November 22, 2019

Financial Results for the Six Months Ended September 30, 2019

Meiji Yasuda Life Insurance Company (President: Akio Negishi) announces financial results for the Six Months ended September 30, 2019.

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1. Unaudited Consolidated Balance Sheets

(Millions of Yen)

	As of March 31, 2019	As of September 30, 2019
ASSETS:		
Cash and deposits	1,287,537	1,074,806
Call loans	90,000	90,000
Monetary claims bought	212,307	208,725
Money held in trust	21,669	17,685
Securities	33,403,624	33,914,304
Loans	5,019,827	4,937,175
Tangible fixed assets	912,057	906,616
Intangible fixed assets	467,182	444,248
Due from agents	1,578	1,025
Reinsurance receivables	164,308	157,456
Other assets	428,437	456,695
Net defined benefit assets	91,988	105,896
Deferred tax assets	2,994	2,612
Customers' liabilities under acceptances and guarantees	22,563	21,100
Allowance for possible loan losses	(5,361)	(6,069)
Total assets	42,120,715	42,332,279

1. Unaudited Consolidated Balance Sheets (continued)

(Millions of Yen)

	As of March 31, 2019	As of September 30, 2019
LIABILITIES:		
Policy reserves and other reserves	35,321,301	35,643,479
Reserve for outstanding claims	738,628	714,766
Policy reserves	34,339,715	34,619,237
Policyholders' dividend reserves	242,957	309,475
Due to agents	2,937	1,986
Reinsurance payables	1,187	1,130
Bonds payable	589,098	668,195
Other liabilities	1,012,377	928,640
Net defined benefit liabilities	6,995	6,885
Reserve for contingent liabilities	1	1
Reserve for price fluctuation	816,962	829,566
Deferred tax liabilities	281,498	251,557
Deferred tax liabilities for land revaluation	79,370	78,147
Acceptances and guarantees	22,563	21,100
Total liabilities	38,134,293	38,430,692
NET ASSETS:		
Foundation funds	260,000	250,000
Reserve for redemption of foundation funds	670,000	730,000
Reserve for revaluation	452	452
Surplus	499,135	397,107
Total funds, reserve and surplus	1,429,588	1,377,560
Net unrealized gains on available-for-sale securities	2,442,225	2,414,180
Deferred unrealized gains on derivatives under hedge accounting	41,253	45,972
Land revaluation differences	117,898	118,861
Foreign currency translation adjustments	(44,976)	(61,910)
Remeasurements of defined benefit plans	(273)	6,259
Total accumulated other comprehensive income	2,556,127	2,523,364
Non-controlling interests	705	662
Total net assets	3,986,421	3,901,586
Total liabilities and net assets	42,120,715	42,332,279

2. Unaudited Consolidated Statements of Income

(Millions of Yen)

	Six months ended September 30	
	2018	2019
ORDINARY INCOME:	2,145,397	2,035,138
Insurance premiums and other	1,560,134	1,458,420
Investment income	525,677	518,300
Interest, dividends and other income	439,191	459,944
Gains on money held in trust	120	266
Gains on sales of securities	12,615	12,935
Investment gains on separate accounts	20,263	8,730
Other ordinary income	59,585	58,417
ORDINARY EXPENSES:	1,936,706	1,876,664
Benefits and other payments	1,201,459	1,226,738
Claims paid	365,088	365,248
Annuity payments	297,534	291,897
Benefit payments	267,450	276,745
Surrender benefits	220,293	244,333
Provision for policy reserves and other reserves	291,677	167,769
Provision for policy reserves	291,626	167,723
Provision for interest on policyholders' dividend reserves	50	46
Investment expenses	124,345	169,692
Interest expenses	14,995	21,615
Losses on sales of securities	20,071	1,426
Losses on valuation of securities	1,648	25,928
Operating expenses	233,193	232,968
Other ordinary expenses	86,029	79,496
Ordinary profit	208,691	158,473
Extraordinary gains	13	—
Gains on disposals of fixed assets	13	—
Extraordinary losses	82,692	14,652
Losses on disposals of fixed assets	612	656
Impairment losses	945	1,143
Provision for reserve for contingent liabilities	0	0
Provision for reserve for price fluctuation	80,870	12,615
Losses on reduction entry of real estate	—	4
Contributions for promotion of social welfare project	263	233
Surplus before income taxes and non-controlling interests	126,011	143,821
Income taxes	13,571	15,445
Current	27,864	29,180
Deferred	(14,293)	(13,735)
Net surplus	112,440	128,375
Net surplus attributable to non-controlling interests	1,368	42
Net surplus attributable to the Parent Company	111,072	128,333

3. Unaudited Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Six months ended September 30	
	2018	2019
Net surplus	112,440	128,375
Other comprehensive income (loss)	31,424	(32,576)
Net unrealized gains (losses) on available-for-sale securities	60,981	(30,766)
Deferred unrealized gains (losses) on derivatives under hedge accounting	(4,440)	4,718
Land revaluation differences	—	1,149
Foreign currency translation adjustments	(13,210)	(17,483)
Remeasurements of defined benefit plans	(1,693)	6,532
Share of other comprehensive income (loss) of associates accounted for under the equity method	(10,212)	3,271
Comprehensive income (loss)	143,865	95,799
Comprehensive income (loss) attributable to the Parent Company	142,482	95,757
Comprehensive income (loss) attributable to non-controlling interests	1,382	42

4. Unaudited Consolidated Statements of Cash Flows

(Millions of Yen)

	Six months ended September 30	
	2018	2019
I. Cash flows from operating activities		
Surplus before income taxes and non-controlling interests	126,011	143,821
Depreciation	22,789	20,918
Impairment losses	945	1,143
Amortization of goodwill	3,856	3,760
Increase (Decrease) in reserve for outstanding claims	(43)	(6,438)
Increase (Decrease) in policy reserves	335,432	229,711
Provision for interest on policyholders' dividend reserves	50	46
Increase (Decrease) in allowance for possible loan losses	(159)	708
Increase (Decrease) in net defined benefit liabilities	2,831	102
Increase (Decrease) in reserve for price fluctuation	80,870	12,615
Interest, dividends, and other income	(439,191)	(459,944)
Losses (Gains) on securities	(268,320)	107,001
Interest expenses	14,995	21,615
Losses (Gains) on tangible fixed assets	599	656
Others, net	122,230	(29,429)
Subtotal	2,900	46,288
Interest, dividends, and other income received	464,725	493,611
Interest paid	(15,932)	(21,618)
Policyholders' dividends paid	(103,310)	(103,158)
Income taxes refunded (paid)	(39,207)	(32,285)
Net cash provided by operating activities	309,175	382,837

4. Unaudited Consolidated Statements of Cash Flows (continued)

(Millions of Yen)

	Six months ended September 30	
	2018	2019
Ⅱ. Cash flows from investing activities		
Net decrease (increase) in deposits	(15,470)	24,367
Purchase of monetary claims bought	(8,800)	(4,000)
Proceeds from sales and redemption of monetary claims bought	8,417	7,531
Increase of money held in trust	(5,800)	—
Purchase of securities	(2,420,337)	(2,780,404)
Proceeds from sales and redemption of securities	1,872,351	2,168,068
Loans extended	(542,682)	(548,129)
Proceeds from collection of loans	632,265	603,506
Net increase (decrease) in cash collateral under securities borrowing / lending transactions	464,576	(27,828)
Total investment activities (Ⅱa)	(15,480)	(556,888)
[Ⅰ + Ⅱa]	293,694	(174,051)
Purchase of tangible fixed assets	(5,857)	(4,794)
Proceeds from sales of tangible fixed assets	130	—
Purchase of intangible fixed assets	(10,444)	(14,055)
Others, net	(486)	(553)
Net cash used in investing activities	(32,138)	(576,291)
Ⅲ. Cash flows from financing activities		
Proceeds from issuance of bonds payable	106,014	79,460
Proceeds from issuance of foundation funds	50,000	50,000
Redemption of foundation funds	(50,000)	(60,000)
Payment of interest on foundation funds	(1,171)	(918)
Acquisition of stock of subsidiaries without change in scope of consolidation	(2,498)	—
Others, net	(378)	3,698
Net cash used in financing activities	101,965	72,240
Ⅳ. Effect of foreign exchange rate changes on cash and cash equivalents	(439)	(1,135)
Ⅴ. Net increase (decrease) in cash and cash equivalents	378,562	(122,349)
Ⅵ. Cash and cash equivalents at the beginning of the period	720,180	1,347,470
Ⅶ. Decrease in cash and cash equivalents due to corporate division of subsidiaries	—	(70,580)
Ⅷ. Cash and cash equivalents at the end of the period	1,098,742	1,154,540

5. Unaudited Consolidated Statements of Changes in Net Assets

(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

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

(Millions of Yen)

Six months ended September 30, 2019

	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	670,000	452	499,135	1,429,588
Changes in the period					
Issuance of foundation funds	50,000				50,000
Additions to policyholders' dividend reserves				(169,630)	(169,630)
Additions to reserve for redemption of foundation funds		60,000			60,000
Payment of interest on foundation funds				(918)	(918)
Net surplus attributable to the Parent Company				128,333	128,333
Redemption of foundation funds	(60,000)				(60,000)
Reversal of reserve for fund redemption				(60,000)	(60,000)
Reversal of land revaluation differences				187	187
Net changes, excluding funds, reserves and surplus					
Net changes in the period	(10,000)	60,000	—	(102,028)	(52,028)
Ending balance	250,000	730,000	452	397,107	1,377,560

	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	2,442,225	41,253	117,898	(44,976)	(273)	2,556,127	705	3,986,421
Changes in the period								
Issuance of foundation funds								50,000
Additions to policyholders' dividend reserves								(169,630)
Additions to reserve for redemption of foundation funds								60,000
Payment of interest on foundation funds								(918)
Net surplus attributable to the Parent Company								128,333
Redemption of foundation funds								(60,000)
Reversal of reserve for fund redemption								(60,000)
Reversal of land revaluation differences								187
Net changes, excluding funds, reserves and surplus	(28,044)	4,718	962	(16,933)	6,532	(32,763)	(42)	(32,806)
Net changes in the period	(28,044)	4,718	962	(16,933)	6,532	(32,763)	(42)	(84,834)
Ending balance	2,414,180	45,972	118,861	(61,910)	6,259	2,523,364	662	3,901,586

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, 2019. 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, 2019 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, 2019. 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, 2019, 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, 2019

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, 2019. 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 ¥89 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, 2019 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 Standard 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 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 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, 2019, 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, 2019, and fair values and the differences between them, were as follows:

			Millions of Yen
	Balance sheet amount	Fair value	Difference
Cash and deposits	¥1,074,806	¥1,074,806	¥ —
Available-for-sale securities (CDs)	36,998	36,998	—
Monetary claims bought	208,725	223,562	14,837
Held-to-maturity debt securities	195,597	210,435	14,837
Available-for-sale securities	13,127	13,127	—
Money held in trust	17,685	17,685	—
Available-for-sale securities	17,685	17,685	—
Securities	33,539,137	36,244,805	2,705,667
Trading securities	1,711,482	1,711,482	—
Held-to-maturity debt securities	4,096,362	4,950,818	854,456
Policy-reserve-matching bonds	8,177,658	10,028,869	1,851,211
Available-for-sale securities	19,553,634	19,553,634	—
Loans	4,937,175	5,214,698	277,523
Policy loans	236,999	236,999	—
Industrial and consumer loans	4,700,176	4,977,699	277,523
Allowance for possible loan losses (*1)	(4,745)	—	—
	4,932,429	5,214,698	282,269
Bonds payable	668,195	704,480	36,284
Payables under repurchase agreements	60,938	60,938	—

Payables under securities borrowing transactions	¥512,691	¥512,691	¥ —
Derivative financial instruments (*2)	56,528	56,528	—
Hedge accounting is not applied	(1,222)	(1,222)	—
Hedge accounting is applied	57,750	57,750	—

(*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, 2019. 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 ¥375,167 million as of September 30, 2019. Impairment losses on the unlisted stocks and others were ¥5 million for the six months ended September 30, 2019.

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 mainly 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 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	¥3,533,354	¥4,297,134	¥763,779
2) Corporate bonds	454,490	538,633	84,142
3) Others	294,947	316,360	21,413
Total	4,282,792	5,152,128	869,335
Securities whose fair value does not exceed the balance sheet amount			
1) National & local government bonds	—	—	—
2) Corporate bonds	—	—	—
3) Others	9,166	9,125	(41)
Total	9,166	9,125	(41)

(*) 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	¥7,409,044	¥9,204,808	¥1,795,763
2) Corporate bonds	17,109	21,539	4,429
3) Others	633,077	687,832	54,755
Total	8,059,231	9,914,180	1,854,949
Securities whose fair value does not exceed the balance sheet amount			
1) National & local government bonds	94,808	91,475	(3,332)
2) Corporate bonds	—	—	—
3) Others	23,618	23,212	(405)
Total	118,426	114,688	(3,737)

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	¥1,396,480	¥3,630,704	¥2,234,223
(2) Bonds	4,876,483	5,340,283	463,799

1) National & local government bonds	¥3,090,682	¥3,445,343	¥354,660
2) Corporate bonds	1,785,801	1,894,940	109,139
(3) Others	7,782,246	8,511,780	729,533
Total	14,055,211	17,482,767	3,427,556
Securities whose balance sheet amount does not exceed the acquisition or amortized costs			
(1) Domestic stocks	254,972	221,294	(33,678)
(2) Bonds	24,663	24,617	(45)
1) National & local government bonds	12,209	12,187	(21)
2) Corporate bonds	12,453	12,430	(23)
(3) Others	1,944,046	1,892,767	(51,279)
Total	2,223,682	2,138,679	(85,003)

(*) 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 Value of Investment and Rental Properties

The note of fair value of investment and rental properties were 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 ¥24,513 million as of September 30, 2019.

There were no loans to bankrupt borrowers as of September 30, 2019. The aggregate amount of loans in arrears was ¥4,933 million as of September 30, 2019.

The amounts of loans deemed uncollectible and directly deducted from the loans in the consolidated balance sheets as of September 30, 2019 were ¥87 million for loans to bankrupt borrowers, and ¥1 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, 2019.

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 ¥19,579 million as of September 30, 2019.

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 ¥849,041 million as of September 30, 2019. 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, 2019 were as follows:

	Millions of Yen
Balance at the beginning of the period	¥242,957
Transfer from surplus in the previous fiscal year	169,630
Dividend payments to policyholders during the period	(103,158)
Interest accrued during the period	46
Balance at the end of the period	309,475

22. Foundation Funds

The Company offered foundation funds in the amount of ¥50,000 million pursuant to Article 60 of the “Insurance Business Act”.

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 ¥60,000 million.

24. Pledged Assets

Assets pledged as collateral were securities in the amount of ¥4,994 million and loans in the amount of ¥105,454 million as of September 30, 2019.

25. Securities Lending

Securities loaned under security lending agreements, including securities under securities borrowing transactions, amounted to ¥2,304,248 million as of September 30, 2019.

26.Securities sold under repurchase agreements

Securities sold under repurchase agreements amounted to ¥61,030 million as of September 30, 2019.

27. Loan Commitments

The amount of loan commitments outstanding was ¥101,780 million as of September 30, 2019.

28. Subordinated Bonds

As of September 30, 2019, bonds payable in liabilities included subordinated bonds and foreign currency-denominated subordinated bonds of ¥640,735 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 ¥47,627 million as of September 30, 2019, 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, 2019

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, 2019, 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, 2019

Asset group	Number of properties impaired	Millions of Yen		
		Land	Buildings	Total
Real estate for non-insurance business	1	¥ 258	¥ 861	¥ 1,119
Idle assets	4	1	21	23
Total	5	260	883	1,143

(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 1.89% for the six months ended September 30, 2019. 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, 2019

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, 2019 were as follows:

	Millions of Yen
Cash and deposits	¥ 1,074,806
Time deposits (over 3 months)	(11,137)
Call loans	90,000
Money held in trust (matured within 3 months)	300
Securities (matured within 3 months from the date of acquisition)	571
Cash and cash equivalents	1,154,540