	(21,893)	(1,697)	31,493	(3,307)	(46,511)
Ending balance	2,643,368	31,440	118,272	(49,378)	22,164	2,765,867	666	4,077,241

Notes to the Unaudited Consolidated Financial Statements

Summary of Significant Accounting Policies

1. Consolidated subsidiaries

The number of consolidated subsidiaries was 17 as of September 30, 2018. 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 America 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, 2018 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 9 as of September 30, 2018. 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 affiliate of StanCorp Financial Group, Inc. has been excluded from the scope of the equity method due to the sale of its shares.

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, 2018, 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, 2018

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 Industry Audit Committee Report No.21, “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, 2018. 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 Industry Audit Committee Report No.21, “Temporary Treatment of Accounting and Auditing Concerning Policy-Reserve-Matching Bonds in the Insurance Industry” (JICPA, issued on November 16, 2000).

3. Money held in trust
   Money held in trust is stated at fair value.

4. Derivative transactions

Derivative transactions are stated at fair value.

5. 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.

6. 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.

7. 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.

8. 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 ¥92 million.

9. 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, 2018 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

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;
- 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, from the year ended March 31, 2010, based on the Industry Audit Committee Report No. 26, "Accounting and Auditing Treatments related to Application of Accounting for Financial Instruments in the Insurance Industry," (JICPA, issued on September 3, 2002).

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 which are additionally set aside pursuant to Article 69, Paragraph 5 of the "Ordinance for Enforcement of the Insurance Business Act" include the following:

・the policy reserves for 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. 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 set aside in the year ended March 31, 2015 for variable life insurance contracts, and single premium endowment contracts concluded on or after September 2, 1995; and
・the policy reserves set aside in the year ended March 31, 2018 for single premium individual annuity contracts concluded on or after April 2, 1998.

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, 2018, 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, 2018, and fair values and the differences between them, were as follows:

	Millions of Yen		
	Balance sheet amount	Fair value	Difference
Cash and deposits	¥1,038,134	¥1,038,134	¥ —
Available-for-sale securities (CDs)	60,998	60,998	—
Monetary claims bought	214,912	222,651	7,738
Held-to-maturity debt securities	199,603	207,342	7,738
Available-for-sale securities	15,308	15,308	—
Money held in trust	20,606	20,606	—
Available-for-sale securities	20,606	20,606	—
Securities	33,414,370	35,349,029	1,934,658
Trading securities	1,734,176	1,734,176	—
Held-to-maturity debt securities	4,265,146	4,979,585	714,439
Policy-reserve-matching bonds	7,758,128	8,978,348	1,220,219
Available-for-sale securities	19,656,918	19,656,918	—
Loans	5,172,001	5,410,468	238,467
Policy loans	248,235	248,235	—
Industrial and consumer loans	4,923,765	5,162,233	238,467
Allowance for possible loan losses (*1)	(3,594)	—	—
	5,168,406	5,410,468	242,062
Bonds payable	589,064	615,953	26,888

Payables under repurchase agreements	33,131	33,131	—
Payables under securities borrowing transactions	1,039,521	1,039,521	—
Derivative financial instruments (*2)	(91,503)	(91,503)	—
Hedge accounting is not applied	(5,286)	(5,286)	—
Hedge accounting is applied	(86,216)	(86,216)	—

(*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.

Money held in trust

Securities managed as assets in trust of which market value is readily available are stated at market value at the balance sheet date.

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 the jointly invested money held in trust with the same characteristics as deposits.

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, 2018. 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 ¥533,230 million as of September 30, 2018. Impairment losses on the unlisted stocks and others were ¥0 million for the six months ended September 30, 2018.

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.

Payables under repurchase agreements

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.

Payables under securities borrowing transactions

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.

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 a price based on data provided by pricing vendors.

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 mainly stated at a price based on data provided by pricing vendors.

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	¥3,653,204	¥4,294,141	¥640,937
2) Corporate bonds	493,160	561,250	68,089
3) Others	237,751	252,710	14,958
Total	4,384,116	5,108,102	723,985
Securities whose fair value does not exceed the balance sheet amount			
1) National & local government bonds	915	901	(14)
2) Corporate bonds	2,800	2,787	(12)
3) Others	76,918	75,136	(1,781)
Total	80,633	78,825	(1,808)

(*) 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	¥7,270,766	¥8,495,663	¥1,224,896
2) Corporate bonds	34,354	37,453	3,098
3) Others	47,176	47,331	154
Total	7,352,298	8,580,448	1,228,150
Securities whose fair value does not exceed the balance sheet amount			
1) National & local government bonds	103,893	102,868	(1,024)
2) Corporate bonds	4,837	4,798	(39)
3) Others	297,099	290,233	(6,866)
Total	405,830	397,899	(7,930)

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.

	Acquisition or amortized costs	Balance sheet amount	Difference
			Millions of Yen
Securities whose balance sheet amount exceeds the acquisition or amortized costs			
(1) Domestic stocks	¥1,605,143	¥4,307,249	¥2,702,106
(2) Bonds	4,519,663	4,904,267	384,604
1) National & local government bonds	3,133,557	3,445,309	311,752
2) Corporate bonds	1,386,106	1,458,957	72,851
(3) Others	4,220,896	4,976,776	755,880
Total	10,345,702	14,188,294	3,842,591
Securities whose balance sheet amount does not exceed the acquisition or amortized costs			
(1) Domestic stocks	78,893	68,756	(10,136)
(2) Bonds	533,433	523,136	(10,297)
1) National & local government bonds	192,833	191,229	(1,603)
2) Corporate bonds	340,600	331,906	(8,693)
(3) Others	5,131,129	4,973,644	(157,484)
Total	5,743,456	5,565,537	(177,918)

(*) 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.

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 ¥26,587 million as of September 30, 2018.

There were no loans to bankrupt borrowers as of September 30, 2018. The aggregate amount of loans in arrears was ¥3,936 million as of September 30, 2018.

The amounts of loans deemed uncollectible and directly deducted from the loans in the consolidated balance sheets as of September 30, 2018 were ¥91 million for loans to bankrupt borrowers, and ¥0 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, 2018.

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 ¥22,650 million as of September 30, 2018.

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 ¥843,873 million as of September 30, 2018. 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, 2018 were as follows:

	Millions of Yen
Balance at the beginning of the period	¥233,768
Transfer from surplus in the previous fiscal year	185,731
Dividend payments to policyholders during the period	(103,310)
Interest accrued during the period	69
Balance at the end of the period	¥316,259

22. Foundation Funds
The Company offered foundation funds in the amount of ¥50,000 million pursuant to Article 60 of the "Insurance Business Act" in the six months ended September 30, 2018.

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, 2018.

24. Pledged Assets
Assets pledged as collateral were securities in the amount of ¥5,293 million and loans in the amount of ¥119,751 million as of September 30, 2018.

25. Securities Lending
Securities loaned under security lending agreements, including securities under securities borrowing transactions, amounted to ¥2,630,197 million as of September 30, 2018.

26.Securities sold under repurchase agreements

Securities sold under repurchase agreements amounted to ¥32,967 million as of September 30, 2018.

27. Loan Commitments

The amount of loan commitments outstanding was ¥82,248 million as of September 30, 2018.

28. Subordinated Bonds

As of September 30, 2018, bonds payable in liabilities included subordinated bonds and foreign currency-denominated subordinated bonds of ¥560,735 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 ¥47,718 million as of September 30, 2018, 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, 2018

1. Impairment of Fixed Assets

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

(1) Method for grouping the assets

The Company and certain consolidated subsidiaries group all the fixed assets held and utilized mainly for the 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, 2018, 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, 2018

Asset group	Number of properties impaired	Millions of Yen		
		Land	Buildings	Total
Real estate for non-insurance business	1	¥ —	¥ 230	¥ 230
Idle assets	3	525	188	714
Total	4	¥525	¥419	¥945

(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 mainly determined as the estimated net future cash flows, reflecting the volatility risk, discounted at 1.90% for the six months ended September 30, 2018. 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, 2018

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, 2018 were as follows:

	Millions of Yen
Cash and deposits	¥ 1,003,580
Call loans	90,000
Money held in trust	5,000
Securities	162
Cash and cash equivalents	¥ 1,098,742