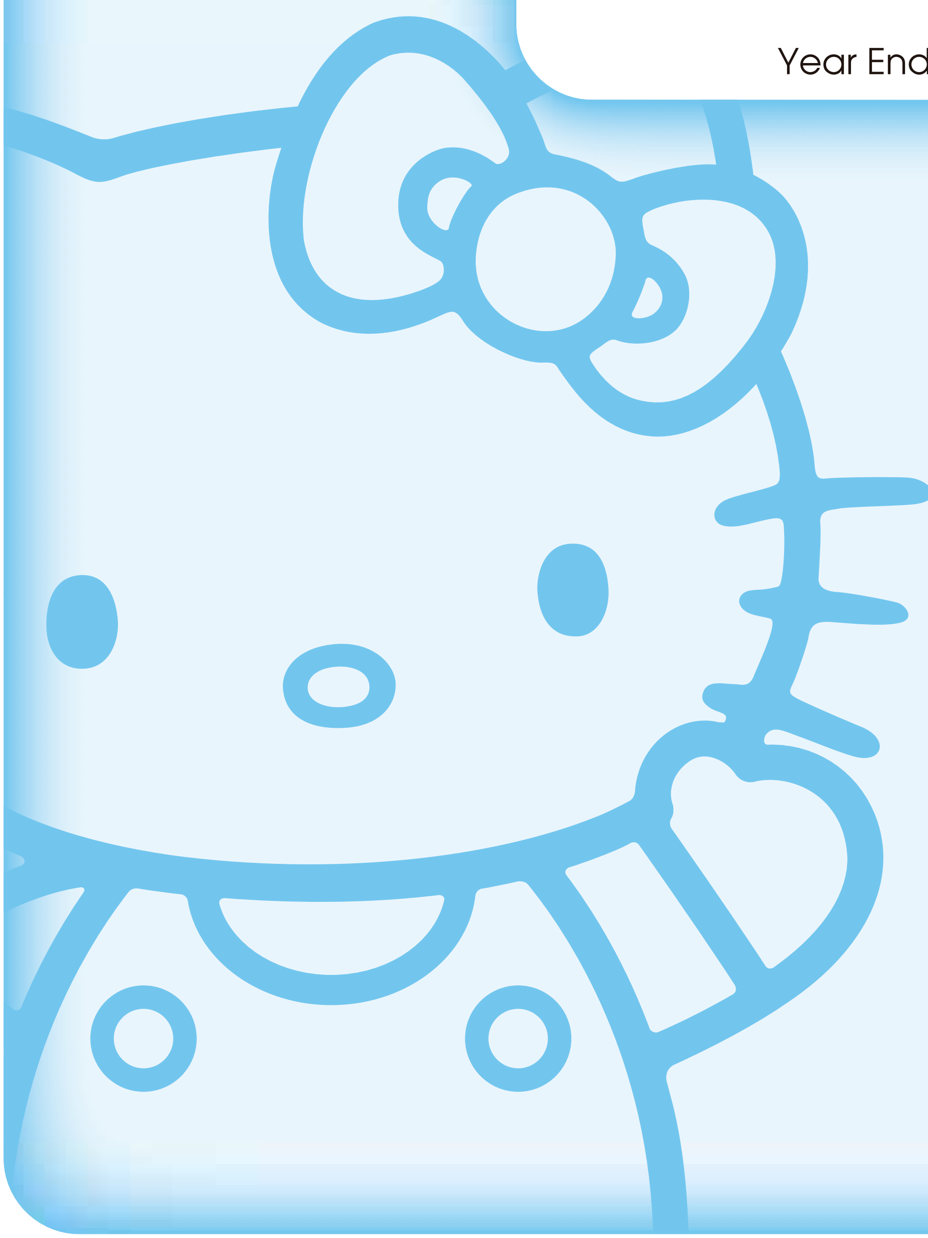
Annual Report 2013

Year Ended March 31, 2013



FUKOKU MUTUAL LIFE INSURANCE COMPANY

Contents

Financial Highlights (Non-consolidated)

As of March 31,	2011	2012	2013	2013
		Millions of yen		Millions of U.S. dollars
Life insurance in force	¥46,297,750	¥45,008,889	¥44,309,547	$471,127
Total assets	5,675,214	5,699,527	6,007,231	63,872
Securities	3,778,639	4,148,127	4,633,067	49,261
Loans	1,143,863	1,039,363	907,508	9,649
Tangible fixed assets	284,670	276,619	271,841	2,890
Total liabilities	5,480,612	5,446,071	5,579,488	59,324
Policy reserves	5,216,576	5,266,726	5,343,750	56,818
Subordinated bonds	35,214	32,896	66,187	703
Total net assets	194,601	253,455	427,742	4,548
For the years ended March 31,				
Total ordinary revenues	836,916	754,842	836,736	8,896
Premium and other income	665,844	589,918	647,798	6,887
Investment income	146,400	145,676	178,808	1,901
Total ordinary expenditures	777,909	704,413	767,395	8,159
Net surplus for the year	41,524	28,778	50,822	540
Solvency margin ratio (%)	668.4	741.1	970.8	—
Employees	13,702	13,502	13,488	—

Notes 1. U.S. dollar amounts are converted from yen, for convenience only, at the rate of U.S.$1=¥94.05, the rate of exchange on March 31, 2013.
2. Yen and U.S. dollar amounts are rounded down to the nearest million yen or million dollars.
3. In the fiscal year ended March 31, 2012, standards for calculation of solvency margin and measurement of risks on assets were changed, and stricter criteria have been applied to certain calculations and measurements. The solvency margin ratios for the fiscal years ended March 31, 2012 and 2013, are based on the new standards.
4. The solvency margin ratio for the fiscal year ended March 31, 2011, was recalculated in March 2012 and restated based on the new standards.

Yoshiteru Yoneyama
President

In fiscal 2012, ended March 31, 2013, although overall activity in the Japanese economy remained relatively weak, activity in the public and household sectors was firm and export demand bottomed out, leading to a gradual recovery from December 2012. In the financial and capital markets, while there was ongoing instability stemming from unease over the European debt crisis, in mid-November the Japanese prime minister announced that he would dissolve the Lower House of the Diet, leading to expectations of a change of government and fueling a weakening of the yen exchange rate and a bullish mood in the stock markets.

Against this backdrop, at Fukoku Life all executives and employees carried out their business operations and management tasks while adhering to a "Customer-Centric" approach. This reflects our core philosophy that all employees treat customers as they themselves would like to be treated. Furthermore, guided by the "Personnel Pledge" that underpins Fukoku Life's personnel development policy, we will continue fostering personnel capable of adopting the customer's perspective. During the period under review, we changed the title given to sales employees to "Customer Advisor," underlining our aim to provide consulting-based sales services of the highest level.

In our insurance sales activities, recognizing the major demographic changes affecting Japanese society, including population aging and falling birth rates, we placed particular emphasis on the sale of products in such areas as nursing care insurance and medical insurance, for which there is a significant level of customer need. We also launched a major new product in April 2013, called "Mirai no Tobira" (door to the future), which greatly enhances the flexibility of insurance planning. Through this new product, which has been very well received, we are now able to offer insurance cover planning that meets customer needs even more closely than has been possible to date.

In asset management operations, we focused on investing in domestic bonds, as we strove to maintain a high level of safety and liquidity in the assets entrusted to us by our customers. Since the global financial crisis that began in late 2008, through an ongoing scaling down of our balance of stocks and other relatively high-risk assets, we believe that our asset portfolio has attained an appropriate level of risk durability. To enhance profitability, we maintained a steady balance of stocks while realigning the make-up of the portfolio. We also carried out investments in foreign bonds.

To further enhance Fukoku Life's financial soundness, in November 2012 we issued ¥30.0 billion of perpetual subordinated bonds, and bolstered internal reserves through such measures as making a ¥10.0 billion provision to the accumulated fund for price fluctuation, which is a voluntary reserve. We will continue to reinforce our foundation funds, and are committed to providing customers with peace of mind. As a company engaged in the highly public business of mutual life insurance based on the spirit of mutual assistance, Fukoku Life adheres to a management philosophy of "protecting the interests of our policyholders." Based on this philosophy, all executives and employees are committed to practicing our "Customer-Centric" approach as we strive to gain the highest possible appraisal of our customers.

In these endeavors, we look forward to your ongoing support and cooperation.

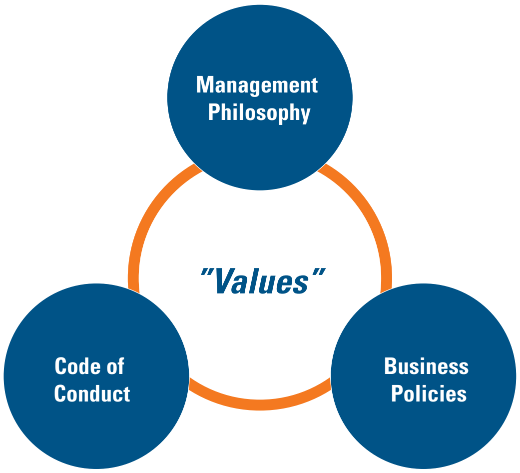
Yoshiteru Yoneyama
President

Fukoku Life's Management Philosophy

Values

Our "Customer-Centric" Values

Possessing "Customer-Centric" values means creating and providing unique services that provide true peace of mind to customers based on the assumption that all employees treat customers as they themselves would like to be treated.



Tomofumi Akiyama
Chairman of the Board

Yoshiteru Yoneyama
President

Management Philosophy

Fukoku Life will continue adhering to its original management philosophy of protecting the interests of policyholders and contributing to society. In addition, we will provide a workplace that enables personal fulfillment so that all executives and employees find their work rewarding.

To protect the interests of our policyholders | **To contribute to society** | **Personal expression**

Code of Conduct

A "Customer-Centric" code of conduct to be reflected in the attitudes of all executives and employees as they carry out their daily business.

To us, "Customer-Centric" values means:

- Valuing teamwork
- Deserving the trust of each and every customer
- Being enthusiastic and proud of our work
- Possessing common sense
- Continuing to highlight the importance of life insurance
- Overcoming any kind of difficulty
- Aiming to create a bright and friendly work environment

Business Policies

1. Foster personnel with "Customer-Centric" values
With the aim of providing customers with peace of mind, foster confident and proud employees who have the ability to adopt the customer's perspective.

2. Reinforce sales staff structure
With the aim of providing meticulous services to customers, reinforce the structure under which sales personnel conduct face-to-face sales.

3. Net increase in customers
With the aim of earning the trust of more and more customers, strengthen insurance product design, provision, and follow-up services to meet customer needs.

4. Enhance business efficiency
With the aim of achieving stable growth, improve the efficiency of the Company's wide range of business activities.

Overview

Individual Insurance

Based on our "Customer-Centric" approach, we endeavor to earn the satisfaction of customers by designing and proposing policies that they truly need and offering comprehensive follow-up services. We believe that such an approach will translate into a net increase in the number of policyholders.

We particularly focused on the sale of products in such areas as nursing care insurance and medical insurance, for which there is a significant level of customer need. We also launched a new major product in April 2013, called "Mirai no Tobira" (door to the future), which greatly enhances the flexibility of insurance planning. Through this new product, we are now able to offer insurance cover planning that meets customer needs even more closely than was possible to date.

Sales Channels

Fukoku Life's products are sold through two major channels: its own salespeople —called Customer Advisors— and the branches of financial institutions. Our nationwide sales network consists of 62 branches and around 10,600 Customer Advisors promoting insurance and annuities to individuals and companies. With the aid of dedicated mobile computers, introduced to enhance the consulting skills of Customer Advisors when conducting face-to-face sales, we work hard to provide optimal products to customers. We have also boosted our follow-up services provided after a customer takes out a new policy. In alliance with Fukokushinrai Life Insurance Co., Ltd., a subsidiary, we sell our products through credit unions with close ties to local communities.

At the end of the period under review, our products were being sold via 281 financial institution branches and 1,731 other agency outlets. Both Fukoku Life and Fukokushinrai Life Insurance provide ongoing support for the insurance sales activities of their partner financial institutions.

We are also developing other sales channels for such products as tuition insurance and individual annuities through venues that include large shopping centers and the Internet.

Group Insurance

In the area of group insurance, we provide consulting services related to our corporate clients' benefit programs. In the year under review, we provided program and product proposals that responded to a diverse range of customer needs.

We also make socially responsible investments (SRIs) in companies that work proactively in such areas as social contribution and environmental protection.

Globalization

On July 1, 2011, Fukoku Life opened a representative office in Singapore, having obtained approvals from local authorities in April. We already conduct asset management activities in London and New York via subsidiaries, and now we have augmented those activities with a presence in Singapore, which continues to advance as an international financial center. The representative office will conduct research into insurance and asset management markets in Asia, which is enjoying significant, ongoing economic development.

Business Performance in Fiscal 2012

Life Insurance in Force

At fiscal year-end, life insurance in force, which comprises individual life insurance, individual annuities, and group insurance, amounted to ¥44,309.5 billion, down 1.6% compared with the previous fiscal year-end. Within this amount, life insurance for individuals declined 4.1%, to ¥24,885.1 billion, and individual annuities edged up 1.2%, to ¥3,034.1 billion. The year-end balance of life insurance in force for groups increased 2.1%, to ¥16,390.2 billion. Group annuities in force (policy reserve) rose 1.1%, to ¥1,994.6 billion.

Annualized Premiums for New Policies and Policies in Force

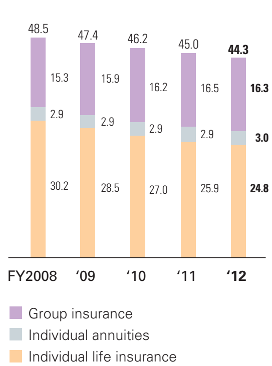
In the year under review, annualized premiums for new policies decreased 0.2%, to ¥26.8 billion. Within this amount, individual insurance was up 1.6%, to ¥20.8 billion, and individual annuities declined 6.0%, to ¥6.0 billion. Annualized premiums from medical insurance and living benefit insurance climbed 2.4%, to ¥8.5 billion.

Annualized premiums for policies in force edged down 0.1%, ¥410.6 billion. Within this amount, individual insurance decreased 1.4%, to ¥277.0 billion, while individual annuities increased 2.5%, to ¥133.5 billion. Annualized premiums from medical insurance and living benefit insurance rose 1.7%, to ¥105.3 billion.

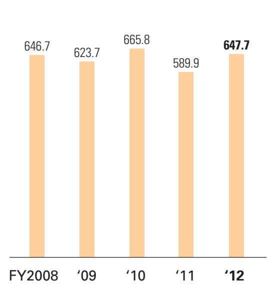
Premium Income and Payments

In the year under review, premium and other income rose 9.8%, to ¥647.7 billion. This was mainly attributable to an increase in premium income from group insurance. Claims and other payments rose 7.7%, to ¥520.2 billion, due to an increase in benefit payments for group annuity insurance.

Life insurance in force
(¥ trillions)



Premium and other income
(¥ billions)



Performance of Fukoku Life Group (Fukoku Life and Fukokushinrai Life Insurance)

The Fukoku Life Group, including Fukokushinrai Life Insurance, posted a 22.0%, or ¥12.6 billion, decline in annualized premiums for new policies, to ¥44.7 billion, mainly due to sales adjustments for lump-sum-payment products sold via financial institutions. Within this amount, however, annualized premiums from medical insurance and living benefit insurance climbed 1.2%, or ¥0.1 billion, to ¥8.6 billion.

Annualized premiums for policies in force increased 2.6%, or ¥14.2 billion, to ¥552.9 billion. Annualized premiums from medical insurance and living benefit insurance were up 1.7%, or ¥1.7 billion, to ¥107.0 billion.

The total value of premium and other income declined 9.3%, or ¥88.7 billion, to ¥862.2 billion. Individual insurance and annuities in force generated from sales via branches of financial institutions fell 42.4%, or ¥145.3 billion, to ¥202.2 billion. This was due to a significant decline based on sales adjustments in lump-sum annuities sold by Fukokushinrai Life Insurance via financial institutions.

Assets, Liabilities, and Net Assets

The outstanding balance of non-consolidated total assets, including separate accounts, edged up 5.4%, or ¥307.7 billion, to ¥6,007.2 billion. General account assets, which constitute 98.7% of this total, rose 5.5%, to ¥5,929.6 billion. This increase was mainly attributable to a reallocation of funds—made available through a decrease in the balance of outstanding loans—to domestic bonds. As a result, the year-end balance of securities stood at ¥4,633.0 billion, an increase of ¥484.9 billion, or 11.6%, compared with the previous fiscal year-end.

Total liabilities edged up 2.4%, or ¥133.4 billion, to ¥5,579.4 billion.

Net assets amounted to ¥427.7 billion, up 68.7% compared with the previous fiscal year-end.

On a consolidated basis, total assets rose 7.1%, to ¥7,538.8 billion, and net assets jumped 68.4%, to ¥436.5 billion.

Strengthening Our Capital Base

Fukoku Life builds up its internal reserves on an ongoing basis in order to strengthen its capital base. In the fiscal year under review, in response to low interest rates, we used a portion of the contingency reserve to make provision for additional policy reserves. Furthermore, we increased the reserve for price fluctuation to bolster internal reserves. The contingency reserve is included within the policy reserves and is a legal reserve set up in preparation for future risks. The reserve for price fluctuation covers potential future losses on stocks and other assets subject to price fluctuation risk. The Company regards both reserves as part of its core capital.

At fiscal year-end, the contingency reserve totaled ¥83.4 billion after the Company allotted ¥64.3 billion to the additional policy reserve. The Company increased the reserve for price fluctuation of securities ¥6.1 billion, to ¥41.6 billion.

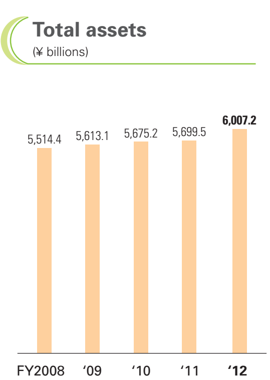
Solvency Margin

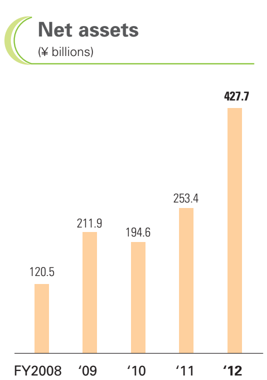
Fukoku Life's solvency margin ratio at fiscal year-end was 970.8%, up 229.7 percentage points compared with the previous fiscal year-end. This was due primarily to an increase in net unrealized gains on available-for-sale securities driven by an increase in stock prices and the weaker yen. The Company's solvency margin far exceeds 200%, the level set as an indicator of financial soundness for life insurance companies, and clearly illustrates our ability to meet a high level of payments. From fiscal 2011, ended March 31, 2012, the Company has applied new, more stringent standards for assessing price fluctuation risk for securities and other assets.

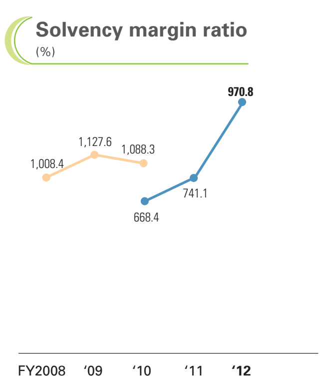
We will continue making every effort to maintain a high solvency margin ratio as one indicator of the added peace of mind we offer our customers.

Ratings

Fukoku Life relies on four neutral rating organizations to provide an objective assessment of the Company's ability to meet insurance payments. As of July 1, 2013, we have received ratings of AA- from Rating and Investment Information, A- from Standard & Poor's, A from Fitch Ratings, and A2 from Moody's. Despite global financial crises in the autumn of 2008 and thereafter, these ratings have not changed from year to year. Going forward, we will continue striving to maintain and further improve our high financial ratings.







The figures indicated by the blue line for the fiscal years ended March 31, 2011, 2012 and 2013, were calculated using the new standards.

Investment Performance in Fiscal 2012 (General Account)

Overview

In fiscal 2012, ended March 31, 2013, the Japanese economy remained relatively weak, affected by a slowdown in the global economy. However, from around December 2012 the economy began to gradually recover, underpinned by firm public-sector investment and personal consumption as well as a bottoming out of foreign demand. Although there was continuing instability in financial and capital markets owing to wariness over the European debt crisis, market anxiety receded after the European Central Bank (ECB) and other institutions implemented support measures, and the markets gradually regained stability in the second half of the fiscal year. In mid-November, then-Prime Minister Noda announced that he would dissolve the Lower House of the Diet. This announcement led to expectations of a change of government, fuelling a weakening of the yen exchange rate and a bullish mood in the stock markets. In this environment, the Bank of Japan implemented monetary easing policies, consisting of a gradual increase in the scale of its Asset Purchase Program and the adoption in January 2013 of the price stability target of 2%.

With regard to asset management at Fukoku Life, we mainly allocated funds to domestic bonds, reflecting a shift driven by a decrease in the loan balance and others. Regarding domestic bonds, based on an asset and liability management (ALM) perspective, we continued to build up our portfolio, mainly in super-long-term Japanese Government Bonds (JGBs). However, from late-February 2013 onward, the long-term interest rate fell below 0.7%, and in this extremely low interest-rate environment we curbed additional purchases. In foreign bonds, faced with low long-term interest rates in the U.S. and Germany, we increased holdings mainly in government bonds issued by countries with high credit ratings and comparatively high interest rates. In domestic stocks, although the book value of our portfolio remained largely unchanged, rising market prices led to an increase in the balance as unrealized gains rose.

At fiscal year-end, total general account assets stood at ¥5,929.6 billion, up ¥310.4 billion compared with a year earlier.

Investment income from general accounts increased 17.2%, to ¥168.7 billion. Interest, dividends and other income, the main components of investment income, rose 4.8%, or ¥5.5 billion, to ¥119.0 billion, mainly owing to increased interest income from a higher balance of domestic bonds as well as increased interest income from foreign bonds, which was attributable to the weakening of the yen. Interest, dividends and other income, including that from trading securities, rose 4.5%, or ¥5.4 billion, to ¥126.5 billion. Gains from trading securities increased ¥25.6 billion, or 199.1%, to ¥38.4 billion, due to the weaker yen, which pushed up valuation gains on foreign currency-denominated bonds. Gains on sales of securities fell ¥8.9 billion, or 53.0%, to ¥7.9 billion, due mainly to decreased gains on sales of domestic bonds.

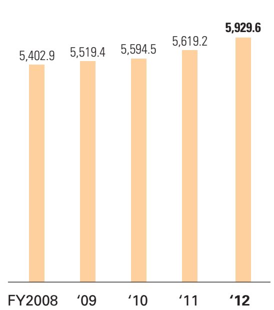
Investment expenses increased 9.3%, to ¥59.6 billion. Within this total, there was a 57.5%, or 14.3 billion, decrease in losses on sales of securities, to ¥10.5 billion, mainly in domestic stocks. Losses from derivative instruments, net, mainly stemming from expenses incurred in hedging currency risk related to the weakening yen, increased ¥29.0 billion, or 507.3%, to ¥34.7 billion. However, these losses were largely offset by valuation gains from foreign currency-denominated bonds within trading securities.

As a result, investment income, net of investment expenses, amounted to ¥109.0 billion, up 22.0%, or ¥19.6 billion, compared with the previous fiscal year.

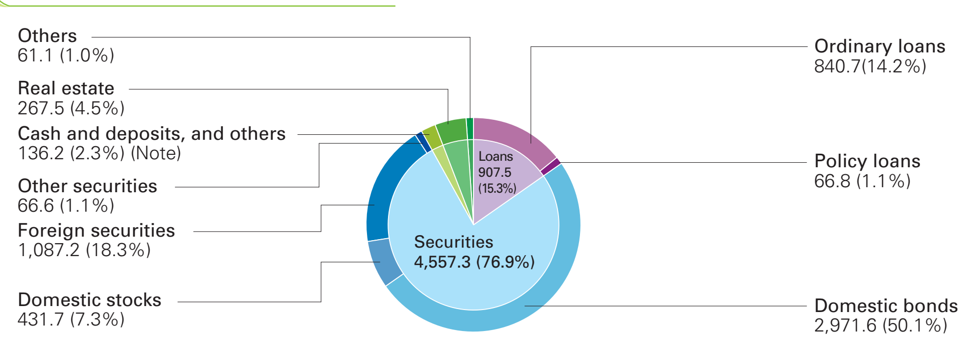
Domestic Bonds

Year-end holdings of domestic bonds stood at ¥2,971.6 billion, up 8.6%, or ¥234.3 billion, compared with a year earlier. This mainly reflected a shift to bonds following a decrease in the balance of loans.

General account assets
(¥ billions)



Breakdown of general account assets
(¥ billions)



Total: ¥5,929.6 billion

Note: It is including cash and deposits, call loans, monetary claims bought and money held in trust.

Domestic Stocks

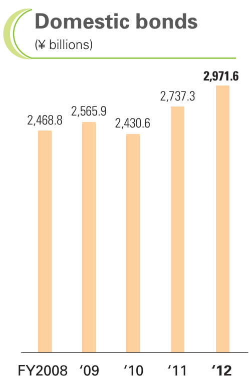
Year-end holdings of domestic stocks increased 22.2%, or ¥78.4 billion, to ¥431.7 billion. Although book value was largely unchanged, there was an increase in valuation difference owing to a rise in stock prices.

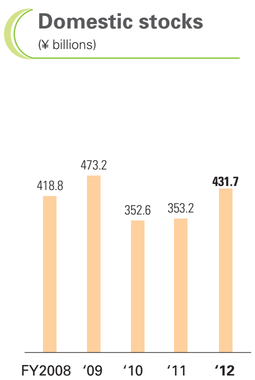
Foreign Securities

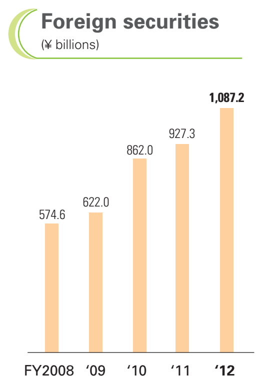
Year-end holdings of foreign securities grew 17.2%, or ¥159.8 billion, to ¥1,087.2 billion. This mainly reflected an increase in foreign bond holdings and a rise in fair value driven by the weakened yen.

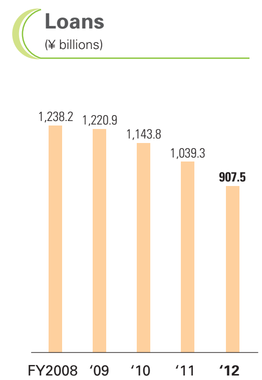
Loans

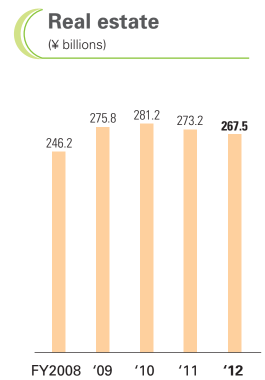
The year-end balance of loans declined 12.7%, or ¥131.8 billion, to ¥907.5 billion, reflecting the sale of a portion of the housing loan portfolio.











Investment Policies for Fiscal 2013

Investment Environment

In fiscal 2013, ending March 31, 2014, the Japanese economy is expected to continue to improve driven by domestic demand. In addition to policy effects flowing through to the real economy, growth is likely to be buoyed by households bringing forward purchases ahead of the consumption tax rate hike scheduled for April 2014. Overseas, the US economy is anticipated to remain on a moderate growth path, while Europe is expected to stay in the doldrums. Growth in the Chinese economy is forecast to slow.

We expect financial and capital markets to remain largely stable, although the markets may have phases of significant volatility, affected by such factors as the direction of the United States' quantitative easing monetary policy and side effects from Japan's unprecedented monetary easing program.

Domestic Bonds

We will focus on liquidity while mainly building up our JGB portfolio flexibly across a wide range of maturities and also respond prudently to interest rate trends.

Domestic Stocks

While keeping a steady balance of stocks, we will enhance profitability by reforming the make-up of the stock portfolio.

Foreign Securities

In foreign bonds, we aim to flexibly manage the foreign-exchange hedge ratio, and build up the portfolio balance while taking account of an appropriate target spread between domestic and overseas interest rates. With regard to foreign stocks, we will diversify investments with small amounts allocated to such instruments as U.S. and European stocks that are expected to return stable dividends and exchange-traded funds (ETFs) of stocks in emerging markets.

Loans

We intend to continue focusing on the selection of loan transactions that offer superior profitability to improve investment efficiency and maintain profitability.

Real Estate

In addition to selling properties with low profitability, we will focus on attracting tenants and raising the occupancy ratio.

Governance System

As a mutual life insurance company, Fukoku Life is engaged in the highly public business of protecting policyholders' rights. Therefore, we are committed to establishing a management system that ensures the soundness of operations, and to enhancing management measures, including our risk management system and compliance measures. In addition, we employ our internal control systems to ensure the efficient operation of these measures.

Establishment of Management Control Measures

The Board of Directors makes important business decisions and monitors business execution. The two external directors bring an outside perspective to the deliberations of the Board. In April 2009, Fukoku Life introduced an executive officer system. Under this system, we have separated and strengthened decision-making and business execution functions, with the Board of Directors fulfilling decision-making and supervisory functions. We are striving to strengthen internal controls through the activities of various committees, including the Risk Management Committee and the Compliance Committee, which are under the direct supervision of the Board of Directors.

Enhancement of Internal Control System

The Company's Board of Directors has set the terms for the creation of a system of internal controls to ensure the soundness of operations. We are working to enhance the efficiency of operations, strengthen risk management, and promote compliance based on the core policies of our internal control system.

Risk Management System

Fukoku Life's greatest responsibility from the standpoint of "Customer-Centric" is to firmly maintain customer policies and meet expectations over the long term. To ensure that we fulfill these responsibilities, we must accurately understand and analyze the various risks facing the Company, and take appropriate measures to maintain and enhance financial soundness.

Fukoku Life has established a risk management system with close involvement by top management, and makes a continual effort to enhance the sophistication of its risk management in response to the increasingly varied and complex risks of the external business environment. In April 2013, we substantially revised our internal rules and structures regarding risk management as part of a steady effort to implement enterprise risk management (ERM).

ERM is conducted by the Risk Management Committee, established by the Board of Directors. Several subcommittees have been established under the Risk Management Committee to manage the various risks that arise in business operations, and to conduct asset and liability management (ALM). The Risk Management Committee consolidates and evaluates these risks at the corporate level, and considers the appropriate level of acceptable risk and risk response. Further, the Risk Management Advisory Committee, which supports the Risk Management Committee, mainly conducts risk management for the corporate group, along with companywide stress tests.

The Risk Management Committee is chaired by the president of the Company, with full-time directors serving as members. Directors also head the subcommittees, providing a risk management structure based on the leadership of top management. The internal auditing department verifies that the risk management system functions effectively.

Compliance System

As members of the community, all executives and employees undergo ongoing training in compliance-related matters so that they not only observe laws and regulations, but also comply with protocols and social conventions. To this end, as well as improving and reinforcing the compliance system, we hold regular hands-on training programs.

However, we recognize that even the most robust of systems cannot guarantee the complete elimination of improper conduct. We believe that it is important to detect any improper conduct early, deal with it swiftly and appropriately, and make constant improvements and work to rectify the situation in order to prevent a recurrence.

The Compliance Committee, which is chaired by the President, is mandated by the Board of Directors to promote compliance-related activities. The Chief Compliance Officer and Compliance Officers stationed at our head office ensure the constant monitoring of compliance.

Protection of Personal Information

As an insurance company that is trusted by its customers, Fukoku Life takes great care in the handling of personal information. We ensure compliance with the Personal Information Protection Law enacted in Japan in April 2005, as well as related laws and guidelines. The appropriate management of personal information is also governed by the Company's own privacy policy.

Board of Representative Members of Policyholders

Contribution to Society

Based on the highly public nature of the life insurance business, we believe that the sound management of our core life insurance business must be our top priority when working to fulfill our corporate social responsibility (CSR). Furthermore, we believe that the Company should engage in a range of activities aimed at helping to build a better society. In conducting CSR-related activities, our philosophy emphasizes the importance not only of the Company's CSR programs but also the voluntary participation of each individual employee.

Visiting Concert

Smile Gallery

Flora Preservation

Fukoku Life Concerts

Fukoku Life holds two types of concerts throughout the country: Visiting Concerts and Charity Concerts. Visiting Concerts give children attending schools for the disabled and disabled people living in institutions who cannot easily get the opportunity to hear performances of classical music in concert halls. Charity Concerts are held at concert halls as part of the Company's commitment to fostering community welfare.

A Visiting Concert is held after a Charity Concert has been held. Musicians who performed at the Charity Concert visit a local welfare facility where they play music and improvise as necessary to create an enjoyable musical occasion for residents. Since April 1993, the Company has held 234 Charity Concerts. Visiting Concerts, which were introduced in April 2003, have been held at a total of 186 welfare facilities.

Organization of concerts is handled directly by Fukoku Life employees, and employees join with musicians to plan the specific programs.

At Charity Concerts, members of the audience are asked to make donations, which are given to local welfare groups, and goods made by the disabled are sold from stalls in the hall foyer.

Smile Gallery

In the shopping mall located in the basement of our head office building, we opened the Smile Gallery, which displays artworks created by children attending schools for the disabled. As well as providing an opportunity for many people to view these works, the Smile Gallery aims to support these children in their artistic endeavors.

Hello Kitty Hospital Visit Program

Under this program, Fukoku Life's brand mascot Hello Kitty—which is a popular character worldwide—makes visits to children's hospitals to help cheer up and encourage patients.

Post-Disaster Relief

To provide assistance for people impacted by the Great East Japan Earthquake, we arrange Visiting Concerts at schools for the disabled and other facilities in disaster-affected areas. We also endeavor to help economically, including by selling locally made products to executives and employees throughout the Fukoku Life Group.

Flora Preservation

Recently in Japan, there has been an increase in forests left to grow unchecked due to the lack of people willing to take over forestry businesses. One particular problem is uncontrolled groves of the vigorously growing Moso bamboo, which not only invades forests, but also takes over farmland and causes landslides due to the shallowness of their roots. This bamboo problem is even found on land owned by the Company in

Shizuoka Prefecture. Fukoku Life has set up a forest regeneration project to tackle this problem. The aim of the project is to not only assist forest regeneration by felling bamboo groves, but to also return some bamboo groves to a healthy state. Since 2006, Fukoku Life's executives and employees have taken part in the project. In the year under review, 173 executives, employees, and their family members volunteered their time to take part in these activities.

Verdi"Rigoletto"
(C)Ken Howard / Metropolitan Opera

Other Activities

We invite universities and corporations to the new Osaka Fukoku Mutual Life Insurance Building, completed in October 2010, to provide information of interest related to culture and health to local communities.

Together with Shochiku Co., Ltd., which is involved with the entertainment business, Fukoku Life is a sponsor of the Metropolitan Opera: Live in High Definition series of screenings, which give members of the general public the opportunity to see some of the finest opera performances in the world.

The Company is a proud sponsor of the Pink Ribbon Campaign, which promotes the importance of the early detection, diagnosis, and treatment of breast cancer. We also participate in the Hello Smile campaign aimed at providing education about prevention of cervical cancer.

Fukoku Life provides space and sales staff to support a mobile bakery business operated by disabled people. Our employees also participate in various other initiatives, including neighborhood cleanup campaigns and collections of PET bottle lids.

Communicating with Society

We conduct advertising campaigns to raise awareness of Fukoku Life and engage in a variety of corporate communications activities aimed at enhancing the understanding of our operations among a broad range of stakeholders.

Partnership with Sanrio

The Hello Kitty character, owned by Sanrio Co., Ltd., has attained worldwide popularity. Fukoku Life has adopted this widely loved character as its brand mascot, and features Hello Kitty in many communications media, including Fukoku Life posters, brochures and television commercials. Fukoku Life also maintains a partnership with Sanrio in relation to two theme parks, Sanrio Puroland and Harmonyland.

Providing Information

Fukoku Life publishes a variety of materials for its stakeholders. Publications that provide information on the Company's business activities include the Japanese-language magazine, "Disclosure" (and abridged versions thereof), booklets written for policyholders, and this English-language annual report. Our diverse lineup of public relations and advertising activities include the production of a variety of publications as needed, in order to strengthen the channels of communication between the Company, its policyholders, and its many other customers.

Non-consolidated Balance Sheets

Fukoku Mutual Life Insurance Company
As of March 31, 2011, 2012 and 2013

	As of March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Assets:				
Cash and deposits:				
Cash	¥ 156	¥ 154	¥ 169	$ 1
Bank deposits	237,667	29,191	33,396	355
	237,823	29,345	33,566	356
Call loans	—	65,600	70,300	747
Monetary claims bought	1,424	1,351	1,111	11
Money held in trust	33,169	35,194	31,322	333
Securities:				
Government bonds	1,695,927	1,991,905	2,181,123	23,191
Local government bonds	149,399	158,459	168,921	1,796
Corporate bonds	615,051	614,449	652,931	6,942
Stocks	379,416	377,385	454,902	4,836
Foreign securities	884,029	947,574	1,108,137	11,782
Other securities	54,814	58,354	67,050	712
	3,778,639	4,148,127	4,633,067	49,261
Loans:				
Policy loans	71,479	70,164	66,807	710
Ordinary loans	1,072,383	969,199	840,701	8,938
	1,143,863	1,039,363	907,508	9,649
Tangible fixed assets:				
Land	163,574	161,076	160,528	1,706
Buildings	116,548	109,935	105,728	1,124
Lease assets	47	117	1,430	15
Construction in progress	1,165	2,234	1,297	13
Other tangible fixed assets	3,334	3,255	2,855	30
	284,670	276,619	271,841	2,890
Intangible fixed assets:				
Software	8,318	8,126	11,378	120
Other intangible fixed assets	447	446	273	2
	8,765	8,573	11,652	123
Reinsurance receivables	170	117	42	0
Other assets:				
Accounts receivable	63,859	10,577	7,479	79
Prepaid expenses	1,653	1,249	1,155	12
Accrued income	23,444	23,784	27,005	287
Deposits	2,145	2,058	2,055	21
Differential account for futures trading	73	42	978	10
Derivatives	881	1,588	3,473	36
Suspense payments	4,740	6,497	3,222	34
Lease investment assets	—	—	868	9
Other assets	5,070	4,606	2,780	29
	101,867	50,404	49,020	521
Deferred tax assets	87,332	47,130	—	—
Allowance for possible loan losses	(2,513)	(2,299)	(2,201)	(23)
Total assets	¥5,675,214	¥5,699,527	¥6,007,231	$63,872

	2011	2012	2013	2013
		Millions of yen		Millions of U.S. dollars
Liabilities:				
Policy reserves:				
Reserve for outstanding claims	¥ 31,053	¥ 22,615	¥ 22,673	$ 241
Policy reserve	5,132,317	5,190,141	5,268,768	56,020
Reserve for dividends to policyholders	53,205	53,969	52,307	556
	5,216,576	5,266,726	5,343,750	56,818
Reinsurance payables	86	67	86	0
Subordinated bonds	35,214	32,896	66,187	703
Other liabilities:				
Corporate income tax payable	10,850	1,291	8,352	88
Accounts payable	72,288	5,894	2,717	28
Accrued expenses	9,989	11,169	11,268	119
Unearned income	435	435	411	4
Deposits received	5,637	5,301	5,289	56
Guarantee deposits received	13,402	13,577	13,584	144
Differential account for futures trading	—	142	—	—
Derivatives	8,661	6,530	3,937	41
Asset retirement obligations	2,846	2,846	2,966	31
Suspense receipts	1,143	1,188	1,284	13
	125,256	48,377	49,813	529
Reserve for employees' retirement benefits	50,109	46,320	44,965	478
Reserve for price fluctuation of securities	33,432	35,488	41,628	442
Deferred tax liabilities	—	—	16,938	180
Deferred tax liabilities for revaluation reserve for land	19,936	16,195	16,119	171
Total liabilities	5,480,612	5,446,071	5,579,488	59,324
Net assets:				
Foundation funds	40,000	35,000	35,000	372
Accumulated foundation funds redeemed	46,000	71,000	71,000	754
Reserve for revaluation	112	112	112	1
Surplus:				
Legal reserve for future losses	2,249	2,325	2,399	25
Other surplus:				
Reserve for redemption of foundation funds	20,000	—	9,000	95
Reserve for dividend allowances	3,895	3,895	3,895	41
Accumulated fund for price fluctuation	—	11,000	11,000	116
Reserve for advanced depreciation of real estate for tax purpose	296	289	4,114	43
Other reserves	767	767	767	8
Unappropriated surplus	69,554	57,827	71,084	755
	94,513	73,779	99,861	1,061
	96,763	76,104	102,260	1,087
Total foundation funds, surplus and others	182,875	182,216	208,372	2,215
Net unrealized gains (losses) on available-for-sale securities, net of tax	9,994	67,684	215,885	2,295
Deferred valuation gains (losses) under hedge accounting	365	170	62	0
Revaluation reserve for land, net of tax	1,366	3,383	3,421	36
Total valuation and translation adjustments	11,726	71,239	219,370	2,332
Total net assets	194,601	253,455	427,742	4,548
Total liabilities and net assets	¥5,675,214	¥5,699,527	¥6,007,231	$63,872

As of March 31,

See notes to the non-consolidated financial statements.

Non-consolidated Statements of Operations

Fukoku Mutual Life Insurance Company
For the years ended March 31, 2011, 2012 and 2013

	Years ended March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Ordinary revenues:				
Premium and other income:				
Premium income	¥665,618	¥589,599	¥647,446	$6,884
Reinsurance income	226	319	352	3
	665,844	589,918	647,798	6,887
Investment income:				
Interest, dividends and other income:				
Interest on deposits	899	93	19	0
Interest and dividends on securities	72,789	76,265	83,604	888
Interest on loans	23,883	22,163	19,136	203
Income from real estate for rent	14,141	14,775	16,041	170
Other interest and dividends	252	219	217	2
	111,965	113,517	119,020	1,265
Gains from money held in trust, net	361	162	1,157	12
Gains from trading securities, net	—	12,872	38,498	409
Gains on sales of securities	30,455	16,854	7,917	84
Gains from redemption of securities	—	338	—	—
Foreign exchange gains, net	—	—	908	9
Gains from derivative instruments, net	3,335	—	—	—
Reversal of allowance for possible loan losses	—	103	—	—
Other investment income	281	148	1,230	13
Gains from separate accounts, net	—	1,679	10,075	107
	146,400	145,676	178,808	1,901
Other ordinary revenues:				
Fund receipt from annuity rider	842	1,347	1,071	11
Fund receipt from deposit of claims paid	8,295	6,422	5,123	54
Reversal of reserve for outstanding claims	—	8,438	—	—
Reversal of policy reserve	13,081	—	—	—
Reversal of reserve for employees' retirement benefits	—	639	1,351	14
Others	2,452	2,399	2,583	27
	24,671	19,247	10,129	107
Total ordinary revenues	836,916	754,842	836,736	8,896
Ordinary expenditures:				
Claims and other payments:				
Claims	176,286	140,375	168,766	1,794
Annuities	91,536	94,983	101,437	1,078
Benefits	185,770	127,082	129,048	1,372
Surrenders	130,881	94,006	89,348	950
Other payments	29,194	26,070	31,283	332
Reinsurance premiums	335	278	328	3
	614,005	482,797	520,212	5,531
Provision for policy reserve and others:				
Provision for reserve for outstanding claims	5,711	—	58	0
Provision for policy reserve	—	57,823	78,627	836
Interest on accumulated dividends to policyholders	116	83	76	0
	¥ 5,828	¥ 57,906	¥ 78,762	$ 837

	2011	2012	2013	2013
	Years ended March 31,			
		Millions of yen		Millions of U.S. dollars
Investment expenses:				
Interest expenses	¥ 1,525	¥ 1,409	¥ 1,777	$ 18
Losses from trading securities, net	5,069	—	—	—
Losses on sales of securities	20,418	24,925	10,596	112
Losses on valuation of securities	5,922	7,986	1,009	10
Losses from derivative instruments, net	—	5,725	34,773	369
Foreign exchange losses, net	2,654	1,874	—	—
Provision for allowance for possible loan losses	—	—	58	0
Depreciation of real estate for rent and other assets	5,732	6,477	5,802	61
Other investment expenses	5,717	6,208	5,658	60
Losses from separate accounts, net	3,034	—	—	—
	50,074	54,608	59,677	634
Operating expenses	86,511	88,725	88,846	944
Other ordinary expenditures:				
Claim deposit payments	10,421	9,746	8,976	95
Taxes	4,793	4,831	4,771	50
Depreciation	5,413	5,276	5,571	59
Provision for reserve for employees' retirement benefits	332	—	—	—
Others	530	520	578	6
	21,490	20,375	19,897	211
Total ordinary expenditures	777,909	704,413	767,395	8,159
Ordinary profits	59,006	50,429	69,340	737
Extraordinary gains:				
Gains on disposal of fixed assets	16	4,645	60	0
Reversal of allowance for possible loan losses	899	—	—	—
Other extraordinary gains	—	—	193	2
Total extraordinary gains	915	4,645	254	2
Extraordinary losses:				
Losses on disposal of fixed assets	96	160	348	3
Impairment losses	318	433	600	6
Provision for reserve for price fluctuation of securities	6,981	2,056	6,140	65
Losses on reduction entry of real estate for tax purpose	—	9	—	—
Effect of applying the accounting standard for asset retirement obligations	966	—	—	—
Total extraordinary losses	8,362	2,659	7,088	75
Surplus before income taxes	51,559	52,414	62,506	664
Income taxes:				
Current	13,406	8,623	13,553	144
Deferred	(3,370)	15,013	(1,870)	(19)
Total income taxes	10,035	23,636	11,683	124
Net surplus for the year	¥ 41,524	¥ 28,778	¥ 50,822	$ 540

See notes to the non-consolidated financial statements.

Non-consolidated Statements of Changes in Net Assets

Fukoku Mutual Life Insurance Company
For the years ended March 31, 2011, 2012 and 2013

	2011	2012	2013	2013
	Years ended March 31,			
	Millions of yen			Millions of U.S. dollars
Foundation funds, surplus and others:				
Foundation funds				
Balance at the beginning of current fiscal year	¥40,000	¥40,000	¥35,000	$372
Changes in the current fiscal year:				
Financing of additional foundation funds	—	20,000	—	—
Redemption of foundation funds	—	(25,000)	—	—
Total changes in the current fiscal year	—	(5,000)	—	—
Balance at the end of current fiscal year	40,000	35,000	35,000	372
Accumulated foundation funds redeemed				
Balance at the beginning of current fiscal year	46,000	46,000	71,000	754
Changes in the current fiscal year:				
Additions to accumulated foundation funds redeemed	—	25,000	—	—
Total changes in the current fiscal year	—	25,000	—	—
Balance at the end of current fiscal year	46,000	71,000	71,000	754
Reserve for revaluation				
Balance at the beginning of current fiscal year	112	112	112	1
Changes in the current fiscal year:				
Total changes in the current fiscal year	—	—	—	—
Balance at the end of current fiscal year	112	112	112	1
Surplus:				
Legal reserve for future losses				
Balance at the beginning of current fiscal year	2,187	2,249	2,325	24
Changes in the current fiscal year:				
Additions to legal reserve for future losses	62	76	74	0
Total changes in the current fiscal year	62	76	74	0
Balance at the end of current fiscal year	2,249	2,325	2,399	25
Other surplus:				
Reserve for redemption of foundation funds				
Balance at the beginning of current fiscal year	15,000	20,000	—	—
Changes in the current fiscal year:				
Additions to reserve for redemption of foundation funds	5,000	5,000	9,000	95
Reversal of reserve for redemption of foundation funds	—	(25,000)	—	—
Total changes in the current fiscal year	5,000	(20,000)	9,000	95
Balance at the end of current fiscal year	20,000	—	9,000	95
Reserve for dividend allowances				
Balance at the beginning of current fiscal year	3,895	3,895	3,895	41
Changes in the current fiscal year:				
Total changes in the current fiscal year	—	—	—	—
Balance at the end of current fiscal year	3,895	3,895	3,895	41
Accumulated fund for price fluctuation				
Balance at the beginning of current fiscal year	—	—	11,000	116
Changes in the current fiscal year:				
Additions to accumulated fund for price fluctuation	—	11,000	—	—
Total changes in the current fiscal year	—	11,000	—	—
Balance at the end of current fiscal year	—	11,000	11,000	116
Reserve for advanced depreciation of real estate for tax purpose				
Balance at the beginning of current fiscal year	303	296	289	3
Changes in the current fiscal year:				
Additions to reserve for advanced depreciation of real estate for tax purpose	—	—	3,857	41
Reversal of reserve for advanced depreciation of real estate for tax purpose	(7)	(7)	(32)	(0)
Total changes in the current fiscal year	(7)	(7)	3,825	40
Balance at the end of current fiscal year	¥ 296	¥ 289	¥ 4,114	$ 43

	Years ended March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Other reserves				
Balance at the beginning of current fiscal year	¥ 767	¥ 767	¥ 767	$ 8
Changes in the current fiscal year:				
Total changes in the current fiscal year	—	—	—	—
Balance at the end of current fiscal year	767	767	767	8
Unappropriated surplus				
Balance at the beginning of current fiscal year	54,075	69,554	57,827	614
Changes in the current fiscal year:				
Additions to reserve for dividends to policyholders	(19,505)	(24,381)	(23,989)	(255)
Additions to legal reserve for future losses	(62)	(76)	(74)	(0)
Payment of interest on foundation funds	(892)	(892)	(621)	(6)
Net surplus for the year	41,524	28,778	50,822	540
Additions to reserve for redemption of foundation funds	(5,000)	(5,000)	(9,000)	(95)
Additions to accumulated fund for price fluctuation	—	(11,000)	—	—
Additions to reserve for advanced depreciation of real estate for tax purpose	—	—	(3,857)	(41)
Reversal of reserve for advanced depreciation of real estate for tax purpose	7	7	32	0
Reversal of revaluation reserve for land	(592)	837	(55)	(0)
Total changes in the current fiscal year	15,479	(11,727)	13,256	140
Balance at the end of current fiscal year	69,554	57,827	71,084	755
Total surplus				
Balance at the beginning of current fiscal year	76,229	96,763	76,104	809
Changes in the current fiscal year:				
Additions to reserve for dividends to policyholders	(19,505)	(24,381)	(23,989)	(255)
Payment of interest on foundation funds	(892)	(892)	(621)	(6)
Net surplus for the year	41,524	28,778	50,822	540
Reversal of reserve for redemption of foundation funds	—	(25,000)	—	—
Reversal of revaluation reserve for land	(592)	837	(55)	(0)
Total changes in the current fiscal year	20,533	(20,658)	26,155	278
Balance at the end of current fiscal year	96,763	76,104	102,260	1,087
Total foundation funds, surplus and others				
Balance at the beginning of current fiscal year	162,341	182,875	182,216	1,937
Changes in the current fiscal year:				
Financing of additional foundation funds	—	20,000	—	—
Additions to reserve for dividends to policyholders	(19,505)	(24,381)	(23,989)	(255)
Additions to accumulated foundation funds redeemed	—	25,000	—	—
Payment of interest on foundation funds	(892)	(892)	(621)	(6)
Net surplus for the year	41,524	28,778	50,822	540
Redemption of foundation funds	—	(25,000)	—	—
Reversal of reserve for redemption of foundation funds	—	(25,000)	—	—
Reversal of revaluation reserve for land	(592)	837	(55)	(0)
Total changes in the current fiscal year	20,533	(658)	26,155	278
Balance at the end of current fiscal year	¥182,875	¥182,216	¥208,372	$2,215

	2011	2012	2013	2013
	Years ended March 31,			
		Millions of yen		Millions of U.S. dollars
Valuation and translation adjustments:				
Net unrealized gains (losses) on available-for-sale securities, net of tax				
Balance at the beginning of current fiscal year	¥ 48,291	¥ 9,994	¥ 67,684	$ 719
Changes in the current fiscal year:				
Net changes, excluding foundation funds, surplus and others	(38,297)	57,690	148,200	1,575
Total changes in the current fiscal year	(38,297)	57,690	148,200	1,575
Balance at the end of current fiscal year	9,994	67,684	215,885	2,295
Deferred valuation gains (losses) under hedge accounting				
Balance at the beginning of current fiscal year	538	365	170	1
Changes in the current fiscal year:				
Net changes, excluding foundation funds, surplus and others	(173)	(194)	(107)	(1)
Total changes in the current fiscal year	(173)	(194)	(107)	(1)
Balance at the end of current fiscal year	365	170	62	0
Revaluation reserve for land, net of tax				
Balance at the beginning of current fiscal year	773	1,366	3,383	35
Changes in the current fiscal year:				
Net changes, excluding foundation funds, surplus and others	592	2,016	38	0
Total changes in the current fiscal year	592	2,016	38	0
Balance at the end of current fiscal year	1,366	3,383	3,421	36
Total valuation and translation adjustments				
Balance at the beginning of current fiscal year	49,604	11,726	71,239	757
Changes in the current fiscal year:				
Net changes, excluding foundation funds, surplus and others	(37,878)	59,512	148,131	1,575
Total changes in the current fiscal year	(37,878)	59,512	148,131	1,575
Balance at the end of current fiscal year	11,726	71,239	219,370	2,332
Total net assets				
Balance at the beginning of current fiscal year	211,946	194,601	253,455	2,694
Changes in the current fiscal year:				
Financing of additional foundation funds	—	20,000	—	—
Additions to reserve for dividends to policyholders	(19,505)	(24,381)	(23,989)	(255)
Additions to accumulated foundation funds redeemed	—	25,000	—	—
Payment of interest on foundation funds	(892)	(892)	(621)	(6)
Net surplus for the year	41,524	28,778	50,822	540
Redemption of foundation funds	—	(25,000)	—	—
Reversal of reserve for redemption of foundation funds	—	(25,000)	—	—
Reversal of revaluation reserve for land	(592)	837	(55)	(0)
Net changes, excluding foundation funds, surplus and others	(37,878)	59,512	148,131	1,575
Total changes in the current fiscal year	(17,344)	58,854	174,287	1,853
Balance at the end of current fiscal year	¥194,601	¥253,455	¥427,742	$4,548

Non-consolidated Statements of Surplus

Fukoku Mutual Life Insurance Company
For the years ended March 31, 2011, 2012 and 2013

	Years ended March 31,			
	2011	2012	2013	2013
		Millions of yen		Millions of U.S. dollars
Unappropriated surplus	¥69,554	¥57,827	¥71,084	$755
Reversal of voluntary surplus reserve:				
Reversal of reserve for advanced depreciation of real estate for tax purpose	7	32	144	1
	7	32	144	1
Total	69,561	57,859	71,228	757
Appropriation of surplus:				
Reserve for dividends to policyholders	24,381	23,989	27,762	295
Net surplus:				
Legal reserve for future losses	76	74	86	0
Interest payment for foundation funds	892	621	621	6
Voluntary surplus reserve:				
Reserve for redemption of foundation funds	5,000	9,000	9,000	95
Accumulated fund for price fluctuation	11,000	—	10,000	106
Revaluation reserve for land, net of tax	—	3,857	—	—
	16,000	12,857	19,000	202
	16,968	13,552	19,707	209
Total appropriation of surplus	41,350	37,542	47,470	504
Unappropriated surplus carried forward	¥28,211	¥20,317	¥23,758	$252

Note: Net surplus is calculated by deducting reserve for dividends to policyholders from the sum of unappropriated surplus and reversal of voluntary surplus reserve.

I. Presentation of the Non-consolidated Financial Statements

1. Basis of Presentation

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by Fukoku Mutual Life Insurance Company (the "Company") in accordance with the provisions set forth in the Insurance Business Law of Japan and its related rules and regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects from accounting principles generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the non-consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Amounts of less than one million yen have been eliminated. As a result, total in yen shown herein do not necessarily agree with the sum of the individual amounts.

2. U.S. Dollar Amounts

The translations of yen amounts into U.S. dollar amounts are included solely for the convenience of the reader and have been made, as a matter of arithmetical computation only, at the rate of ¥94.05 = US$1.00, the effective rate of exchange at the balance sheet date of March 31, 2013. The translations should not be construed as representations that such yen amounts have been or could in the future be, converted into U.S. dollars at that or any other rates.

II. Notes to Balance Sheets

1. Significant Accounting Policies

(1) Valuation methods of securities

The valuation of securities, including bank deposits and monetary claims bought which are equivalent to securities, and securities managed as trust assets in money held in trust, is as follows:

i) Trading securities are stated at fair market value. Costs of their sales are determined by the moving average method.

ii) Held-to-maturity debt securities are stated at amortized cost under the straight-line method, cost being determined by the moving average method.

iii) Policy-reserve-matching bonds are stated at amortized cost under the straight-line method, cost being determined by the moving average method in accordance with "Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching Bonds in Insurance Industry" (Industry Audit Committee Report No.21 issued by the Japanese Institute of Certified Public Accountants on November 16, 2000).

iv) Investments in subsidiaries and affiliates are stated at cost, cost being determined by the moving average method.

v) Available-for-sale securities with fair market value are stated at fair market value based on the market prices at the end of fiscal year. Costs of their sales are determined by the moving average method. Net unrealized gains or losses on these available-for-sale securities, net of taxes, are recorded as a separate component of net assets.

Available-for-sale securities whose fair values are deemed extremely difficult to obtain are stated at cost, cost being determined by the moving average method, except for public and corporate bonds including foreign bonds, of which the difference between acquisition cost and face value is considered to be an adjustment of interest. Such bonds are stated at amortized cost under the straight-line method, cost being determined by the moving average method.

(2) Valuation methods of derivative instruments

Derivative instruments are stated at fair market value.

(3) Revaluation of land

The Company revalued the land for business purposes based on the Law for Revaluation of Land (Law No.34 promulgated on March 31, 1998). The difference between fair value and book value resulting from the revaluation, net of related taxes, is recorded as revaluation reserve for land as a separate component of net assets and the related tax is recorded as deferred tax liabilities for revaluation reserve for land.

- Date of revaluation: March 31, 2002
- Method of revaluation as prescribed for in Article 3 Paragraph 3 of the said Law:
  Calculation is based on the appraisal value for property tax set forth in Article 2 item 3 of the Enforcement Ordinance of the Law for Revaluation of Land (Government Ordinance No.119 promulgated on March 31, 1998) and the road rate set forth in Article 2 item 4 of the said Ordinance with certain reasonable adjustments.

(4) Depreciation of tangible fixed assets

Depreciation of tangible fixed assets is calculated by the following methods.

- Tangible fixed assets (excluding lease assets): Declining-balance method
  However, buildings (excluding building attachments and structures) acquired on or after April 1, 1998 are depreciated using Straight-line method.
- Lease assets related to finance lease transactions that do not transfer ownership: Straight-line method over the lease term without residual value

Other tangible fixed assets acquired for ¥100,000 or more but less than ¥200,000 are depreciated equally over three years.

(5) Foreign currency translation

Foreign currency-denominated assets and liabilities, except for investments in subsidiaries and affiliates, are translated into Japanese yen at the effective exchange rate prevailing at the balance sheet date. Investments in subsidiaries and affiliates are translated into Japanese yen at the exchange rate on the date of acquisition.

(6) Allowance for possible loan losses

Allowance for possible loan losses is provided in accordance with the Company's standards of self-assessment and write-offs and reserves on credit quality:

i) For the credits of borrowers who are legally bankrupt such as being in the proceedings of bankruptcy or civil rehabilitation (hereinafter called "legally bankrupt borrowers") and who are substantially bankrupt (hereinafter called "substantially bankrupt borrowers"), the Company provides the remaining amount of credits after the direct write-off described below and the deductions of the amount expected to be collected through the disposal of collateral or the execution of guarantees.

ii) For the credits of borrowers who are not currently bankrupt but have a high possibility of bankruptcy (hereinafter called "not currently bankrupt borrowers"), the Company provides the amounts deemed as necessary considering the borrowers' ability to pay, within the amounts after deductions of the amount expected to be collected through the disposal of collateral or the execution of guarantees.

iii) For the credits of borrowers other than the above, the Company provides the amounts calculated by multiplying the borrowers' balance by the actual ratio of bad debt losses on defaults during a certain past period.

All credits are assessed by the relevant departments in accordance with the Company's standards of self-assessment on credit quality. The results of the assessment are reviewed by the audit department, which is independent of business-related divisions. Subsequently, the allowance for possible loan losses are provided based on the results of these assessments.

For the credits of legally bankrupt borrowers and substantially bankrupt borrowers, the amounts remaining after deductions of collateral value or the amounts collectible through the execution of guarantees is written-off directly from the borrower's balance as the estimated uncollectible amounts. The amounts written-off as of March 31, 2011, 2012 and 2013 were, ¥260 million, ¥287 million and ¥308 million (US$3 million), respectively.

(7) Reserve for employees' retirement benefits

The Company adopts accounting standards for employees' retirement benefits (Business Accounting Council dated June 16, 1998) and accounts for the reserve for employees' retirement benefits based on the projected benefit obligation and plan assets at the balance sheet date.

(8) Reserve for price fluctuation of securities

Reserve for price fluctuation of securities is calculated in accordance with Article 115 of the Insurance Business Law.

(9) Lease transactions as a lessee

Finance lease transactions that do not transfer ownership to the lessee whose commencement day was on or before March 31, 2008 continued to be accounted for in a manner similar to accounting treatment for ordinary rental transactions.

(10) Lease transactions as a lessor

As for the finance lease transactions where the Company is a lessor, the lease fee is recorded in "interest, dividends and other income (other interest and dividends)" at the time of receiving lease fee. The corresponding cost of the lease transactions is recorded in "other investment expenses", which is calculated by deducting an amount equivalent to the interest allocated over the lease term from the lease fee received.

(11) Accounting for hedge activities

Hedge accounting is based on "Accounting Standards for Financial Instruments" (ASBJ Statement No. 10 issued by the Accounting Standards Board of Japan on August 11, 2006).

For the foreign currency forward contracts against the exchange rate fluctuations in the value of foreign currency-denominated bonds classified as available-for-sale securities, which qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, valuation gains and losses on the foreign currency forward contracts are recorded in the statements of operations.

For the interest rate swaps against the interest rate fluctuations regarding loans, which qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, valuation gains and losses on the interest rate swaps are deferred until the maturity of the hedged transactions.

Deposits denominated in foreign currencies for which forward foreign exchange contracts are used to hedge the foreign currency fluctuations are translated at the contract rates if the forward contracts qualify for specific hedge accounting. In this case, exchange differences between the exchange rate on the trade date and the forward contract rate are allocated to each fiscal year from the date contracted to the date settled.

For judging the effectiveness of hedge used, ratio analysis of comparing the fluctuations in the fair value or cash flows of hedged items and hedging instruments is mostly applied.

(12) Accounting for consumption taxes

The Company accounts for consumption taxes by the tax-exclusion method. The consumption taxes on certain assets, which are not deductible from consumption taxes withheld and that are stipulated to be deferred under the Tax Law, are deferred as prepaid expenses and amortized equally over five years. Consumption taxes other than deferred consumption taxes are recognized as an expense when incurred.

(13) Policy reserve

Policy reserve is based on Article 116 of the Insurance Business Law, and the premium reserve at the end of fiscal year is calculated by the following method:

In regard to the policies subject to the standard policy reserve, the method as prescribed by the Commissioner of Financial Services Agency (Ministry of Finance Ordinance No. 48, 1996) is applied.

In regard to the policies not subject to the standard policy reserve, the net level premium method is applied.

As of March 31, 2013, in order to improve future income and expenditure, the Company raised an additional policy reserve based on the provision of paragraph 5, Article 69 of the Enforcement Regulation of the Insurance Business Law for individual annuity insurance policies with an assumed rate of 5.00% or more for which annuity payment commenced on or before March 31, 2013 (excluding the wife's annuity insurance additional rider). On raising this reserve, the Company reversed and allocated a contingency reserve of ¥64,333 million (US$684 million) included in the policy reserve, and there is no impact on provision for policy reserve, ordinary profits, and surplus before income taxes.

The Company also raised an additional policy reserve of ¥984 million (US$10 million) under the provision of paragraph 5, Article 69 of the Enforcement Regulation of the Insurance Business Law based on the written opinion of an actuary provided for in paragraph 1, Article 121 of the Insurance Business Law for hospitalization riders with surgery benefits and long-term hospitalization benefits (sold between August 1977 and March 1981) and non-participating tuition insurance. As a result, the provision for policy reserve increased by ¥984 million (US$10 million) and ordinary profits and surplus before income taxes decreased by ¥984 million (US$10 million) compared with if the additional reserve had not been raised.

(14) Software

The software for internal use is amortized based on straight-line method over the estimated useful lives.

(15) Deferred assets

Discount on bonds is amortized equally over the period for which interest on bonds is fixed. This amount is deducted from bonds.

(16) Policy-reserve-matching bonds

Of the bonds corresponding to the sub-groups of individual insurance and annuities which are set by insurance types and investment policies, the bonds that are held to match the duration of liabilities are classified as policy-reserve-matching bonds in accordance with "Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching Bonds in Insurance Industry" (Industry Audit Committee Report No. 21 issued by the Japanese Institute of Certified Public Accountants on November 16, 2000).

The amounts of policy-reserve-matching bonds recorded on the balance sheets and the market value of these bonds as of March 31, 2011, 2012 and 2013, were written in Notes No. 4 "Financial Instruments."

Effective for the fiscal year ended March 31, 2013, the insurance policy sub-groups were changed in order to enhance ALM as follows:

i) The sub-group of single premium endowment life insurance entered since July 2002 was integrated into the sub-groups of individual annuities with single premium accident and death benefits entered since October 2002 and single premium whole life insurance entered since August 2003.

ii) The sub-groups of whole life insurance and individual annuities (excluding above mentioned individual annuities with single premium accident and death benefits and single premium whole life insurance) were newly established.

iii) The sub-group of group annuities (excluding defined contribution annuities with limited term and yields guaranteed) was newly established.

There was no impact of these changes on the non-consolidated balance sheets and non-consolidated statements of operations as of March 31, 2013.

2. Accounting Changes and Error Corrections and Its Implementation

(1) Effective for the fiscal year ended March 31, 2013, the Company has changed its depreciation method for its tangible fixed assets acquired on or after April 1, 2012 in accordance with the revision of the Corporation Tax Act.

As a result, non-consolidated ordinary revenue and surplus before income taxes for the fiscal year ended March 31, 2013, increased by ¥29 million (US$310 thousand), both compared to those calculated using the previous depreciation method.

(2) Effective for the year ended March 31, 2013, lease investment assets that were previously recorded under "other assets" on the balance sheet are presented separately in accordance with the revision of the Enforcement Regulation of the Insurance Business Law.

(3) Effective for the year ended March 31, 2012, in accordance with the amendment of the Enforcement Regulation of the Insurance Business Law, the presentation of financial statements has been changed as follows.

(a) As for the statement of operations, "reversal of allowance for possible loan losses" which was presented in "extraordinary gains" until previous fiscal year is included in "investment income".

(b) As for the statement of changes in net assets, the item which was presented as "balance at the end of previous fiscal year" until previous fiscal year is presented as "balance at the beginning of current period".

(4) Effective for the year ended March 31, 2011, the Company adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18 issued by the Accounting Standards Board of Japan on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21 issued by the Accounting Standards Board of Japan on March 31, 2008). As a result, tangible fixed assets increased by ¥1,722 million and the amount of asset retirement obligations recorded in balance sheet was ¥2,846 million. Ordinary profit decreased by ¥157 million and surplus before income taxes decreased by ¥1,124 million.

3. The Principal Accounting Standards Published before March 31, 2013 but not Applied are as follows.

With the publication of the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012), the method for calculating retirement benefit obligations, current service cost and others will be changed. Application of the standard is mandatory from the beginning of the fiscal year commencing on or after April 1, 2014, and the Company plans to apply the standard from the beginning of fiscal 2014.

The Company is currently evaluating the impact in the fiscal year after the application of the standard.

4. Financial Instruments

Asset management of the general accounts other than the separate accounts stipulated in Article 118 Paragraph 1 of the Insurance Business Law is conducted on the principle of prudent and profitable investments, considering public and social responsibilities of the insurance business. Based on this policy, the Company allocates the fund, securing its liquidity, from the medium-to-long term viewpoints. The Company is diversifying investments in assets such as foreign securities and equity securities within the acceptable range of risk in order to enhance the profitability, although yen-denominated interest bearing assets including debt securities such as Japanese government bonds and loans are the cores of the portfolios. Derivatives are mainly used to mitigate the market risk regarding the securities and loans. Major financial instruments including securities, loans and derivatives are exposed to market risk and credit risk.

The Company manages its asset management risk by establishing internal control systems including various rules pursuant to the "Basic Policy for Risk Management" established by the Board of Directors. Specifically, the Company eliminates excessive risk deviating from the basic principle and secures the safety of the assets by utilizing control functions of the Financial and Investment Risk Management Department towards the asset management sections, monitoring the status of market risk and credit risk periodically on a daily or monthly basis. In addition, the Company quantifies the market risk and credit risk using value-at-risk (VaR) method in order to control the possible maximum losses which may arise from the holding assets within a certain range of risk buffers.

The carrying amounts, fair values and their related differences of major financial assets and liabilities as of March 31, 2011, 2012 and 2013 were as follows:

(1) Deposits:
The fair values of deposits are based on their book values since fair values approximate book values due to their short maturities.

The amount of deposits has been omitted as of March 31, 2012 and 2013, owing to decreased materiality.

(2) Call loans:
The fair values of call loans are based on their book values since fair values approximate book values due to their short maturities.

Carrying amounts, fair values and related differences of call loans have been disclosed from the current fiscal year since the materiality has increased.

(3) Securities including deposits and monetary claims bought which are treated as securities based on "Accounting Standards for Financial Instruments" (ASBJ Statement No.10) and securities managed as trust assets in money held in trust:
The fair values of marketable securities are measured at the quoted market price at the end of fiscal year. The fair values of other securities without the quoted market price are based on the prices reasonably calculated such as the prices offered by the information vendors or counterparty financial institutions.

Investments in subsidiaries and affiliates, unlisted stocks and investments in partnerships whereby partnership assets consist of unlisted stocks whose fair values are deemed extremely difficult to obtain, are excluded from above securities. The carrying amounts of investments in subsidiaries and affiliates, unlisted stocks and investments in partnerships were ¥26,616 million, ¥8,845 million and ¥8,201 million as of March 31, 2011, ¥35,969 million, ¥8,086 million and ¥7,729 million as of March 31, 2012, and ¥35,560 million (US$378 million), ¥7,738million (US$82 million), and ¥7,667 million (US$ 81 million) as of March 31, 2013, respectively.

(4) Loans and monetary claims bought treated as loans:
The fair values of policy loans are deemed to approximate book values, considering estimated repayment period and interest rate conditions since their repayment deadline have

not been set up due to the characteristics that the loan is limited to the amount of cash surrender values. Therefore, the book values are used as the fair values of policy loans.

The fair values of floating interest rate loans among the ordinary loans and monetary claims bought treated as loans approximate the book values because the market interest rates are reflected in future cash flows in a short period. Therefore, the fair values of floating interest rate loans and monetary claims bought treated as loans are based on their book values. The fair values of fixed interest rate loans are measured by discounting the future cash flows to the present values.

The fair values of loans receivable from legally bankrupt borrowers, substantially bankrupt borrowers and not currently bankrupt borrowers and monetary claims bought treated as loans are computed by deducting the amount of the allowance for doubtful accounts from the book values before direct write-offs.

(5) Derivative instruments:

i) The fair values of the futures and options traded at the exchange are measured at the settlement price of the exchange.

ii) The fair values of options and swaps traded over the counter are based on the quoted prices offered by counterparty financial institutions.

iii) The fair values of foreign currency forward contracts are determined based on the spot exchange rate and forward contract rate.

	As of March 31,					
	2011			2012		
	Millions of yen					
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Deposits:						
Deposits not treated as securities	¥ 237,583	¥ 237,583	¥ —			
Total deposits	237,583	237,583	—			
Call loans	—	—	—	¥ 65,600	¥ 65,600	¥ —
Monetary claims bought:						
Claims treated as loans	1,424	1,424	0	1,351	1,374	23
Total monetary claims bought	1,424	1,424	0	1,351	1,374	23
Money held in trust:						
Trading securities	32,169	32,169	—	34,194	34,194	—
Total money held in trust	32,169	32,169	—	34,194	34,194	—
Securities:						
Trading securities	228,171	228,171	—	214,053	214,053	—
Held-to-maturity debt securities	427,312	436,409	9,096	823,530	852,343	28,812
Policy-reserve-matching bonds	652,180	672,087	19,907	684,915	722,269	37,354
Investments in subsidiaries and affiliates	1,393	868	(524)	1,393	854	(538)
Available-for-sale securities	2,347,024	2,347,024	—	2,300,260	2,300,260	—
Total securities	3,656,081	3,684,560	28,478	4,024,152	4,089,780	65,628
Loans:						
Policy loans	71,479	71,479	(0)	70,164	70,163	(0)
Ordinary loans	1,072,383	1,099,281	26,897	969,199	995,761	26,562
Total loans	1,143,863	1,170,761	26,897	1,039,363	1,065,924	26,561
Derivative instruments:						
Hedge accounting not applied	(6,049)	(6,049)	—	(1,442)	(1,442)	—
Hedge accounting applied	(1,730)	(1,730)	—	(3,506)	(3,506)	—
Total derivative instruments	¥ (7,780)	¥ (7,780)	¥ —	¥ (4,948)	¥ (4,948)	¥ —

	As of March 31,					
	2013			2013		
	Millions of yen			Millions of U.S. dollars		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Call loans	¥ 70,300	¥ 70,300	¥ —	$ 747	$ 747	$ —
Monetary claims bought:						
Claims treated as loans	1,111	1,136	25	11	12	0
Total monetary claims bought	1,111	1,136	25	11	12	0
Money held in trust:						
Trading securities	30,322	30,322	—	322	322	—
Total money held in trust	30,322	30,322	—	322	322	—
Securities:						
Trading securities	258,193	258,193	—	2,745	2,745	—
Held-to-maturity debt securities	822,875	902,871	79,996	8,749	9,599	850
Policy-reserve-matching bonds	1,037,091	1,121,931	84,840	11,027	11,929	902
Investments in subsidiaries and affiliates	1,393	948	(444)	14	10	(4)
Available-for-sale securities	2,386,795	2,386,795	—	25,377	25,377	—
Total securities	4,506,348	4,670,740	164,392	47,914	49,662	1,747
Loans:						
Policy loans	66,807	66,807	(0)	710	710	(0)
Ordinary loans	840,701	866,908	26,207	8,938	9,217	278
Total loans	907,508	933,716	26,207	9,649	9,927	278
Derivative instruments:						
Hedge accounting not applied	331	331	—	3	3	—
Hedge accounting applied	(795)	(795)	—	(8)	(8)	—
Total derivative instruments	¥ (463)	¥ (463)	¥ —	$ (4)	$ (4)	$ —

5. Investment and Rental Property

The Company holds investment and rental properties such as office buildings in Tokyo and other areas. The carrying amounts and the fair values of investment and rental properties were ¥233,921 million and ¥284,059 million as of March 31, 2011, ¥226,884 million and ¥275,039 million as of March 31, 2012, and ¥221,052 million (US$2,350 million) and ¥277,714 million (US$2,952 million) as of March 31, 2013, respectively. The fair value is mainly based on the value calculated by the Company in accordance with real estate appraisal standards which includes some adjustments using the reference prices.

The amount corresponding to asset retirement obligations included in the carrying amount of investment and rental properties were ¥1,434 million, ¥1,355 million and ¥1,275 million (US$13 million) as of March 31, 2011, 2012 and 2013, respectively.

6. Securities Lent under Lending Agreements

The amount of securities lent under lending agreements was ¥45,887 million (US$487 million) as of March 31, 2013.

7. Loans Receivable

The total amounts of credits to bankrupt borrowers, delinquent loans, delinquent loans past 3 months or more and restructured loans, which were included in loans, were ¥3,308 million, ¥3,023 million and ¥1,759 million (US$18 million) as of March 31, 2011, 2012 and 2013, respectively.

i) The balances of credits to bankrupt borrowers were ¥297 million, ¥280 million and ¥217 million (US$2 million) as of March 31, 2011, 2012 and 2013, respectively.
ii) The balances of delinquent loans were ¥774 million, ¥689 million and ¥590 million (US$6 million) as of March 31, 2011, 2012 and 2013, respectively.
iii) There were no balances of delinquent loans past 3 months or more as of March 31, 2011, 2012 and 2013.
iv) The balances of restructured loans were ¥2,236 million, ¥2,053 million and ¥950 million (US$10 million) as of March 31, 2011, 2012 and 2013, respectively.

Credits to bankrupt borrowers represent loans, excluding the balances already written-off, which meet the conditions prescribed in Article 96 Paragraph 1 Item 3 and 4 of the Enforcement Regulations of the Corporate Tax Law. Moreover, accruing interest on these loans is not recorded as income after determining that principal of or interest on these loans is unlikely to be collected due to the significant delay in repayment of principal or interest payment or for some other reasons.

Delinquent loans are credits whose accruing interest is not recorded as income due to the same reasons as described above, and exclude credits to bankrupt borrowers and loans for which interest payments have been suspended and rescheduled to assist and support the borrowers in the restructuring of their business.

Delinquent loans past 3 months or more are loans for which interest payment or repayment of principal are delinquent for 3 months or more from the due date under the terms of the related loan agreements, excluding those loans classified as credits to bankrupt borrowers and delinquent loans.

Restructured loans are loans for which certain concessions favorable to borrowers, such as interest reduction or exemptions, rescheduling of due date of principal or interest payment, waiver of claim or other terms, have been negotiated for the purpose of assisting and supporting the borrowers in the restructuring of their business. This category excludes loans classified as credits to bankrupt borrowers, delinquent loans and delinquent loans past 3 months or more.

The direct write-offs related to loans decreased credits to bankrupt borrowers described above by ¥1 million, ¥1 million and ¥1million (US$13 thousand) as of March 31, 2011, 2012 and 2013, respectively.

The direct write-offs related to loans decreased delinquent loans described above by ¥258 million, ¥286 million and ¥288 million (US$3 million) as of March 31, 2011, 2012 and 2013, respectively.

8. Accumulated Depreciation of Tangible Fixed Assets

Accumulated depreciation of tangible fixed assets totaled to ¥137,343 million, ¥137,319 million and ¥142,941 million (US$ 1,519 million) as of March 31, 2011, 2012 and 2013, respectively.

9. Separate Accounts

Total assets in separate accounts provided for in Article 118 of the Insurance Business Law were ¥83,280 million, ¥82,053 million and ¥78,815 million (US$838 million) as of March 31, 2011, 2012 and 2013, respectively. The amounts of separate account liabilities were the same as separate account assets.

10. Receivables from/Payables to Subsidiaries

The total amounts of receivables from/payables to subsidiaries were ¥2,675 million and ¥1,855 million as of March 31, 2011, ¥2,592 million and ¥1,544 million as of March 31, 2012, and ¥3,400 million (US$36 million) and ¥1,415 million (US$15 million), as of March 31, 2013, respectively.

11. Income Taxes

Deferred tax assets and deferred tax liabilities as of March 31, 2011 were ¥98,663 million and ¥8,191 million, respectively. Valuation allowance for deferred tax assets was ¥3,139 million.

Major components of deferred tax assets were ¥58,929 million of policy reserves, ¥18,144 million of reserve for employees' retirement benefits and ¥12,105 million of reserve for price fluctuation of securities as of March 31, 2011.

Major component of deferred tax liabilities was ¥5,673 million of net unrealized gains on available-for-sale securities as of March 31, 2011.

The statutory tax rate and the actual effective tax rate for the year ended March 31, 2011 were 36.2% and 19.5%, respectively. The major difference between the statutory tax rate and the actual effective tax rate was (17.1%) of reserve for dividends to policyholders.

Deferred tax assets and deferred tax liabilities as of March 31, 2012 were ¥83,977 million and ¥33,810 million, respectively. Valuation allowance for deferred tax assets was ¥3,035 million.

Major components of deferred tax assets were ¥48,892 million of policy reserves, ¥14,257 million of reserve for employees' retirement benefits and ¥10,923 million of reserve for price fluctuation of securities as of March 31, 2012.

Major component of deferred tax liabilities was ¥30,097 million of net unrealized gains on available-for-sale securities as of March 31, 2012.

The statutory tax rate and the actual effective tax rate for the year ended March 31, 2012 were 36.2% and 45.1%, respectively. The major differences between the statutory tax rate and the actual effective tax rate were 24.7% of the reduction of deferred tax assets due to the changes in tax rates and (16.6%) of reserve for dividends to the policyholders.

Deferred tax assets and deferred tax liabilities as of March 31, 2013 were ¥85,971 million (US$914 million) and ¥99,959 million (US$1,062 million), respectively. Valuation allowance for deferred tax assets was ¥2,950 million (US$31 million).

Major components of deferred tax assets were ¥50,154 million (US$533 million) of policy reserves, ¥13,840 million (US$147 million) of reserve for employees' retirement benefits and ¥12,813 million (US$136 million) of reserve for price fluctuation of securities as of March 31, 2013.

Major component of deferred tax liabilities was ¥95,997 million (US$1,020 million) of net unrealized gains on available-for-sale securities as of March 31, 2013.

The statutory tax rate and the actual effective tax rate for the year ended March 31, 2013 were 33.3% and 18.7%, respectively. The major difference between the statutory tax rate and the actual effective tax rate was (14.8%) of reserve for dividends to the policyholders.

12. Reserve for Dividends to Policyholders

Changes in reserve for dividends to policyholders were as follows:

	Years ended March 31,			
	2011	2012	2013	2013
		Millions of yen		Millions of U.S. dollars
Balance at the beginning of current fiscal year	¥54,759	¥53,205	¥53,969	$573
Transfer from surplus in previous fiscal year	19,505	24,381	23,989	255
Dividends paid in the current fiscal year	(21,176)	(23,700)	(25,727)	(273)
Increase in interest	116	83	76	0
Balance at the current fiscal year	¥53,205	¥53,969	¥52,307	$556

13. Stocks of Subsidiaries

The amounts of stocks of subsidiaries the Company held as of March 31, 2011, 2012 and 2013 were ¥28,009 million, ¥37,362 million and ¥36,953 million (US$392 million), respectively.

14. Pledged Assets and Secured Debts

Assets pledged as collateral as of March 31, 2011 were ¥23,633 million of securities. Secured debts as of March 31, 2011 were ¥4,629 million.

Assets pledged as collateral as of March 31, 2012 were ¥24,300 million of securities and ¥397 million of bank deposits. Secured debts as of March 31, 2012 were ¥4,608 million.

Assets pledged as collateral as of March 31, 2013 were ¥26,930 million (US$286 million) of securities and ¥163 million (US$1 million) of bank deposits. Secured debts as of March 31, 2013 were ¥4,583 million (US$48 million).

15. Policy Reserves for the Reinsurance Contracts

Reserve for outstanding claims for the reinsurance contracts provided in accordance with Article 71 Paragraph 1 of the Enforcement Regulation of the Insurance Business Law (hereinafter called "reserve for outstanding claims for ceded reinsurance") were ¥42 million, ¥1 million and ¥1 million (US$20 thousand) as of March 31, 2011, 2012 and 2013, respectively.

Policy reserve for the reinsurance contracts provided in accordance with Article 71 Paragraph 1 of the Enforcement Regulation of the Insurance Business Law (hereinafter called "policy reserve for ceded reinsurance") were ¥31 million, ¥30 million and ¥30 million (US$320 thousand) as of March 31, 2011, 2012 and 2013, respectively.

16. Adjustment Items for Redemption of Foundation Funds and Appropriation of Net Surplus

The total amounts of adjustment items for redemption of foundation funds and appropriation of net surplus defined in Article 30 Paragraph 2 of the Enforcement Regulation of the Insurance Business Law were ¥11,838 million, ¥71,351 million and ¥219,482 million (US$2,333 million) as of March 31, 2011, 2012 and 2013, respectively.

17. Commitment Line

As of March 31, 2011, 2012 and 2013, there were unused commitment line agreements under which the Company is the lender of ¥4,056 million, ¥1,023 million and ¥972 million (US$10 million), respectively.

18. Subordinated Bonds

Repayments of subordinated bonds are subordinated to other obligations.

19. Assets Denominated in Foreign Currencies

Assets denominated in foreign currencies as of March 31, 2011, 2012 and 2013 totaled to ¥718,304 million, ¥791,485 million and ¥980,866 million (US$10,429 million), respectively. The principal foreign currency asset amounts were 1,799 million euros and US$4,169 million as of March 31, 2011, 2,024 million euros and US$4,693 million as of March 31, 2012, and 2,136 million euros and US$ 5,007 million as of March 31, 2013 respectively.

Liabilities denominated in foreign currencies as of March 31, 2011, 2012 and 2013 totaled to ¥36,075 million, ¥33,787 million and ¥37,079 million (US$394 million), respectively. The principal foreign currency liability amounts as of March 31, 2011, 2012 and 2013 were 306 million euros.

20. Contribution to Policyholders Protection Corporation

The future contribution to the Life Insurance Policyholders Protection Corporation of Japan under Article 259 of the Insurance Business Law were estimated at ¥10,770 million, ¥10,731 million and ¥10,972 million (US$116 million) as of March 31, 2011, 2012 and 2013, respectively. The contributions were charged as operating expenses in the year in which they were paid.

21. Reserve for Employees' Retirement Benefits

(1) The reserve for employees' retirement benefits as of March 31, 2011, 2012 and 2013 were calculated as follows:

	As of March 31,			
	2011	2012	2013	2013
		Millions of yen		Millions of U.S. dollars
a. Projected benefit obligation	¥(71,742)	¥(72,872)	¥(72,507)	$(770)
b. Fair value of pension plan assets	15,728	17,167	20,006	212
c. Unfunded benefit obligation (a+b)	(56,014)	(55,704)	(52,500)	(558)
d. Unrecognized actuarial differences	5,802	10,021	8,134	86
e. Unrecognized prior service cost	102	(636)	(598)	(6)
f. Reserve for employees' retirement benefits (c+d+e)	¥(50,109)	¥(46,320)	¥(44,965)	$(478)

(2) Gross amount of retirement benefit expenses for the years ended March 31, 2011, 2012 and 2013 were as follows:

	Years ended March 31,			
	2011	2012	2013	2013
		Millions of yen		Millions of U.S. dollars
Service cost	¥3,096	¥2,943	¥2,866	$30
Interest cost	1,430	1,451	1,456	15
Expected return on pension plan assets	(480)	(471)	(515)	(5)
Amortization of actuarial differences	1,171	1,218	1,361	14
Amortization of prior service cost	34	(20)	(38)	(0)
	¥5,252	¥5,122	¥5,131	$54

(3) The assumptions used in calculation of the above information were as follows:

	Years ended March 31,		
	2011	2012	2013
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis	Straight-line basis
Discount rate	2.0%	2.0%	2.0%
Expected rate of return on pension plan assets	3.0%	3.0%	3.0%
Amortization period of actuarial differences	10 years	10 years	10 years
Amortization period of prior service cost	10 years	10 years	10 years

III. Notes to Statements of Operations

1. Transactions with Subsidiaries

The total amounts of revenues and expenditures in connection with subsidiaries were ¥998 million and ¥7,576 million for the year ended March 31, 2011, ¥966 million and ¥7,682 million for the year ended March 31, 2012, and ¥1,427 million (US$15 million) and ¥7,738 million (US$82 million) for the year ended March 31, 2013, respectively.

2. Gains on Sales of Securities

Major items of gains on sales of securities were as follows:

	Years ended March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Domestic bonds	¥19,211	¥11,747	¥4,732	$50
Domestic stocks and others	11,239	3,780	2,220	23
Foreign securities	4	1,326	862	9

3. Losses on Sales of Securities

Major items of losses on sales of securities were as follows:

	Years ended March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Domestic bonds	¥ 908	¥ 1,324	¥1,208	$12
Domestic stocks and others	13,036	17,027	5,729	60
Foreign securities	6,473	6,573	3,429	36

4. Losses on Valuation of Securities

Major items of losses on valuation of securities were as follows:

	Years ended March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Domestic bonds	¥ —	¥1,444	¥ —	$ —
Domestic stocks and others	5,870	6,017	1,009	10
Foreign securities	52	—	—	—

5. Policy Reserves for the Reinsurance Contracts

For the year ended March 31, 2011, provision for reserve for outstanding claims for ceded reinsurance considered in calculation of provision for reserve for outstanding claims was ¥9 million and provision for policy reserve for ceded reinsurance considered in calculation of reversal of policy reserve was ¥1 million.

For the year ended March 31, 2012, reversal of reserve for outstanding claims for ceded reinsurance considered in calculation of reversal of reserve for outstanding claims was ¥40 million and reversal of policy reserve for ceded reinsurance considered in calculation of provision for policy reserve was ¥1 million.

For the year ended March 31, 2013, provision for reserve for outstanding claims for ceded reinsurance considered in calculation of provision for reserve for outstanding claims was ¥0 million (US$1 thousand) and reversal of policy reserve for ceded reinsurance considered in calculation of provision for policy reserve was ¥0 million (US$4 thousand).

6. Gains (Losses) from Trading Securities

Major items of gains (losses) from trading securities were as follows:

	Years ended March 31,			
	2011	2012	2013	2013
		Millions of yen		Millions of U.S. dollars
Interest, dividends and other income	¥ 6,814	¥7,556	¥ 7,532	$ 80
Gains (Losses) on sales of trading securities	(8,234)	(977)	258	2
Gains (Losses) on valuation of trading securities	(3,640)	8,474	33,508	356

7. Gains (Losses) from Money Held in Trust

Gains (Losses) from money held in trust for the years ended March 31, 2011, 2012 and 2013 included valuation losses of ¥0 million, valuation gains of ¥0 million and valuation gains of ¥0 million (US$0 thousand), respectively.

8. Gains (Losses) from Derivative Instruments

Gains (Losses) from derivative instruments for the years ended March 31, 2011, 2012 and 2013 included valuation losses of ¥4,346 million, valuation gains of ¥4,273 million and valuation gains of ¥1,774 million (US$18 million), respectively.

9. Impairment Losses of Fixed Assets

For the year ended March 31, 2013, impairment losses of fixed assets were as follows:

(1) Method of grouping

Real estate and other assets used for insurance business operations are classified as one asset group as a whole. Other assets such as real estate for rent and unused real estate are classified as one group individually.

(2) Background of recognizing the impairment losses

Profitability of certain real estate for rent dropped down significantly due to a decrease in the level of rental income and a declining trend of market prices of land. The Company reduced its book values of such real estate for rent and unused real estate to their recoverable amounts. The amounts reduced were recognized as impairment losses and included in the extraordinary losses.

(3) Asset groups recognized impairment losses and losses by fixed assets

	Year ended March 31,	
	2013	2013
	Millions of yen	Millions of U.S. dollars
Real estate for rent:		
Land	¥183	$1
Buildings and others	26	0
Total real estate for rent (i)	210	2
Unused real estate:		
Land	177	1
Buildings and others	212	2
Total unused real estate (ii)	390	4
Total:		
Land	361	3
Buildings and others	239	2
Total (i)+(ii)	¥600	$6

(4) Calculation method of recoverable amount

Recoverable amount is based on net sales value. Net sales value is determined based on appraisal value, posted price or road rate.

(5) Changes in presentation

Impairment losses of fixed assets have been disclosed for the year ended March 31, 2013, owing to increased materiality.

Report of Independent Auditors

The Board of Directors of Fukoku Mutual Life Insurance Company

We have audited the accompanying non-consolidated balance sheets of Fukoku Mutual Life Insurance Company (the "Company") as of March 31, 2013, 2012 and 2011, and the related non-consolidated statements of operations, and changes in net assets, and the non-consolidated proposed appropriations of surplus for the years then ended, and notes, all expressed in Japanese yen.

Management's Responsibility for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation and fair presentation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion independently on these non-consolidated financial statements based on our audits. We conducted our audits in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the nonconsolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the non-consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Fukoku Mutual Life Insurance Company as of March 31, 2013, 2012 and 2011, and the non-consolidated results of its operations for the years then ended in conformity with the applicable Japanese laws and regulations and accounting principles for non-consolidated financial statements generally accepted in Japan.

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

Convenience Translation

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note I.2 to the accompanying non-consolidated financial statements with respect to the year ended March 31, 2013.

Tokyo, Japan

May 21, 2013

Kisaragi Audit Corporation

Kisaragi Audit Corporation

Consolidated Balance Sheets

Fukoku Mutual Life Insurance Company and consolidated subsidiaries
As of March 31, 2011, 2012 and 2013

	As of March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Assets:				
Cash and deposits	¥ 314,392	¥ 73,260	¥ 72,868	$ 774
Call loans	—	65,600	70,300	747
Monetary claims bought	1,424	1,351	1,111	11
Money held in trust	33,169	35,194	31,322	333
Securities	4,681,280	5,422,669	6,108,723	64,951
Loans	1,146,719	1,042,359	910,657	9,682
Tangible fixed assets:				
Land	163,574	161,076	160,528	1,706
Buildings	116,647	110,051	105,882	1,125
Lease assets	47	117	1,430	15
Construction in progress	1,165	2,234	1,297	13
Other tangible fixed assets	3,427	3,348	3,089	32
	284,863	276,828	272,228	2,894
Intangible fixed assets:				
Software	8,750	8,696	12,321	131
Goodwill	5,520	4,618	3,855	40
Lease assets	987	761	2,271	24
Other intangible fixed assets	453	453	279	2
	15,712	14,529	18,727	199
Agency receivables	4	7	6	0
Reinsurance receivables	174	123	56	0
Other assets	106,524	56,062	54,698	581
Deferred tax assets	88,745	48,211	362	3
Allowance for possible loan losses	(2,665)	(2,468)	(2,201)	(23)
Total assets	¥6,670,346	¥7,033,729	¥7,538,862	$80,158

See notes to the consolidated financial statements.

	As of March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Liabilities:				
Policy reserves:				
Reserve for outstanding claims	¥ 32,792	¥ 24,149	¥ 24,663	$ 262
Policy reserve	6,115,914	6,510,809	6,779,259	72,081
Reserve for dividends to policyholders	53,205	53,969	52,307	556
Reserve for dividends to policyholders (subsidiary)	654	648	697	7
	6,202,567	6,589,577	6,856,928	72,907
Agency payables	1,685	560	375	3
Reinsurance payables	100	88	113	1
Subordinated bonds	35,214	32,896	66,187	703
Other liabilities	129,127	50,593	53,918	573
Reserve for employees' retirement benefits	50,153	46,384	45,153	480
Reserve for price fluctuation of securities	33,865	38,183	46,625	495
Deferred tax liabilities	—	—	16,938	180
Deferred tax liabilities for revaluation reserve for land	19,936	16,195	16,119	171
Total liabilities	6,472,650	6,774,480	7,102,360	75,516
Net assets:				
Foundation funds	40,000	35,000	35,000	372
Accumulated foundation funds redeemed	46,000	71,000	71,000	754
Reserve for revaluation	112	112	112	1
Consolidated surplus	98,228	77,183	102,904	1,094
Total foundation funds, surplus and others	184,340	183,295	209,016	2,222
Net unrealized gains (losses) on available-for-sale securities, net of tax	10,006	68,806	219,719	2,336
Deferred valuation gains (losses) under hedge accounting	365	170	62	0
Revaluation reserve for land, net of tax	1,366	3,383	3,421	36
Foreign currency translation adjustment	(761)	(828)	(635)	(6)
Total accumulated other comprehensive income	10,977	71,532	222,569	2,366
Minority interests	2,378	4,421	4,916	52
Total net assets	197,696	259,249	436,502	4,641
Total liabilities and net assets	¥6,670,346	¥7,033,729	¥7,538,862	$80,158

See notes to the consolidated financial statements.

Consolidated Statements of Operations

Fukoku Mutual Life Insurance Company and consolidated subsidiaries
For the years ended March 31, 2011, 2012 and 2013

	Years ended March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Ordinary revenues:				
Premium and other income	¥1,210,851	¥ 950,986	¥ 862,225	$ 9,167
Investment income:				
Interest, dividends and other income	124,544	131,529	139,897	1,487
Gains from money held in trust, net	361	162	1,157	12
Gains from trading securities, net	—	12,872	38,498	409
Gains on sales of securities	30,678	19,630	8,290	88
Gains from redemption of securities	—	338	—	—
Gains from derivative instruments, net	3,335	—	—	—
Foreign exchange gains, net	—	—	907	9
Reversal of allowance for possible loan losses	—	57	—	—
Other investment income	354	156	1,230	13
Gains from separate accounts, net	—	1,679	10,075	107
	159,276	166,427	200,056	2,127
Other ordinary revenues	12,507	20,396	10,854	115
Total ordinary revenues	1,382,635	1,137,810	1,073,135	11,410
Ordinary expenditures:				
Claims and other payments:				
Claims	178,210	142,771	171,223	1,820
Annuities	91,729	95,211	101,713	1,081
Benefits	189,273	133,356	136,427	1,450
Surrenders	138,695	107,691	109,133	1,160
Other payments	29,923	26,800	32,179	342
	627,832	505,831	550,677	5,855
Provision for policy reserve and others:				
Provision for reserve for outstanding claims	6,385	—	514	5
Provision for policy reserve	503,609	394,895	268,449	2,854
Interest on accumulated dividends to policyholders	116	83	76	0
Interest on accumulated dividends to policyholders (subsidiary)	0	0	0	0
	510,113	394,979	269,040	2,860
Investment expenses:				
Interest expenses	1,540	1,423	1,801	19
Losses from trading securities, net	5,069	—	—	—
Losses on sales of securities	20,511	26,405	10,790	114
Losses on valuation of securities	5,922	9,222	1,009	10
Losses from derivative instruments, net	—	5,725	34,773	369
Foreign exchange losses, net	2,654	1,876	—	—
Provision for allowance for possible loan losses	—	—	74	0
Depreciation of real estate for rent and other assets	5,732	6,477	5,802	61
Other investment expenses	5,238	5,607	4,820	51
Losses from separate accounts, net	3,034	—	—	—
	49,704	56,740	59,072	628
Operating expenses	109,797	103,441	99,232	1,055
Other ordinary expenditures	23,869	22,985	22,244	236
Total ordinary expenditures	1,321,317	1,083,978	1,000,266	10,635
Ordinary profits	¥ 61,318	¥ 53,832	¥ 72,868	$ 774

	Years ended March 31, 2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Extraordinary gains:				
Gains on disposal of fixed assets	¥ 16	¥ 4,645	¥ 60	$ 0
Reversal of allowance for possible loan losses	957	—	—	—
Gain on change in equity	—	55	—	—
Other extraordinary gains	6	—	—	—
Total extraordinary gains	980	4,700	60	0
Extraordinary losses:				
Losses on disposal of fixed assets	111	161	395	4
Impairment losses	318	433	600	6
Provision for reserve for price fluctuation of securities	7,167	4,318	8,441	89
Losses on reduction entry of real estate for tax purpose	—	9	—	—
Effect of applying the accounting standard for asset retirement obligations	967	—	—	—
Other extraordinary losses	—	—	2	0
Total extraordinary losses	8,564	4,923	9,439	100
Provision for reserve for dividends to policyholders (subsidiary)	456	440	455	4
Surplus before income taxes	53,277	53,168	63,034	670
Income taxes:				
Current	14,719	9,859	15,138	160
Deferred	(3,809)	14,823	(2,499)	(26)
Total income taxes	10,909	24,683	12,639	134
Net surplus before minority interests	42,367	28,485	50,395	535
Minority interests	168	93	128	1
Net surplus for the year	¥42,199	¥28,391	¥50,267	$534

See notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Fukoku Mutual Life Insurance Company and consolidated subsidiaries
For the years ended March 31, 2011, 2012 and 2013

	Years ended March 31, 2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Net surplus before minority interests	¥42,367	¥28,485	¥ 50,395	$ 535
Other comprehensive income:				
Net unrealized gains (losses) on available-for-sale securities, net of tax	(38,009)	58,955	151,291	1,608
Deferred valuation gains (losses) under hedge accounting	(173)	(194)	(107)	(1)
Revaluation reserve for land, net of tax	—	2,854	(17)	(0)
Foreign currency translation adjustment	(177)	(67)	193	2
	(38,360)	61,548	151,359	1,609
Comprehensive income attributable to:				
Parent company	3,809	89,784	201,248	2,139
Minority interests	196	248	507	5
	¥ 4,006	¥90,033	¥201,755	$2,145

See notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Fukoku Mutual Life Insurance Company and consolidated subsidiaries
For the years ended March 31, 2011, 2012 and 2013

	Years ended March 31,			
	2011	2012	2013	2013
		Millions of yen		Millions of U.S. dollars
Cash flows from operating activities:				
Surplus before income taxes	¥ 53,277	¥ 53,168	¥ 63,034	$ 670
Depreciation of real estate for rent and other assets	5,732	6,477	5,802	61
Depreciation	5,841	5,802	6,528	69
Impairment losses	318	433	600	6
Amortization of goodwill	793	763	763	8
Increase (decrease) in reserve for outstanding claims	6,385	(8,643)	514	5
Increase (decrease) in policy reserve	503,609	394,895	268,449	2,854
Interest on accumulated dividends to policyholders	116	83	76	0
Interest on accumulated dividends to policyholders (subsidiary)	0	0	0	0
Provision for reserve for dividends to policyholders (subsidiary)	456	440	455	4
Increase (decrease) in allowance for possible loan losses	78	(196)	(74)	(0)
Increase (decrease) in reserve for employees' retirement benefits	349	(3,768)	(1,231)	(13)
Increase (decrease) in reserve for price fluctuation of securities	7,167	4,318	8,441	89
Interest, dividends and other income	(124,544)	(131,529)	(139,897)	(1,487)
(Gains) losses on securities	161	6,670	(11,447)	(121)
Interest expenses	1,540	1,423	1,801	19
Foreign exchange (gains) losses, net	2,654	1,876	(907)	(9)
(Gains) losses on tangible fixed assets	1,041	(4,496)	174	1
(Increase) decrease in agency receivables	(2)	(2)	0	0
(Increase) decrease in reinsurance receivables	106	51	67	0
(Increase) decrease in other assets except from investing and financing activities	(929)	(1,365)	145	1
Increase (decrease) in agency payables	(187)	(1,124)	(184)	(1)
Increase (decrease) in reinsurance payables	(39)	(12)	24	0
Increase (decrease) in other liabilities except from investing and financing activities	985	2,364	(1,494)	(15)
Others	18,819	18,780	16,632	176
Subtotal	483,734	346,411	218,275	2,320
Interest, dividends and other income received	129,665	140,383	146,798	1,560
Interest paid	(1,556)	(1,439)	(1,392)	(14)
Dividends to policyholders paid	(21,176)	(23,700)	(25,727)	(273)
Dividends to policyholders paid (subsidiary)	(388)	(446)	(406)	(4)
Corporate income tax (paid) refunded	(4,563)	(19,825)	(7,647)	(81)
Net cash provided by (used in) operating activities (I)	585,713	441,382	329,899	3,507
Cash flows from investing activities:				
(Increase) decrease in deposits	160	84	(191)	(2)
Proceeds from sales and redemption of monetary claims bought	327	73	220	2
Payments for increase in money held in trust	(3,500)	(9,800)	—	—
Proceeds from decrease in money held in trust	3,581	7,929	5,034	53
Payments for purchase of securities	(2,011,445)	(1,758,975)	(1,048,127)	(11,144)
Proceeds from sales and redemption of securities	1,505,910	1,066,150	638,224	6,786
Payments for additions to loans	(124,767)	(101,397)	(94,197)	(1,001)
Proceeds from collections of loans	189,114	193,911	214,939	2,285
Proceeds from settlement of derivatives	7,271	(9,825)	(37,627)	(400)
Others	5,654	(2,328)	(24,962)	(265)
Subtotal (IIa)	(427,690)	(614,177)	(346,686)	(3,686)
(I+IIa)	¥ 158,023	¥ (172,795)	¥ (16,787)	$ (178)

	Years ended March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Payments for purchase of tangible fixed assets	¥ (13,047)	¥ (3,226)	¥ (4,704)	$ (50)
Proceeds from sales of tangible fixed assets	116	7,078	444	4
Payments for purchase of intangible fixed assets	(2,737)	(2,225)	(3,616)	(38)
Proceeds from sales of intangible fixed assets	—	—	173	1
Payments for additional acquisition of shares of consolidated subsidiary	(326)	—	—	—
Payments for stocks of subsidiaries and affiliates with change of scope of consolidation	—	—	(330)	(3)
Net cash provided by (used in) investing activities	(443,686)	(612,551)	(354,721)	(3,771)
Cash flows from financing activities:				
Financing of subordinated bonds	—	—	30,000	318
Financing of additional foundation funds	—	20,000	—	—
Redemption of foundation funds	—	(25,000)	—	—
Interest payment for foundation funds	(892)	(892)	(621)	(6)
Proceeds from stock issuance to minority shareholders	—	1,999	—	—
Dividends paid to minority interests	(15)	(12)	(12)	(0)
Payments for lease obligations	(222)	(252)	(518)	(5)
Net cash provided by (used in) financing activities	(1,130)	(4,157)	28,847	306
Effect of exchange rate changes on cash and cash equivalents	(842)	(108)	67	0
Net increase (decrease) in cash and cash equivalents	140,053	(175,434)	4,091	43
Cash and cash equivalents at the beginning of the year	173,885	313,939	138,504	1,472
Cash and cash equivalents at the end of the year	¥313,939	¥ 138,504	¥ 142,596	$ 1,516

See notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Fukoku Mutual Life Insurance Company and consolidated subsidiaries
For the years ended March 31, 2011, 2012 and 2013

	Years ended March 31,			
	2011	2012	2013	2013
		Millions of yen		Millions of U.S. dollars
Foundation funds, surplus and others:				
Foundation funds				
Balance at the beginning of current fiscal year	¥ 40,000	¥ 40,000	¥ 35,000	$ 372
Changes in the current fiscal year:				
Financing of additional foundation funds	—	20,000	—	—
Redemption of foundation funds	—	(25,000)	—	—
Total changes in the current fiscal year	—	(5,000)	—	—
Balance at the end of current fiscal year	40,000	35,000	35,000	372
Accumulated foundation funds redeemed				
Balance at the beginning of current fiscal year	46,000	46,000	71,000	754
Changes in the current fiscal year:				
Additions to accumulated foundation funds redeemed	—	25,000	—	—
Total changes in the current fiscal year	—	25,000	—	—
Balance at the end of current fiscal year	46,000	71,000	71,000	754
Reserve for revaluation				
Balance at the beginning of current fiscal year	112	112	112	1
Changes in the current fiscal year:				
Total changes in the current fiscal year	—	—	—	—
Balance at the end of current fiscal year	112	112	112	1
Consolidated surplus				
Balance at the beginning of current fiscal year	77,020	98,228	77,183	820
Changes in the current fiscal year:				
Additions to reserve for dividends to policyholders	(19,505)	(24,381)	(23,989)	(255)
Payment of interest on foundation funds	(892)	(892)	(621)	(6)
Net surplus for the year	42,199	28,391	50,267	534
Reversal of reserve for redemption of foundation funds	—	(25,000)	—	—
Reversal of revaluation reserve for land	(592)	837	(55)	(0)
Change of scope of consolidation	—	—	120	1
Total changes in the current fiscal year	21,208	(21,045)	25,721	273
Balance at the end of current fiscal year	98,228	77,183	102,904	1,094
Total foundation funds, surplus and others				
Balance at the beginning of current fiscal year	163,132	184,340	183,295	1,948
Changes in the current fiscal year:				
Financing of additional foundation funds	—	20,000	—	—
Additions to reserve for dividends to policyholders	(19,505)	(24,381)	(23,989)	(255)
Additions to accumulated foundation funds redeemed	—	25,000	—	—
Payment of interest on foundation funds	(892)	(892)	(621)	(6)
Net surplus for the year	42,199	28,391	50,267	534
Redemption of foundation funds	—	(25,000)	—	—
Reversal of reserve for redemption of foundation funds	—	(25,000)	—	—
Reversal of revaluation reserve for land	(592)	837	(55)	(0)
Change of scope of consolidation	—	—	120	1
Total changes in the current fiscal year	21,208	(1,045)	25,721	273
Balance at the end of current fiscal year	¥184,340	¥183,295	¥209,016	$2,222

	Years ended March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Accumulated other comprehensive income:				
Net unrealized gains (losses) on available-for-sale securities, net of tax				
Balance at the beginning of current fiscal year	¥ 48,045	¥ 10,006	¥ 68,806	$ 731
Changes in the current fiscal year:				
Net changes, excluding foundation funds, surplus and others	(38,038)	58,799	150,912	1,604
Total changes in the current fiscal year	(38,038)	58,799	150,912	1,604
Balance at the end of current fiscal year	10,006	68,806	219,719	2,336
Deferred valuation gains (losses) under hedge accounting				
Balance at the beginning of current fiscal year	538	365	170	1
Changes in the current fiscal year:				
Net changes, excluding foundation funds, surplus and others	(173)	(194)	(107)	(1)
Total changes in the current fiscal year	(173)	(194)	(107)	(1)
Balance at the end of current fiscal year	365	170	62	0
Revaluation reserve for land, net of tax				
Balance at the beginning of current fiscal year	773	1,366	3,383	35
Changes in the current fiscal year:				
Net changes, excluding foundation funds, surplus and others	592	2,016	38	0
Total changes in the current fiscal year	592	2,016	38	0
Balance at the end of current fiscal year	1,366	3,383	3,421	36
Foreign currency translation adjustment				
Balance at the beginning of current fiscal year	(583)	(761)	(828)	(8)
Changes in the current fiscal year:				
Net changes, excluding foundation funds, surplus and others	(177)	(67)	193	2
Total changes in the current fiscal year	(177)	(67)	193	2
Balance at the end of current fiscal year	(761)	(828)	(635)	(6)
Total accumulated other comprehensive income				
Balance at the beginning of current fiscal year	48,774	10,977	71,532	760
Changes in the current fiscal year:				
Net changes, excluding foundation funds, surplus and others	(37,796)	60,555	151,036	1,605
Total changes in the current fiscal year	(37,796)	60,555	151,036	1,605
Balance at the end of current fiscal year	10,977	71,532	222,569	2,366
Minority interests				
Balance at the beginning of current fiscal year	2,513	2,378	4,421	47
Changes in the current fiscal year:				
Net changes, excluding foundation funds, surplus and others	(134)	2,043	495	5
Total changes in the current fiscal year	(134)	2,043	495	5
Balance at the end of current fiscal year	2,378	4,421	4,916	52
Total net assets				
Balance at the beginning of current fiscal year	214,419	197,696	259,249	2,756
Changes in the current fiscal year:				
Financing of additional foundation funds	—	20,000	—	—
Additions to reserve for dividends to policyholders	(19,505)	(24,381)	(23,989)	(255)
Additions to accumulated foundation funds redeemed	—	25,000	—	—
Payment of interest on foundation funds	(892)	(892)	(621)	(6)
Net surplus for the year	42,199	28,391	50,267	534
Redemption of foundation funds	—	(25,000)	—	—
Reversal of reserve for redemption of foundation funds	—	(25,000)	—	—
Reversal of revaluation reserve for land	(592)	837	(55)	(0)
Change of scope of consolidation	—	—	120	1
Net changes, excluding foundation funds, surplus and others	(37,931)	62,598	151,531	1,611
Total changes in the current fiscal year	(16,723)	61,553	177,252	1,884
Balance at the end of current fiscal year	¥197,696	¥259,249	¥436,502	$4,641

I. Presentation of the Consolidated Financial Statements

1. Basis of Presentation

The accompanying consolidated financial statements have been prepared from the accounts maintained by Fukoku Mutual Life Insurance Company (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Insurance Business Law of Japan and its related rules and regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects from accounting principles generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Amounts of less than one million yen have been eliminated. As a result, total in yen shown herein do not necessarily agree with the sum of the individual amounts.

2. U.S. Dollar Amounts

The translations of yen amounts into U.S. dollar amounts are included solely for the convenience of the reader and have been made, as a matter of arithmetical computation only, at the rate of ¥94.05 = US$1.00, the effective rate of exchange at the balance sheet date of March 31, 2013. The translations should not be construed as representations that such yen amounts have been or could in the future be, converted into U.S. dollars at that or any other rates.

3. Principles of Consolidation

(1) Scope of consolidation

Consolidated subsidiaries for the year ended March 31, 2011 are listed below:

Fukoku Shinyo Hosho Company Limited.
Fukoku Capital Management, Inc.
Fukokushinrai Life Insurance Company
Fukoku Information Systems Co., Ltd.
Fukoku Life International (U.K.) Limited
Fukoku Life International (America) Inc.

Consolidated subsidiaries for the year ended March 31, 2012 are listed below:

Fukoku Shinyo Hosho Company Limited.
Fukoku Capital Management, Inc.
Fukokushinrai Life Insurance Company
Fukoku Information Systems Co., Ltd.
Fukoku Life International (U.K.) Limited
Fukoku Life International (America) Inc.

Consolidated subsidiaries for the year ended March 31, 2013 are listed below:

Fukoku Capital Management, Inc.
Fukokushinrai Life Insurance Company
Fukoku Information Systems Co., Ltd.
Fukoku Life International (U.K.) Limited
Fukoku Life International (America) Inc.

Effective for the fiscal year ended March 31, 2013, owing to the sale of all shares of Fukoku Shinyo Hosho Company Limited, on the October 31, 2012, the Company excluded it from scope of consolidation.

Major unconsolidated subsidiary is Fukoku Seimei Building Company Limited.

Seven subsidiaries are excluded from the scope of consolidation, as each one of them is small in its total assets, amount of sales, net surplus for the year and surplus and is sufficiently insignificant to reasonable judgement on its impact on the financial position and results of operation of the Company's group.

(2) Application of equity method

Unconsolidated subsidiaries (such as Fukoku Seimei building Company Limited, etc.) are insignificant in their impact on net surplus and surplus, and also immaterial as a whole, therefore, application of equity method is withheld.

There are no affiliates for the years ended March 31, 2011, 2012 and 2013.

(3) Fiscal year of consolidated subsidiaries

Among the subsidiaries to be consolidated, fiscal year-end of overseas subsidiaries is December 31. For the preparation of consolidated financial statements, financial statements as of that date are used and concerning any important transaction taking place in between December 31 and the consolidated closing date, necessary adjustments for consolidation are made.

(4) Amortization of goodwill

Goodwill is amortized by the straight-line method over a period of 10 years and in case of the immaterial amount of goodwill, such amount is fully charged to operating expenses when incurred.

(5) Valuation of subsidiary's assets and liabilities on acquisition

On acquisition of a subsidiary, all of the subsidiary’s assets and liabilities that exist at the date of acquisition are recorded at their fair value.

II. Notes to Balance Sheets

1. Significant Accounting Policies

(1) Valuation methods of securities

The valuation of securities, including bank deposits and monetary claims bought which are equivalent to securities, and securities managed as trust assets in money held in trust, is as follows:

i) Trading securities are stated at fair market value. Costs of their sales are determined by the moving average method.

ii) Held-to-maturity debt securities are stated at amortized cost under the straight-line method, cost being determined by the moving average method.

iii) Policy-reserve-matching bonds are stated at amortized cost under the straight-line method, cost being determined by the moving average method in accordance with “Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching Bonds in Insurance Industry” (Industry Audit Committee Report No.21 issued by the Japanese Institute of Certified Public Accountants on November 16, 2000).

iv) Investments in unconsolidated subsidiaries and affiliates which are not accounted for under the equity method are stated at cost, cost being determined by the moving average method.

v) Available-for-sale securities with fair market value are stated at fair market value based on the market prices at the end of fiscal year. Costs of their sales are determined by the moving average method. Net unrealized gains or losses on these available-for-sale securities, net of taxes, are recorded as a separate component of net assets.

Available-for-sale securities whose fair values are deemed extremely difficult to obtain are stated at cost, cost being determined by the moving average method, except for public and corporate bonds including foreign bonds, of which the difference between acquisition cost and face value is considered to be an adjustment of interest. Such bonds are stated at amortized cost under the straight-line method, cost being determined by the moving average method.

(2) Valuation methods of derivative instruments

Derivative instruments are stated at fair market value.

(3) Revaluation of land

The Company revalued the land for business purposes based on the Law for Revaluation of Land (Law No.34 promulgated on March 31, 1998). The difference between fair value and book value resulting from the revaluation, net of related taxes, is recorded as revaluation reserve for land as a separate component of net assets and the related tax is recorded as deferred tax liabilities for revaluation reserve for land.

- Date of revaluation: March 31, 2002
- Method of revaluation as prescribed for in Article 3 Paragraph 3 of the said Law:
  Calculation is based on the appraisal value for property tax set forth in Article 2 item 3 of the Enforcement Ordinance of the Law for Revaluation of Land (Government Ordinance No.119 promulgated on March 31, 1998) and the road rate set forth in Article 2 item 4 of the said Ordinance with certain reasonable adjustments.

(4) Depreciation of tangible fixed assets

Depreciation of the Company's tangible fixed assets is calculated by the following methods.

- Tangible fixed assets (excluding lease assets):Declining-balance method
  However, buildings (excluding building attachments and structures) acquired on or after April 1, 1998 are depreciated using Straight-line method.
- Lease assets related to finance lease transactions that do not transfer ownership: Straight-line method over the lease term without residual value

Other tangible fixed assets acquired for ¥100,000 or more but less than ¥200,000 are depreciated equally over three years.

(5) Foreign currency translation

Foreign currency-denominated assets and liabilities are translated into Japanese yen at the effective exchange rate prevailing at the balance sheet date.

(6) Allowance for possible loan losses

Allowance for possible loan losses is provided in accordance with the Company's standards of self-assessment and write-offs and reserves on credit quality:

i) For the credits of borrowers who are legally bankrupt such as being in the proceedings of bankruptcy or civil rehabilitation (hereinafter called "legally bankrupt borrowers") and who are substantially bankrupt (hereinafter called "substantially bankrupt borrowers"), the Company provides the remaining amount of credits after the direct write-off described below and the deductions of the amount expected to be collected through the disposal of collateral or the execution of guarantees.

ii) For the credits of borrowers who are not currently bankrupt but have a high possibility of bankruptcy (hereinafter called “not currently bankrupt borrowers”), the Company provides the amounts deemed as necessary considering the borrowers' ability to pay, within the amounts after deductions of the amount expected to be collected through the disposal of collateral or the execution of guarantees.

iii) For the credits of borrowers other than the above, the Company provides the amounts calculated by multiplying the borrowers' balance by the actual ratio of bad debt losses on defaults during a certain past period.

All credits are assessed by the relevant departments in accordance with the Company's standards of self-assessment on credit quality. The results of the assessment are reviewed by the audit department, which is independent of business-related divisions. Subsequently, the allowance for possible loan losses are provided based on the results of these assessments.

For the credits of legally bankrupt borrowers and substantially bankrupt borrowers, the amounts remaining after deductions of collateral value or the amounts collectible through the execution of guarantees is written-off directly from the borrower's balance as the estimated uncollectible amounts. The amounts written-off as of March 31, 2011, 2012 and 2013 were ¥287 million, ¥332 million and ¥308 million (US$3 million), respectively.

(7) Reserve for employees' retirement benefits

The Company and its consolidated subsidiaries adopt accounting standards for employees' retirement benefits (Business Accounting Council dated June 16, 1998) and account for the reserve for employees' retirement benefits based on the projected benefit obligation and plan assets at the balance sheet date.

(8) Reserve for price fluctuation of securities

Reserve for price fluctuation of securities is calculated in accordance with Article 115 of the Insurance Business Law.

(9) Lease transactions as a lessee

Finance lease transactions that do not transfer ownership to the lessee whose commencement day was on or before March 31, 2008 continued to be accounted for in a manner similar to accounting treatment for ordinary rental transactions.

(10) Lease transactions as a lessor

As for the finance lease transactions where the Company is a lessor, the lease fee is recorded in "interest, dividends and other income (other interest and dividends)" at the time of receiving lease fee. The corresponding cost of the lease transactions is recorded in "other investment expenses," which is calculated by deducting an amount equivalent to the interest allocated over the lease term from the lease fee received.

(11) Accounting for hedge activities

Hedge accounting is based on "Accounting Standards for Financial Instruments" (ASBJ Statement No. 10 issued by the Accounting Standards Board of Japan on August 11, 2006).

For the foreign currency forward contracts against the exchange rate fluctuations in the value of foreign currency-denominated bonds classified as available-for-sale securities, which qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, valuation gains and losses on the foreign currency forward contracts are recorded in the statements of operations.

For the interest rate swaps against the interest rate fluctuations regarding loans, which qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, valuation gains and losses on the interest rate swaps are deferred until the maturity of the hedged transactions.

Deposits denominated in foreign currencies for which forward foreign exchange contracts are used to hedge the foreign currency fluctuations are translated at the contract rates if the forward contracts qualify for specific hedge accounting. In this case, exchange differences between the exchange rate on the trade date and the forward contract rate are allocated to each fiscal year from the date contracted to the date settled.

For judging the effectiveness of hedge used, ratio analysis of comparing the fluctuations in the fair value or cash flows of hedged items and hedging instruments is mostly applied.

(12) Accounting for consumption taxes

The Company accounts for consumption taxes by the tax-exclusion method. The consumption taxes on certain assets, which are not deductible from consumption taxes withheld and that are stipulated to be deferred under the Tax Law, are deferred as prepaid expenses and amortized equally over five years. Consumption taxes other than deferred consumption taxes are recognized as an expense when incurred.

(13) Policy reserve

Policy reserve is based on Article 116 of the Insurance Business Law, and the premium reserve at the end of fiscal year is calculated by the following method:

In regard to the policies subject to the standard policy reserve, the method as prescribed by the Commissioner of Financial Services Agency (Ministry of Finance Ordinance No. 48, 1996) is applied.

In regard to the policies not subject to the standard policy reserve, the net level premium method is applied.

As of March 31, 2013, in order to improve future income and expenditure, the Company raised an additional policy reserve based on the provision of paragraph 5, Article 69 of the Enforcement Regulation of the Insurance Business Law for individual annuity insurance policies with an assumed rate of 5.00% or more for which annuity payment commenced on or before March 31, 2013 (excluding the wife's annuity insurance additional rider). On raising this reserve, the Company reversed and allocated a contingency reserve of ¥64,333 million (US$684 million) included in the policy reserve, and there is no impact on provision for policy reserve, ordinary profits, and surplus before income taxes.

The Company also raised an additional policy reserve of ¥984 million (US$10 million) under the provision of paragraph 5, Article 69 of the Enforcement Regulation of the Insurance Business Law based on the written opinion of an actuary provided for in paragraph 1, Article 121 of the Insurance Business law for hospitalization riders with surgery benefits and long-term hospitalization benefits (sold between August 1977 and March 1981) and non-participating tuition insurance. As a result, the provision for policy reserve increased by ¥984 million (US$10 million) and ordinary profits and surplus before income taxes decreased by ¥984 million (US$10 million) compared with if the additional reserve had not been raised.

(14) Amortization method for intangible fixed assets

Intangible fixed assets are amortized as follows:

i) Software

Software for internal use is amortized based on a straight-line method over the estimated useful lives.

ii) Lease assets

Lease assets are amortized based on a straight-line method over the lease term.

(15) Deferred assets

Discount on bonds is amortized equally over the period for which interest on bonds is fixed. This amount is deducted from bonds.

(16) Policy-reserve-matching bonds

Of the bonds corresponding to the sub-groups of individual insurance and annuities which are set by insurance types and investment policies, the bonds that are held to match the duration of liabilities are classified by the Company as policy-reserve-matching bonds in accordance with "Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching Bonds in Insurance Industry" (Industry Audit Committee Report No. 21 issued by the Japanese Institute of Certified Public Accountants on November 16, 2000).

The amounts of policy-reserve-matching bonds recorded on the balance sheets and the market value of these bonds as of March 31, 2011, 2012 and 2013 were written in Notes No. 4 "Financial Instruments."

Effective for the fiscal year ended March 31, 2013, the insurance policy sub-groups were changed in order to enhance ALM as follows:

i) The sub-group of single premium endowment life insurance entered since July 2002 was integrated into the sub-groups of individual annuities with single premium accident and death benefits entered since October 2002 and single premium whole life insurance entered since August 2003.

ii) The sub-groups of whole life insurance and individual annuities (excluding above mentioned individual annuities with single premium accident and death benefits and single premium whole life insurance) were newly established.

iii) The sub-group of group annuities (excluding defined contribution annuities with limited term and yields guaranteed) was newly established.

There was no impact of these changes on the consolidated balance sheets and consolidated statements of operations as of March 31, 2013.

2. Accounting Changes and Error Corrections and Its Implementation

(1) Effective for the fiscal year ended March 31, 2013, the Company has changed its depreciation method for its tangible fixed assets acquired on or after April 1, 2012 in accordance with the revision of the Corporation Tax Act.

As a result, consolidated ordinary revenue and surplus before income taxes for the fiscal year ended March 31, 2013, increased by ¥36 million (US$385 thousand), both compared to those calculated using the previous depreciation method.

(2) Effective for the year ended March 31, 2012, in accordance with the amendment of the Enforcement Regulation of the Insurance Business Law, the presentation of financial statements has been changed as follows.

(a) As for the statement of operations, "reversal of allowance for possible loan losses" which was presented in "extraordinary gains" until previous fiscal year is included in "investment income".

(b) As for the statement of changes in net assets, the item which was presented as "balance at the end of previous fiscal year" until previous fiscal year is presented as "balance at the beginning of current period".

(3) Effective for the year ended March 31, 2011, the Company and its consolidated subsidiaries adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18 issued by the Accounting Standards Board of Japan on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21 issued by the Accounting Standards Board of Japan on March 31, 2008). As a result, tangible fixed assets increased by ¥1,725 million and the amount of asset retirement obligations recorded in balance sheet was ¥2,849 million. Ordinary profit decreased by ¥157 million and surplus before income taxes decreased ¥1,124 million.

3. The Principal Accounting Standards Published before March 31, 2013 but not Applied are as follows.

With the publication of the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012), the treatment of unrecognized actuarial gain or loss and unrecognized prior service cost, the method for calculating retirement benefit obligations, current service cost and others will be changed and disclosure will be enhanced.

Application of the standards concerning changes in the treatment of unrecognized actuarial differences and unrecognized prior service cost and enhancement of disclosure is mandatory for the consolidated financial statements pertaining to the end of the consolidated fiscal year commencing on or after April 1, 2013, and the Group plans to apply the standard from the end of fiscal 2013.

Application of the standard concerning the change of the method for calculating retirement benefit obligations and current service costs is mandatory from the beginning of the consolidated fiscal years commencing on or after April 1, 2014, and the Group plans to apply the standard from the beginning of fiscal 2014.

The Group is currently evaluating the impact in the consolidated fiscal years after the application of the standards.

4. Financial Instruments

Asset management of the Company's general accounts other than the separate accounts stipulated in Article 118 Paragraph 1 of the Insurance Business Law is conducted on the principle of prudent and profitable investments, considering public and social responsibilities of the insurance business. Based on this policy, the Company allocates the fund, securing its liquidity, from the medium-to-long term viewpoints. The Company is diversifying investments in assets such as foreign securities and equity securities within the acceptable range of risk in order to enhance the profitability, although yen-denominated interest bearing

	As of March 31,					
	2011			2012		
	Millions of yen					
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Monetary claims bought:						
Claims treated as loans	¥ 1,424	¥ 1,424	¥ 0	¥ 1,351	¥ 1,374	¥ 23
Total monetary claims bought	1,424	1,424	0	1,351	1,374	23
Money held in trust:						
Trading securities	32,169	32,169	—	34,194	34,194	—
Total money held in trust	32,169	32,169	—	34,194	34,194	—
Securities:						
Trading securities	228,171	228,171	—	214,053	214,053	—
Held-to-maturity debt securities	685,249	691,061	5,811	1,179,852	1,218,634	38,781
Policy-reserve-matching bonds	1,270,781	1,291,435	20,654	1,461,155	1,522,287	61,132
Available-for-sale securities	2,400,737	2,400,737	—	2,479,204	2,479,204	—
Total securities	4,584,939	4,611,406	26,466	5,334,265	5,434,179	99,914
Loans:						
Policy loans	74,357	74,357	(0)	73,176	73,176	(0)
Ordinary loans	1,072,361	1,099,209	26,847	969,182	995,689	26,506
Total loans	1,146,719	1,173,566	26,846	1,042,359	1,068,865	26,506
Derivative instruments:						
Hedge accounting not applied	(6,049)	(6,049)	—	(1,442)	(1,442)	—
Hedge accounting applied	(1,730)	(1,730)	—	(3,506)	(3,506)	—
Total derivative instruments	¥ (7,780)	¥ (7,780)	¥ —	¥ (4,948)	¥ (4,948)	¥ —

	As of March 31,					
	2013			2013		
	Millions of yen			Millions of U.S. dollars		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Monetary claims bought:						
Claims treated as loans	¥ 1,111	¥ 1,136	¥ 25	$ 11	$ 12	$ 0
Total monetary claims bought	1,111	1,136	25	11	12	0
Money held in trust:						
Trading securities	30,322	30,322	—	322	322	—
Total money held in trust	30,322	30,322	—	322	322	—
Securities:						
Trading securities	258,193	258,193	—	2,745	2,745	—
Held-to-maturity debt securities	1,230,032	1,348,605	118,573	13,078	14,339	1,260
Policy-reserve-matching bonds	1,888,162	2,036,166	148,003	20,076	21,649	1,573
Available-for-sale securities	2,640,657	2,640,657	—	28,077	28,077	—
Total securities	6,017,045	6,283,622	266,577	63,977	66,811	2,834
Loans:						
Policy loans	69,956	69,956	(0)	743	743	(0)
Ordinary loans	840,701	866,908	26,207	8,938	9,217	278
Total loans	910,657	936,865	26,207	9,682	9,961	278
Derivative instruments:						
Hedge accounting not applied	331	331	—	3	3	—
Hedge accounting applied	(795)	(795)	—	(8)	(8)	—
Total derivative instruments	¥ (463)	¥ (463)	¥ —	$ (4)	$ (4)	$ —

assets including debt securities such as Japanese government bonds and loans are the cores of the portfolios. Derivatives are mainly used to mitigate the market risk regarding the securities and loans. Major financial instruments including securities, loans and derivatives are exposed to market risk and credit risk.

The Company manages its asset management risk by establishing internal control systems including various rules pursuant to the "Basic Policy for Risk Management" established by the Board of Directors. Specifically, the Company eliminates excessive risk deviating from the basic principle and secures the safety of the assets by utilizing control functions of the Financial and Investment Risk Management Department towards the asset management sections, monitoring the status of market risk and credit risk periodically on a daily or monthly basis. In addition, the Company quantifies the market risk and credit risk using value-at-risk (VaR) method in order to control the possible maximum losses which may arise from the holding assets within a certain range of risk buffers.

The carrying amounts, fair values and their related differences of major financial assets and liabilities as of March 31, 2011, 2012 and 2013, were as follows:

(1) Securities including deposits and monetary claims bought which are treated as securities based on "Accounting Standards for Financial Instruments" (ASBJ Statement No.10) and securities managed as trust assets in money held in trust: The fair values of marketable securities are measured at the quoted market price at the end of fiscal year. The fair values of other securities without the quoted market price are based on the prices reasonably calculated such as the prices offered by the information vendors or counterparty financial institutions.

Investments in unconsolidated subsidiaries and affiliates, unlisted stocks and investments in partnerships whereby partnership assets consist of unlisted stocks whose fair values are deemed extremely difficult to obtain, are excluded from above securities. The carrying amounts of investments in unconsolidated subsidiaries and affiliates, unlisted stocks and investments in partnerships were ¥398 million, ¥8,847 million and ¥8,201 million as of March 31, 2011, ¥398 million, ¥8,086 million and ¥7,729 million as of March 31, 2012, and ¥519 million (US$5 million), ¥7,738 million (US$82 million) and ¥7,667 million (US$81 million) as of March 31, 2013, respectively.

(2) Loans and monetary claims bought treated as loans: The fair values of policy loans are deemed to approximate book values, considering estimated repayment period and interest rate conditions since their repayment deadline have not been set up due to the characteristics that the loan is limited to the amount of cash surrender values. Therefore, the book values are used as the fair values of policy loans.

The fair values of floating interest rate loans among the ordinary loans and monetary claims bought treated as loans approximate the book values because the market interest rates are reflected in future cash flows in a short period. Therefore, the fair values of floating interest rate loans and monetary claims bought treated as loans are based on their book values. The fair values of fixed interest rate loans are measured by discounting the future cash flows to the present values.

The fair values of loans receivable from legally bankrupt borrowers, substantially bankrupt borrowers and not currently bankrupt borrowers and monetary claims bought treated as loans are computed by deducting the amount of the allowance for doubtful accounts from the book values before direct write-offs.

(3) Derivative instruments:
i) The fair values of the futures and options traded at the exchange are measured at the settlement price of the exchange.
ii) The fair values of options and swaps traded over the counter are based on the quoted prices offered by counterparty financial institutions.
iii) The fair values of foreign currency forward contracts are determined based on the spot exchange rate and forward contract rate.

5. Investment and Rental Property

The Company holds investment and rental properties such as office buildings in Tokyo and other areas. The carrying amounts and the fair values of investment and rental properties were ¥230,127 million and ¥280,297 million as of March 31, 2011, ¥223,191 million and ¥271,525 million as of March 31, 2012 and ¥216,722 million (US$2,304 million) and ¥273,809 million (US$2,911 million) as of March 31, 2013, respectively. The fair value is mainly based on the value calculated by the Company in accordance with real estate appraisal standards which includes some adjustments using the reference prices.

The amount corresponding to asset retirement obligations included in the carrying amount of investment and rental properties were ¥1,411 million, ¥1,334 million and ¥1,256 million (US$13 million) as of March 31, 2011, 2012 and 2013, respectively.

6. Securities Lent under Lending Agreements

The amount of securities lent under lending agreements was ¥45,887 million (US$487 million) as of March 31, 2013.

7. Loans Receivable

The total amounts of credits to bankrupt borrowers, delinquent loans, delinquent loans past 3 months or more and restructured loans, which were included in loans, were ¥3,288 million, ¥3,019 million and ¥1,759 million (US$18 million) as of March 31, 2011, 2012 and 2013, respectively.

i) The balances of credits to bankrupt borrowers were ¥280 million, ¥270 million and ¥218 million (US$2 million) as of March 31, 2011, 2012 and 2013, respectively.
ii) The balances of delinquent loans were ¥770 million, ¥683 million and ¥590 million (US$6 million) as of March 31, 2011, 2012 and 2013, respectively.
iii) There were no balances of delinquent loans past 3 months or more as of March 31, 2011, 2012 and 2013.
iv) The balances of restructured loans were ¥2,237 million, ¥2,064 million, and ¥950 million (US$10 million) as of March 31, 2011, 2012 and 2013, respectively.

Credits to bankrupt borrowers represent loans, excluding the balances already written-off, which meet the conditions prescribed in Article 96 Paragraph 1 Item 3 and 4 of the Enforcement Regulations of the Corporate Tax Law. Moreover, accruing interest on these loans is not recorded as income after determining that principal of or interest on these loans is unlikely to be collected due to the significant delay in repayment of principal or interest payment or for some other reasons.

Delinquent loans are credits whose accruing interest is not recorded as income due to the same reasons as described above, and exclude credits to bankrupt borrowers and loans for which interest payments have been suspended and rescheduled to assist and support the borrowers in the restructuring of their business.

Delinquent loans past 3 months or more are loans for which interest payment or repayment of principal are delinquent for 3 months or more from the due date under the terms of the related loan agreements, excluding those loans classified as credits to bankrupt borrowers and delinquent loans.

Restructured loans are loans for which certain concessions favorable to borrowers, such as interest reduction or exemptions, rescheduling of due date of principal or interest payment, waiver of claim or other terms, have been negotiated for the purpose of assisting and supporting the borrowers in the restructuring of their business. This category excludes loans classified as credits to bankrupt borrowers, delinquent loans and delinquent loans past 3 months or more.

The direct write-offs related to loans decreased credits to bankrupt borrowers described above by ¥19 million, ¥12 million and ¥1 million (US$13 thousand) as of March 31, 2011, 2012 and 2013, respectively.

The direct write-offs related to loans decreased delinquent loans described above by ¥262 million, ¥291 million and ¥288 million (US$3 million) as of March 31, 2011, 2012 and 2013, respectively.

8. Accumulated Depreciation of Tangible Fixed Assets

Accumulated depreciation of tangible fixed assets totaled to ¥137,605 million, ¥137,618 million and ¥143,241 million (US$1,523 million) as of March 31, 2011, 2012 and 2013, respectively.

9. Separate Accounts

Total assets in separate accounts provided for in Article 118 of the Insurance Business Law were ¥83,280 million, ¥82,053 million and ¥78,815 million (US$838 million) as of March 31, 2011, 2012 and 2013, respectively. The amounts of separate account liabilities were the same as separate account assets.

10. Receivables from/Payables to Unconsolidated Subsidiaries

The total amounts of receivables from/payables to unconsolidated subsidiaries were ¥2,508 million and ¥171 million as of March 31, 2011, ¥2,432 million and ¥177 million as of March 31, 2012, and ¥3,247 million (US$34 million) and ¥184 million (US$1 million) as of March 31, 2013, respectively.

11. Income Taxes

Deferred tax assets and deferred tax liabilities as of March 31, 2011 were ¥100,383 million and ¥8,381 million, respectively. Valuation allowance for deferred tax assets was ¥3,257 million.

Major components of deferred tax assets were ¥59,538 million of policy reserves, ¥18,161 million of reserve for employees' retirement benefits and ¥12,262 million of reserve for price fluctuation of securities as of March 31, 2011.

Major component of deferred tax liabilities was ¥5,859 million of net unrealized gains on available-for-sale securities as of March 31, 2011.

The statutory tax rate and the actual effective tax rate for the year ended March 31, 2011 were 36.2% and 20.5%, respectively. The major difference between the statutory tax rate and the actual effective tax rate was (16.6%) of reserve for dividends to policyholders.

Deferred tax assets and deferred tax liabilities as of March 31, 2012 were ¥85,897 million and ¥34,529 million, respectively. Valuation allowance for deferred tax assets was ¥3,155 million.

Major components of deferred tax assets were ¥49,440 million of policy reserves, ¥14,279 million of reserve for employees' retirement benefits and ¥11,752 million of reserve for price fluctuation of securities as of March 31, 2012.

Major component of deferred tax liabilities was ¥30,806 million of net unrealized gains on available-for-sale securities as of March 31, 2012.

The statutory tax rate and the actual effective tax rate for the year ended March 31, 2012 were 36.2% and 46.4%, respectively. The major differences between the statutory tax rate and the actual effective tax rate were 24.9% of the reduction of deferred tax assets due to the changes in tax rates and (16.3%) of reserve for dividends to the policyholders.

Deferred tax assets and deferred tax liabilities as of March 31, 2013 were ¥88,575 million (US$941 million) and ¥102,048 million (US$1,085 million), respectively. Valuation allowance for deferred tax assets was ¥3,103 million (US$32 million).

Major components of deferred tax assets were ¥50,755 million (US$539 million) of policy reserves, ¥14,351 million (US$152 million) of reserve for price fluctuation of securities and ¥13,859 million (US$147 million) of reserve for employees' retirement benefits as of March 31, 2013.

Major component of deferred tax liabilities was ¥98,080 million (US$1,042 million) of net unrealized gains on available-for-sale securities as of March 31, 2013.

The statutory tax rate and the actual effective tax rate for the year ended March 31, 2013 were 33.3% and 20.1%, respectively. The major differences between the statutory tax rate and the actual effective tax rate was(14.7%) of reserve for dividends to the policyholders.

12. Reserve for Dividends to Policyholders

Changes in reserve for dividends to policyholders were as follows:

	Years ended March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Balance at the beginning of current fiscal year	¥ 54,759	¥ 53,205	¥ 53,969	$ 573
Transfer from surplus in previous fiscal year	19,505	24,381	23,989	255
Dividends paid in the current fiscal year	(21,176)	(23,700)	(25,727)	(273)
Increase in interest	116	83	76	0
Balance at the current fiscal year	¥ 53,205	¥ 53,969	¥ 52,307	$ 556

13. Reserve for Dividends to Policyholders (Fukokushinrai Life Insurance Company)

Changes in reserve for dividends to policyholders were as follows:

	Years ended March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Balance at the beginning of current fiscal year	¥585	¥654	¥648	$6
Dividends paid in the current fiscal year	(388)	(446)	(406)	(4)
Increase in interest	0	0	0	0
Provision for reserve for dividends to policyholders	456	440	455	4
Balance at the current fiscal year	¥654	¥648	¥697	$7

14. Stocks of Unconsolidated Subsidiaries

The amounts of stocks of unconsolidated subsidiaries the Company held as of March 31, 2011, 2012 and 2013 were ¥398 million, ¥398 million and ¥519 million (US$5 million), respectively.

15. Pledged Assets and Secured Debts

Assets pledged as collateral as of March 31, 2011 were ¥23,633 million of securities. Secured debts as of March 31, 2011 were ¥4,629 million.

Assets pledged as collateral as of March 31, 2012 were ¥24,300 million of securities and ¥397 million of bank deposits. Secured debts as of March 31, 2012 were ¥4,608 million.

Assets pledged as collateral as of March 31, 2013 were ¥26,930 million (US$286 million) of securities and ¥163 million (US$1 million) of bank deposits. Secured debts as of March 31, 2013 were ¥4,583 million (US$48 million).

16. Policy Reserves for the Reinsurance Contracts

Reserve for outstanding claims for the reinsurance contracts provided in accordance with Article 71 Paragraph 1 of the Enforcement Regulation of the Insurance Business Law (hereinafter called "reserve for outstanding claims for ceded reinsurance") were ¥42 million, ¥5 million and ¥1 million (US$20 thousand) as of March 31, 2011, 2012 and 2013, respectively.

Policy reserve for the reinsurance contracts provided in accordance with Article 71 Paragraph 1 of the Enforcement Regulation of the Insurance Business Law (hereinafter called "policy reserve for ceded reinsurance") were ¥55 million, ¥53 million and ¥52 million (US$555 thousand), as of March 31, 2011, 2012 and 2013, respectively.

17. Commitment Line

As of March 31, 2011, 2012 and 2013, there were unused commitment line agreements under which the Company is the lender of ¥4,056 million, ¥1,023 million and ¥972 million (US$10 million), respectively.

18. Subordinated Bonds

Repayments of subordinated bonds are subordinated to other obligations.

19. Contribution to Policyholders Protection Corporation

The future contribution to the Life Insurance Policyholders Protection Corporation of Japan under Article 259 of the Insurance Business Law were estimated at ¥11,285 million, ¥11,754 million and ¥12,561 million (US$133 million) as of March 31, 2011, 2012 and 2013, respectively. The contributions were charged as operating expenses in the year in which they were paid.

20. Reserve for Employees' Retirement Benefits

(1) The reserve for employees' retirement benefits as of March 31, 2011, 2012 and 2013, were calculated as follows:

	As of March 31,			
	2011	2012	2013	2013
		Millions of yen		Millions of U.S. dollars
a. Projected benefit obligation	¥(71,786)	¥(72,936)	¥(72,695)	$(772)
b. Fair value of pension plan assets	15,728	17,167	20,006	212
c. Unfunded benefit obligation (a+b)	(56,058)	(55,768)	(52,689)	(560)
d. Unrecognized actuarial differences	5,802	10,021	8,134	86
e. Unrecognized prior service cost	102	(636)	(598)	(6)
f. Reserve for employees' retirement benefits (c+d+e)	¥(50,153)	¥(46,384)	¥(45,153)	$(480)

(2) Gross amount of retirement benefit expenses for the years ended March 31, 2011, 2012 and 2013 were as follows:

	Years ended March 31,			
	2011	2012	2013	2013
		Millions of yen		Millions of U.S. dollars
Service cost	¥3,114	¥2,965	¥2,892	$30
Interest cost	1,430	1,451	1,456	15
Expected return on pension plan assets	(480)	(471)	(515)	(5)
Amortization of actuarial differences	1,171	1,218	1,361	14
Amortization of prior service cost	34	(20)	(38)	(0)
	¥5,270	¥5,143	¥5,156	$54

(3) The Company's assumptions used in calculation of the above information were as follows:

	Years ended March 31,		
	2011	2012	2013
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis	Straight-line basis
Discount rate	2.0%	2.0%	2.0%
Expected rate of return on pension plan assets	3.0%	3.0%	3.0%
Amortization period of actuarial differences	10 years	10 years	10 years
Amortization period of prior service cost	10 years	10 years	10 years

III. Notes to Statements of Operations

1. Net Surplus before Minority Interests

Effective for the year ended March 31, 2011, net surplus before minority interests is presented in the consolidated statements of operations in accordance with the revision of the Enforcement Rule of the Insurance Business Law based on "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued by the Accounting Standards Board of Japan on December 26, 2008).

2. Transactions with Unconsolidated Subsidiaries

The total amounts of revenues and expenditures in connection with unconsolidated subsidiaries were ¥108 million and ¥2,884 million for the year ended March 31, 2011, ¥96 million and ¥2,884 million for the year ended March 31, 2012, and ¥97 million (US$1 million) and ¥3,054 million (US$32 million) for the year ended March 31, 2013, respectively.

3. Policy Reserves for the Reinsurance Contracts

For the year ended March 31, 2011, provision for reserve for outstanding claims for ceded reinsurance considered in calculation of provision for reserve for outstanding claims was ¥9 million and reversal of policy reserve for ceded reinsurance considered in calculation of provision for policy reserve was ¥0 million.

For the year ended March 31, 2012, reversal of reserve for outstanding claims for ceded reinsurance considered in calculation of reversal of reserve for outstanding claims was ¥36 million and reversal of policy reserve for ceded reinsurance considered in calculation of provision for policy reserve was ¥1 million.

For the year ended March 31, 2013, reversal of reserve for outstanding claims for ceded reinsurance considered in calculation of provision for reserve for outstanding claims was ¥3 million (US$41 thousand) and reversal of policy reserve for ceded reinsurance considered in calculation of provision for policy reserve was ¥1 million (US$12 thousand).

4. Impairment Losses of Fixed Assets

For the year ended March 31, 2013, impairment losses of fixed assets by the Company were as follows:

(1) Method of grouping

Real estate and other assets used for insurance business operations are classified as one asset group as a whole. Other assets such as real estate for rent and unused real estate are classified as one group individually.

(2) Background of recognizing the impairment losses

Profitability of certain real estate for rent dropped down significantly due to a decrease in the level of rental income and a declining trend of market prices of land. The Company reduced its book values of such real estate for rent and unused real estate to their recoverable amounts. The amounts reduced were recognized as impairment losses and included in the extraordinary losses.

(3) Asset groups recognized impairment losses and losses by fixed assets

	Year ended March 31,	
	2013	2013
	Millions of yen	Millions of U.S. dollars
Real estate for rent:		
Land	¥183	$1
Buildings and others	26	0
Total real estate for rent (i)	210	2
Unused real estate:		
Land	177	1
Buildings and others	212	2
Total unused real estate (ii)	390	4
Total:		
Land	361	3
Buildings and others	239	2
Total (i)+(ii)	¥600	$6

(4) Calculation method of recoverable amount

Recoverable amount is based on net sales value. Net sales value is determined based on appraisal value, posted price or road rate.

(5) Changes in presentation

Impairment losses of fixed assets have been disclosed for the year ended March 31, 2013, owing to increased materiality.

IV. Notes to Statement of Comprehensive Income

1. Other Comprehensive Income

The amounts recycled and tax effect amounts related to other comprehensive income were as follows:

	Years ended March 31,		
	2012	2013	2013
	Millions of yen		Millions of U.S. dollars
Net unrealized gains (losses) on available-for-sale securities, net of tax			
Amount incurred during the fiscal year	¥69,198	¥214,928	$2,285
Amount recycled	14,702	3,637	38
Before tax adjustment	83,901	218,566	2,323
Tax effects	(24,946)	(67,274)	(715)
Net unrealized gains (losses) on available-for-sale securities, net of tax	58,955	151,291	1,608
Deferred valuation gains (losses) under hedge accounting, net of tax			
Amount incurred during the fiscal year	14	(0)	(0)
Amount recycled	(330)	(160)	(1)
Before tax adjustment	(316)	(161)	(1)
Tax effects	122	53	0
Deferred valuation gains (losses) under hedge accounting, net of tax	(194)	(107)	(1)
Revaluation reserve for land, net of tax			
Amount incurred during the fiscal year	—	—	—
Amount recycled	—	—	—
Before tax adjustment	—	—	—
Tax effects	2,854	(17)	(0)
Revaluation reserve for land, net of tax	2,854	(17)	(0)
Foreign currency translation adjustment			
Amount incurred during the fiscal year	(67)	193	2
Amount recycled	—	—	—
Before tax adjustment	(67)	193	2
Tax effects	—	—	—
Foreign currency translation adjustment	(67)	193	2
Total other comprehensive income	¥61,548	¥151,359	$1,609

V. Notes to Statements of Cash Flows

1. Scope of Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2011, 2012 and 2013 consist of "Cash," "Deposits in transfer account," "Current deposits," "Ordinary deposits," "Notice deposits," "Time deposits maturing within 3 months of the date of acquisition," "Foreign currency deposits maturing within 3 months of the date of acquisition," "Negotiable certificate of deposits maturing within 3 months of the date of acquisition," "Call loans" and "Monetary claims bought maturing within 3 months of the date of acquisition."

2. Reconciliations of Cash and Cash Equivalents

Reconciliations of cash and cash equivalents in the consolidated statements of cash flows to the consolidated balance sheets accounts as of March 31, 2011, 2012 and 2013 were as follows:

	As of March 31,			
	2011	2012	2013	2013
	Millions of yen			Millions of U.S. dollars
Cash and deposits	¥314,392	¥ 73,260	¥ 72,868	$ 774
Call loans	—	65,600	70,300	747
Monetary claims bought	1,424	1,351	1,111	11
Time deposits maturing over 3 months of the date of acquisition	(200)	(200)	(200)	(2)
Foreign currency deposits maturing over 3 months of the date of acquisition	(252)	(155)	(371)	(3)
Monetary claims bought maturing over 3 months of the date of acquisition	(1,424)	(1,351)	(1,111)	(11)
Cash and cash equivalents	¥313,939	¥138,504	¥142,596	$1,516

3. Impact of the Sale of Shares of Fukoku Shinyo Hosho Company Limited

Owing to the sale of shares, Fukoku Shinyo Hosho Company Limited ceased to be a consolidated subsidiary of the Company. The breakdown of assets and liabilities affected by the sale as well as the proceeds from the share sale and cash decrease (net) owing to the sale were as follows:

	Year ended March 31,	
	2013	2013
	Millions of yen	Millions of U.S. dollars
Assets	¥978	$10
[Cash and deposits]	[932]	[9]
Liabilities	(373)	(3)
Other extraordinaty losses	(2)	(0)
Proceeds from sale of shares of subsidiary	602	6
Cash and cash equivalents of subsidiary	(932)	(9)
Difference: Net cash decrease owing to sale of shares of subsidiary	¥(330)	$(3)

Management's Report on Internal Control over Financial Reporting

1. Matters relating to the basic framework of internal control over financial reporting

Yoshiteru Yoneyama, President of Fukoku Mutual Life Insurance Company (the "Company"), is responsible for the design and operation of internal control over financial reporting for the Company's financial statements, namely, consolidated balance sheets and the related consolidated statements of operations, comprehensive income, cash flows, changes in net assets and a summary of significant accounting policies and other explanatory information for the year ended March 31, 2012, prepared in accordance with Article 110 Paragraph 2 of the Insurance Business Law. The Company designs and operates its internal control over financial reporting in accordance with the basic framework of internal control set forth in the "Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" issued by the Business Accounting Council of the Financial Service Agency of Japan.

Internal control aims at achieving the objectives to a reasonable extent with the organized and integrated function of individual components of internal control as a whole. Therefore, internal control over financial reporting cannot always ensure the prevention or detection of misstatements in the presentation of financial reporting.

2. Matters relating to the scope of assessment, the basis date of assessment and the assessment procedures

The Company performed an assessment of internal control over financial reporting for its consolidated financial statements as of the end of the fiscal years, March 31, 2013 in accordance with generally accepted assessment standards in Japan for internal control over financial reporting.

In the assessment of internal control over financial reporting, the Company first assessed internal controls that have a material impact on overall consolidated financial reporting ("company-level controls") and, based on the results, the Company selected the business processes to be assessed. In assessing those business processes, the Company analyzed selected business processes, identified a key control that would have a material impact on the reliability of financial reporting, and assessed the establishment and operation with regard to the key control. The Company assessed the effectiveness of internal control by the aforementioned procedures.

For the Company and its consolidated subsidiaries, the Company determined the scope of assessment of internal control over financial reporting from the perspective of their materiality to the reliability of financial reporting. The materiality to the reliability of financial reporting is determined in light of their degree of quantitative and qualitative impact. The Company rationally determined the scope of assessment of internal controls incorporated into business processes ("process-level controls") based on the results of assessment of company-level controls regarding the Company and one consolidated subsidiary. Other than those indicated above, four consolidated subsidiaries were determined to be immaterial from quantitative and qualitative perspectives. Consequently, they are excluded from the scope of assessment of company-level controls.

With respect to the scope of assessment of process-level controls, the locations or business units were selected in descending order of ordinary revenues (after elimination of inter-company transactions) in the previous fiscal year until their combined amount reached about two-thirds of consolidated ordinary revenues. As a result, the Company was selected as "significant locations or business units". At selected significant locations and business units (the Company), business processes related to accounting items that were closely associated with the company's business objectives, including securities, ordinary loans and policy reserves, as well as premium and other income and claims and other payments, which have a material impact on the calculation of policy reserves, were determined to be within the scope of assessment. Furthermore, at selected significant locations and business units and any other locations and business units, added to the scope of assessment were business processes relating to important accounting items that have a high possibility of material misstatements and involve estimates and judgments, and business processes relating to businesses or operations dealing with high-risk transactions.

3. Matters relating to the results of the assessment

As a result of performing the assessment, the Company concluded that the design and operation of internal control over financial reporting for the Company were effective as of March 31, 2012.

4. Supplementary Information (None)

May 21, 2013
Yoshiteru Yoneyama
President
Fukoku Mutual Life Insurance Company

Report of Independent Auditors

The Board of Directors of Fukoku Mutual Life Insurance Company

<Financial Statements Audit>

We have audited the accompanying consolidated balance sheets of Fukoku Mutual Life Insurance Company (the "Company") and its consolidated subsidiaries as of March 31, 2013, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, and cash flows, and changes in net assets for the years then ended, and notes all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion independently on these consolidated financial statements based on our audits. We conducted our audits in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fukoku Mutual Life Insurance Company and its consolidated subsidiaries as of March 31, 2013, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the applicable Japanese laws and regulations and accounting principles for consolidated financial statements generally accepted in Japan.

Convenience Translation

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note I.2 to the accompanying consolidated financial statements with respect to the year ended March 31, 2013.

<Internal Control Audit>

We also have audited management's report on internal control over financial reporting, namely, the accompanying consolidated balance sheets of the Company and its consolidated subsidiaries as of March 31, 2013 and the related consolidated statements of operations, comprehensive income, and cash flows, and changes in net assets for the year then ended, and notes.

Management's Responsibility for the Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on management's report on internal control based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on our judgment, including the significance of effects on reliability of financial reporting. An internal control audit includes examining representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, management's report on internal control referred to above, which represents that the internal control over financial reporting of the consolidated financial statements of Fukoku Mutual Life Insurance Company as of March 31, 2013 is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

Tokyo, Japan

May 21, 2013

Kisaragi Audit Corporation

Kisaragi Audit Corporation

Corporate Organization

Domestic Offices (As of July 2, 2013)

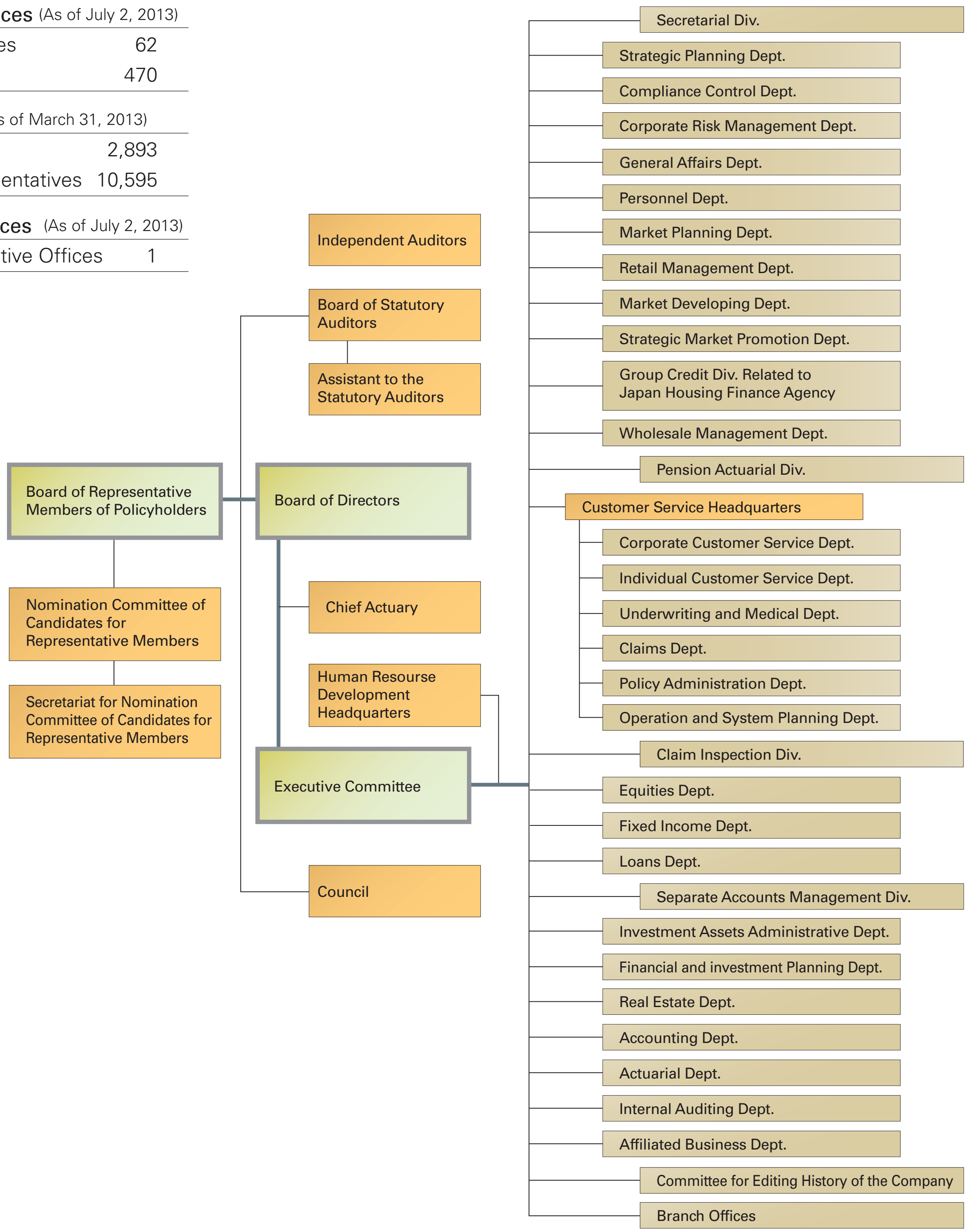
Branch Offices	62
Field Offices	470

Employees (As of March 31, 2013)

Office Staff	2,893
Sales Representatives	10,595

Overseas Offices (As of July 2, 2013)

Representative Offices	1



Directors, Statutory Auditors and Executive Offices

Chairman of the Board
Tomofumi Akiyama

President and Chief Executive Officer
Yoshiteru Yoneyama*

Deputy President and Executive Officer
Katsumasa Furuya

Director and Managing Executive Officer
Kenji Hirai

Director and Managing Executive Officer
Tadashi Akikawa

Director and Managing Executive Officer
Hitoshi Sakai

Director and Managing Executive Officer
Toshihiro Hayashi

Director
Kozo Isshiki**

Director
Kazuo Tanabe**

Director and Executive Officer
Toshihide Fujiwara

Director and Executive Officer
Toshikatsu Hayashi

Statutory Auditor
Yoshizumi Nezu***

Statutory Auditor
Mitsuo Ohashi***

Statutory Auditor
Yoshikazu Sashida***

Statutory Auditor (Standing)
Shuichi Maeda

Statutory Auditor (Standing)
Akio Imai

Executive Officer
Tsutomu Hiruma

Executive Officer
Toshimitsu Furuhashi

Executive Officer
Takanobu Futaba

Executive Officer
Yasuyuki Kitamura

Executive Officer
Kazuyoshi Hasegawa

Executive Officer
Kenji Sakurai

Executive Officer
Kohei Kawasaki

Executive Officer
Osamu Suzuki

*Representative Director
**External Directors
***External Statutory Auditors

(As of July 2, 2013)

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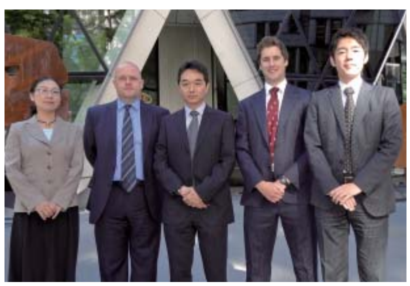

Fukoku Life International (U.K.) Ltd.
From left : K.Sato, J.Doran, A.Sato, T.Keevil, D.Hachigo

Fukoku Life International (America) Inc.
From left : A. Chang, Y. Shigeta, S. Lester, T. Ogino and M. Xu

Fukoku Mutual Life Insurance Company Singapore Representative Office
From left : J. Lim, S. Narue and Y. Yoshida

▲ Tokyo Head Office

▲ Osaka Fukoku Mutual Life Insurance Building

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