

Financial Results for the Six Months Ended September 30, 2013

Fukoku Mutual Life Insurance Company (President: Yoshiteru Yoneyama) announces financial results for the six months ended September 30, 2013.

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Attached: Supplementary Materials for the Six Months Ended September 30, 2013

1. Business Highlights

(1) Policies in Force, New Policies and Surrendered and Lapsed Policies

(i) Policies in Force

	As of March 31, 2013				As of September 30, 2013			
	Number of policies		Amount		Number of policies		Amount	
	(Thousands)	Changes (% YoY)	(100 millions of yen)	Changes (% YoY)	(Thousands)	Changes (% Pre-FYE)	(100 millions of yen)	Changes (% Pre-FYE)
Individual insurance	3,008	100.8	248,851	95.9	3,022	100.5	245,520	98.7
Individual annuities	783	101.7	30,341	101.2	770	98.3	29,910	98.6
Subtotal	3,791	101.0	279,192	96.4	3,792	100.0	275,431	98.7
Group insurance	—	—	163,902	102.1	—	—	164,243	100.2
Group annuities	—	—	19,946	101.1	—	—	20,288	101.7

Notes: 1. Policy amounts for individual annuities are equal to (a) the funds to be held at the time annuity payments are to commence for an annuity for which annuity payments have not yet commenced and (b) the amount of policy reserve for an annuity for which payments have commenced.

2. Policy amount in force for group annuities is equal to the amount of outstanding policy reserve.

(ii) New Policies

Six months ended September 30, 2012	Total				New business		Net increase by conversion	
	Number of policies		Amount		Amount		Amount	
	(Thousands)	Changes (% YoY)	(100 millions of yen)	Changes (% YoY)	(100 millions of yen)	Changes (% YoY)	(100 millions of yen)	Changes (% YoY)
Individual insurance	186	96.1	6,251	95.2	7,294	95.7	(1,042)	—
Individual annuities	16	90.3	570	92.7	584	93.1	(14)	—
Subtotal	202	95.6	6,821	95.0	7,878	95.5	(1,057)	—
Group insurance	—	—	133	125.7	133	125.7	—	—
Group annuities	—	—	91	14,061.1	91	14,061.1	—	—

Six months ended September 30, 2013	Total				New business		Net increase by conversion	
	Number of policies		Amount		Amount		Amount	
	(Thousands)	Changes (% YoY)	(100 millions of yen)	Changes (% YoY)	(100 millions of yen)	Changes (% YoY)	(100 millions of yen)	Changes (% YoY)
Individual insurance	176	94.5	7,988	127.8	8,020	110.0	(32)	—
Individual annuities	7	46.4	251	44.0	260	44.5	(9)	—
Subtotal	183	90.6	8,239	120.8	8,280	105.1	(41)	—
Group insurance	—	—	78	58.6	78	58.6	—	—
Group annuities	—	—	0	0.1	0	0.1	—	—

Notes: 1. Number of new policies is the sum of new business and policies after conversion.

2. Amount of new policies for individual annuities, both new business and net increase by conversion, is equal to the funds to be held at the time annuity payments are to commence.

3. Amount for group annuities is equal to the initial premium payment.

(iii) Surrendered and Lapsed Policies (Individual Insurance and Individual Annuities)

	Six months ended September 30, 2012		Six months ended September 30, 2013	
		Changes (% YoY)		Changes (% YoY)
Amount of surrender and lapse (100 millions of yen)	8,056	98.5	7,777	96.5
Surrender and lapse ratio (%)	2.78	0.06	2.79	0.01

Notes: 1. The amount of lapse is not offset by the amount of reinstatement which was once lapsed.

2. The column of "Changes" of surrender and lapse ratio are increase-decrease points over year.

(2) Annualized Premiums

(i) Policies in Force

(100 millions of yen except percentage)

	As of March 31, 2013		As of September 30, 2013	
		Changes (%, YoY)		Changes (%, Pre-FYE)
Individual insurance	2,770	98.6	2,753	99.4
Individual annuities	1,335	102.5	1,330	99.6
Total	4,106	99.9	4,083	99.4
Medical coverage and living benefits	1,053	101.7	1,058	100.5

(ii) New Policies

(100 millions of yen except percentage)

	Six months ended September 30, 2012		Six months ended September 30, 2013	
		Changes (%, YoY)		Changes (%, YoY)
Individual insurance	97	90.9	95	97.7
Individual annuities	24	83.4	11	47.7
Total	121	89.3	106	87.8
Medical coverage and living benefits	40	99.1	38	94.8

Notes: 1. Annualized premiums are calculated by using coefficients based on the premium payment method. (For single premium contracts, the amount is calculated by dividing the premium by the coverage period.)

2. Figures for medical coverage and living benefits represent portion of annualized premium corresponding to the medical benefits (hospitalization benefits and surgery benefits, etc.), living benefits (nursing care benefits, etc.) and premium waiver benefits, in which disability cause is excluded but causes such as specific illness are included.

3. New policies include net increase by conversion.

(3) Selected Items of Statements of Operations

(100 millions of yen except percentage)

	Six months ended September 30, 2012		Six months ended September 30, 2013	
		Changes (%, YoY)		Changes (%, YoY)
Premium and other income	3,599	114.7	3,291	91.5
Investment income	687	95.2	1,033	150.2
Claims and other payments	2,889	110.9	2,657	92.0
Investment expenses	261	60.0	230	88.4
Ordinary profits	268	159.4	548	204.0

(4) Total Assets

(100 millions of yen except percentage)

	As of March 31, 2013		As of September 30, 2013	
		Changes (%, YoY)		Changes (%, Pre-FYE)
Total assets	60,072	105.4	61,387	102.2

2. Investment Results of General Account Assets

(1) Asset Composition

(Millions of yen)

	As of March 31, 2013		As of September 30, 2013	
	Amount	Percentage	Amount	Percentage
Cash, deposits, call loans	103,767	1.7	138,153	2.3
Monetary claims bought	1,111	0.0	1,041	0.0
Money held in trust	31,322	0.5	31,047	0.5
Securities	4,557,314	76.9	4,731,931	78.1
Domestic bonds	2,971,689	50.1	2,893,905	47.8
Domestic stocks	431,715	7.3	475,637	7.9
Foreign securities	1,087,223	18.3	1,286,777	21.2
Foreign bonds	855,410	14.4	1,048,644	17.3
Foreign stocks and other securities	231,812	3.9	238,132	3.9
Other securities	66,686	1.1	75,611	1.2
Loans	907,508	15.3	856,647	14.1
Policy loans	66,807	1.1	66,122	1.1
Ordinary loans	840,701	14.2	790,524	13.1
Real estate	267,554	4.5	227,943	3.8
Deferred tax assets	—	—	—	—
Others	63,307	1.1	71,089	1.2
Allowance for possible loan losses	(2,201)	(0.0)	(1,989)	(0.0)
Total	5,929,684	100.0	6,055,865	100.0
Foreign currency denominated assets	959,813	16.2	1,199,169	19.8

(2) Changes (Increase/Decrease) in Assets

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Cash, deposits, call loans	11,741	34,386
Monetary claims bought	(34)	(69)
Money held in trust	(4,712)	(275)
Securities	61,247	174,616
Domestic bonds	106,849	(77,783)
Domestic stocks	(31,693)	43,921
Foreign securities	(13,143)	199,554
Foreign bonds	(8,836)	193,234
Foreign stocks and other securities	(4,306)	6,319
Other securities	(765)	8,924
Loans	(47,889)	(50,860)
Policy loans	(927)	(684)
Ordinary loans	(46,961)	(50,176)
Real estate	(3,399)	(39,611)
Deferred tax assets	5,342	—
Others	18,113	7,781
Allowance for possible loan losses	129	212
Total	40,537	126,180
Foreign currency denominated assets	7,024	239,355

(3) Investment Income

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Interest, dividends and other income	56,767	60,285
Interest from deposits	9	3
Interest and dividends from securities	38,696	43,821
Interest from loans	10,267	8,772
Income from real estate for rent	7,683	7,578
Other interest and dividends	110	109
Gains from money held in trust, net	403	—
Gains from trading securities, net	—	4,200
Gains on sales of securities	3,284	31,775
Gains on sales of domestic bonds	2,466	17,241
Gains on sales of domestic stocks	523	11,662
Gains on sales of foreign securities	294	2,429
Others	—	442
Gains on redemption of securities	—	—
Gains from derivative instruments, net	7,671	—
Foreign exchange gains, net	—	460
Reversal of allowance for possible loan losses	10	—
Other investment income	648	209
Total	68,786	96,931

(4) Investment Expenses

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Interest expenses	636	1,460
Losses from money held in trust, net	—	213
Losses from trading securities, net	4,528	—
Losses on sales of securities	5,869	5,202
Losses on sales of domestic bonds	117	32
Losses on sales of domestic stocks	4,356	2,312
Losses on sales of foreign securities	1,183	2,857
Others	211	—
Losses on valuation of securities	5,103	52
Losses on valuation of domestic bonds	—	—
Losses on valuation of domestic stocks	4,645	52
Losses on valuation of foreign securities	457	—
Other losses on valuation of securities	—	—
Losses on redemption of securities	—	—
Losses from derivative instruments, net	—	11,056
Foreign exchange losses, net	1,442	—
Provision for allowance for possible loan losses	—	38
Write-off of loans	—	—
Depreciation of real estate for rent and other assets	2,904	2,509
Other investment expenses	2,253	2,565
Total	22,737	23,098

(5) Net Investment Income

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Net investment income	46,048	73,833

(6) Net Valuation Gains/Losses on Trading Securities

(Millions of yen)

	As of March 31, 2013		As of September 30, 2013	
	Carrying value on balance sheets	Net valuation gains/losses included in the statements of operations	Carrying value on balance sheets	Net valuation gains/losses included in the statements of operations
Trading securities	288,515	33,508	300,217	(1,663)

Note: The table above includes money held in trust for trading purpose.

(7) Fair Value Information on Securities (with fair value, other than trading securities)

(Millions of yen)

	As of March 31, 2013					As of September 30, 2013				
	Book value	Fair value	Gains/losses			Book value	Fair value	Gains/losses		
				Gains	Losses				Gains	Losses
Held-to-maturity debt securities	822,875	902,871	79,996	80,084	88	844,627	910,803	66,175	66,187	11
Domestic bonds	772,539	849,531	76,992	76,992	—	774,605	837,820	63,215	63,215	—
Foreign bonds	50,335	53,339	3,003	3,091	88	70,022	72,983	2,960	2,972	11
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Policy-reserve-matching bonds	1,037,091	1,121,931	84,840	85,184	344	1,233,193	1,304,043	70,850	71,308	458
Domestic bonds	1,015,980	1,100,527	84,547	84,891	344	1,212,387	1,283,009	70,621	71,073	451
Foreign bonds	21,110	21,403	292	292	—	20,806	21,034	228	234	6
Investments in subsidiaries and affiliates	1,393	948	(444)	—	444	1,393	1,023	(369)	—	369
Available-for-sale securities	2,074,912	2,386,795	311,883	323,232	11,349	2,001,189	2,330,478	329,288	337,853	8,565
Domestic bonds	1,050,811	1,155,266	104,455	104,882	426	811,671	878,514	66,842	67,518	675
Domestic stocks	269,432	388,416	118,984	126,549	7,565	269,988	432,422	162,434	165,912	3,477
Foreign securities	703,721	784,093	80,371	83,532	3,160	862,904	952,784	89,879	94,249	4,369
Foreign bonds	490,828	553,673	62,844	64,074	1,229	650,985	716,044	65,059	67,972	2,913
Foreign stocks and other securities	212,892	230,419	17,526	19,457	1,930	211,919	236,739	24,820	26,276	1,456
Other securities	50,947	59,018	8,071	8,268	197	56,625	66,756	10,130	10,173	42
Money held in trust	—	—	—	—	—	—	—	—	—	—
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Total	3,936,271	4,412,547	476,275	488,502	12,226	4,080,403	4,546,348	465,944	475,349	9,404
Domestic bonds	2,839,330	3,105,326	265,995	266,766	770	2,798,664	2,999,344	200,679	201,807	1,127
Domestic stocks	269,432	388,416	118,984	126,549	7,565	269,988	432,422	162,434	165,912	3,477
Foreign securities	776,561	859,785	83,223	86,916	3,692	955,126	1,047,825	92,699	97,456	4,757
Foreign bonds	562,275	628,416	66,141	67,459	1,317	741,813	810,062	68,248	71,179	2,931
Foreign stocks and other securities	214,285	231,368	17,082	19,457	2,375	213,312	237,763	24,450	26,276	1,826
Other securities	50,947	59,018	8,071	8,268	197	56,625	66,756	10,130	10,173	42
Money held in trust	—	—	—	—	—	—	—	—	—	—
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—

Note: The table above includes assets which are considered appropriate to deem as securities under the Financial Instruments and Exchange Law.

* Book value of securities without fair value are as follows:

(Millions of yen)

	As of March 31, 2013	As of September 30, 2013
Held-to-maturity debt securities	—	—
Unlisted foreign bonds	—	—
Others	—	—
Policy-reserve-matching bonds	—	—
Investments in subsidiaries and affiliates	35,560	35,560
Available-for-sale securities	15,405	16,508
Unlisted domestic stocks (except over-the-counter stocks)	7,738	7,653
Unlisted foreign stocks (except over-the-counter stocks)	—	—
Unlisted foreign bonds	—	—
Others	7,667	8,855
Total	50,966	52,069

(8) Fair Value Information on Money Held in Trust

(Millions of yen)

	As of March 31, 2013					As of September 30, 2013				
	Carrying value on balance sheets	Fair value	Gains/losses		Carrying value on balance sheets	Fair value	Gains/losses			
			Gains	Losses			Gains	Losses		
Money held in trust	31,322	31,322	—	—	—	31,047	31,047	—	—	—

* Money held in trust for trading purpose

(Millions of yen)

	As of March 31, 2013		As of September 30, 2013	
	Carrying value on balance sheets	Net valuation gains/losses included in the statements of operations	Carrying value on balance sheets	Net valuation gains/losses included in the statements of operations
Money held in trust for trading purpose	30,322	0	30,047	(204)

* Money held in trust classified as held-to-maturity, policy-reserve-matching and available-for-sale

(Millions of yen)

	As of March 31, 2013					As of September 30, 2013				
	Book value	Fair value	Gains/losses		Book value	Fair value	Gains/losses			
			Gains	Losses			Gains	Losses		
Money held in trust for held-to-maturity	—	—	—	—	—	—	—	—	—	
Money held in trust for policy-reserve-matching	—	—	—	—	—	—	—	—	—	
Money held in trust for available-for-sale	—	—	—	—	—	—	—	—	—	

(reference) Fair Value Information on Derivative Instruments (General Account)

(i) Gains and Losses on Derivatives

(Millions of yen)

As of March 31, 2013	Interest-related	Currency-related	Stock-related	Bond-related	Others	Total
Hedge accounting applied	93	(888)	—	—	—	(795)
Hedge accounting not applied	(137)	967	—	(498)	—	331
Total	(43)	78	—	(498)	—	(463)
As of September 30, 2013	Interest-related	Currency-related	Stock-related	Bond-related	Others	Total
Hedge accounting applied	22	2,401	—	—	—	2,423
Hedge accounting not applied	(267)	2,184	(100)	(1,453)	—	363
Total	(244)	4,585	(100)	(1,453)	—	2,787

Note: Gains and losses from applying fair value hedge accounting (currency-related, losses of ¥888 million as of March 31, 2013 and losses of ¥2,401 million as of September 30, 2013) included in gains and losses with hedge accounting applied, and gains and losses with hedge accounting not applied are reported in the statements of operations.

(ii) Interest-related Transactions

(Millions of yen)

	As of March 31, 2013				As of September 30, 2013			
	Notional amount/ contract value		Fair value	Gains (losses)	Notional amount/ contract value		Fair value	Gains (losses)
		Over 1 year				Over 1 year		
Over-the-counter transactions								
Yen interest rate swap contracts								
Receipt fixed, payment floating	12,495	495	93	93	2,392	392	22	22
Payment fixed, receipt floating	—	—	—	—	—	—	—	—
Yen interest rate swaption contracts								
Sold								
Receipt fixed, payment floating	—	—	—	—	—	—	—	—
Payment fixed, receipt floating	[—]	—	—	—	[—]	—	—	—
Bought								
Receipt fixed, payment floating	—	—	—	—	—	—	—	—
Payment fixed, receipt floating	[—]	—	—	—	[—]	—	—	—
Payment fixed, receipt floating	300,000	—	170	(137)	300,000	—	40	(267)
Payment fixed, receipt floating	[307]	—	170	(137)	[307]	—	40	(267)
Total				(43)				(244)

Notes: Figures in [] are option premiums which are included in balance sheet.

* Interest rate swap contracts by contractual maturity dates

(Millions of yen)

	As of March 31, 2013			As of September 30, 2013		
	1 year or shorter	Over 1 year to 3 years	Over 3 years	1 year or shorter	Over 1 year to 3 years	Over 3 years
Yen interest rate swap contracts						
Notional amount (receipts fixed, payments floating)	12,000	495	—	2,000	392	—
Average fixed rate (receipt)	1.65%	2.30%	—	2.12%	2.31%	—
Average floating rate (payment)	0.53%	1.15%	—	0.51%	1.13%	—
Notional amount (receipts floating, payments fixed)	—	—	—	—	—	—
Average floating rate (receipt)	—	—	—	—	—	—
Average fixed rate (payment)	—	—	—	—	—	—

(iii) Currency-related Transactions

(Millions of yen)

	As of March 31, 2013				As of September 30, 2013			
	Notional amount/ contract value	Over 1 year	Fair value	Gains (losses)	Notional amount/ contract value	Over 1 year	Fair value	Gains (losses)
Over-the-counter transactions								
Currency forward contracts								
Sold	330,489	—	330,378	111	524,580	—	520,006	4,574
US dollar	149,706	—	150,340	(633)	325,272	—	321,384	3,888
Euro	86,793	—	85,403	1,390	84,583	—	84,647	(55)
Australian dollar	45,840	—	46,417	(576)	54,429	—	53,937	491
Canadian dollar	29,554	—	29,611	(57)	33,559	—	33,168	390
British Pound	18,595	—	18,606	(11)	26,726	—	26,867	(140)
Bought	—	—	—	—	—	—	—	—
Currency Options								
Sold								
Calls	15,681	—	—	—	5,095	—	—	—
US dollar	[108]	—	33	74	[18]	—	4	13
Euro	[66]	—	32	34	[18]	—	4	13
Puts	6,279	—	—	—	—	—	—	—
Euro	[41]	—	1	40	[—]	—	—	—
Bought								
Calls	—	—	—	—	—	—	—	—
Puts	20,550	—	—	—	4,800	—	—	—
US dollar	[116]	—	9	(107)	[18]	—	15	(2)
Euro	[66]	—	0	(66)	[18]	—	15	(2)
Euro	[50]	—	9	(41)	[—]	—	—	—
Total				78				4,585

Notes: 1. Figures in [] are option premiums which are included in balance sheet.

2. Forward exchange rates are used for exchange rates as of the end of period.

3. Regarding assets and liabilities which are denominated in foreign currencies but have fixed settlement in yen under currency forward contracts and are reported in yen amounts in the balance sheet, those currency forward contracts are excluded from the table above.

(iv) Stock-related Transactions

(Millions of yen)

	As of March 31, 2013				As of September 30, 2013			
	Notional amount/ contract value	Over 1 year	Fair value	Gains (losses)	Notional amount/ contract value	Over 1 year	Fair value	Gains (losses)
Exchange-traded transactions								
Yen stock index futures								
Sold	—	—	—	—	7,175	—	7,230	(54)
Bought	—	—	—	—	—	—	—	—
Over-the-counter transactions								
Stock-related Options								
Sold								
Calls	—	—	—	—	6,250	—	—	—
Puts	[—]	—	—	—	[126]	—	172	(45)
Bought								
Calls	—	—	—	—	—	—	—	—
Puts	[—]	—	—	—	[—]	—	—	—
Total				—				—

Notes: Figures in [] are option premiums which are included in balance sheet.

(v) Bond-related Transactions

(Millions of yen)

	As of March 31, 2013				As of September 30, 2013			
	Notional amount/ contract value	Over 1 year	Fair value	Gains (losses)	Notional amount/ contract value	Over 1 year	Fair value	Gains (losses)
Exchange-traded transactions								
Yen bond futures								
Sold	174,087	—	174,552	(464)	143,046	—	144,120	(1,074)
Bought	—	—	—	—	—	—	—	—
Foreign bond futures								
Sold	10,517	—	10,551	(34)	20,005	—	20,385	(379)
Bought	—	—	—	—	—	—	—	—
Total				(498)				(1,453)

(reference) Fair Value of Real Estate (Land and Leaseholds)

(millions of yen)

As of March 31, 2013			As of September 30, 2013		
Carrying value on the balance sheets	Fair value	Gains (losses)	Carrying value on the balance sheets	Fair value	Gains (losses)
160,530	228,982	68,451	132,551	209,677	77,126

- Notes: 1. As of September 30, 2013, fair value is based on the appraisal value by the real-estate appraiser, the appraisal value for property tax and the road rate as of January 1, 2013.
2. As of March 31, 2013, fair value is based on the appraisal value by the real-estate appraiser, the appraisal value for property tax as of January 1, 2013 and the road rate as of January 1, 2012.

3. Non-consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2013	As of September 30, 2013
Assets:		
Cash and deposits	33,566	28,936
Call loans	70,300	109,300
Monetary claims bought	1,111	1,041
Money held in trust	31,322	31,047
Securities	4,633,067	4,812,759
[Government bonds]	[2,181,123]	[2,102,912]
[Local government bonds]	[168,921]	[166,027]
[Corporate bonds]	[652,931]	[658,680]
[Stocks]	[454,902]	[498,875]
[Foreign securities]	[1,108,137]	[1,310,404]
Loans	907,508	856,647
Policy loans	66,807	66,122
Ordinary loans	840,701	790,524
Tangible fixed assets	271,841	232,205
Intangible fixed assets	11,652	10,934
Reinsurance receivables	42	20
Other assets	49,020	57,892
Lease investment assets	868	851
Other assets	48,151	57,041
Allowance for possible loan losses	(2,201)	(1,988)
Total assets	6,007,231	6,138,797

	As of March 31, 2013	As of September 30, 2013
Liabilities:		
Policy reserves	5,343,750	5,398,002
Reserve for outstanding claims	22,673	21,041
Policy reserve	5,268,768	5,311,537
Reserve for dividends to policyholders	52,307	65,423
Reinsurance payables	86	102
Subordinated bonds	66,187	119,405
Other liabilities	49,813	50,545
Corporate income tax payable	8,352	12,051
Asset retirement obligations	2,966	2,978
Other liabilities	38,494	35,516
Reserve for employees' retirement benefits	44,965	44,050
Reserve for price fluctuation of securities	41,628	42,813
Deferred tax liabilities	16,938	20,775
Deferred tax liabilities for revaluation reserve for land	16,119	15,947
Total liabilities	5,579,488	5,691,643
Net assets:		
Foundation funds	35,000	35,000
Accumulated foundation funds redeemed	71,000	71,000
Reserve for revaluation	112	112
Surplus	102,260	109,928
Legal reserve for future losses	2,399	2,485
Other surplus	99,861	107,442
Reserve for redemption of foundation funds	9,000	18,000
Reserve for dividend allowances	3,895	3,895
Accumulated fund for price fluctuation	11,000	21,000
Reserve for advanced depreciation of real estate for tax purpose	4,114	3,969
Other reserves	767	767
Unappropriated surplus	71,084	59,810
Total foundation funds, surplus and others	208,372	216,040
Net unrealized gains (losses) on available-for-sale securities, net of tax	215,885	227,933
Deferred valuation gains (losses) under hedge accounting	62	14
Revaluation reserve for land, net of tax	3,421	3,165
Total valuation and translation adjustments	219,370	231,113
Total net assets	427,742	447,154
Total liabilities and net assets	6,007,231	6,138,797

4. Non-consolidated Statements of Operations

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Ordinary revenues:		
Premium and other income	359,908	329,176
[Premium income]	[359,652]	[329,129]
Investment income	68,786	103,327
[Interest, dividends and other income]	[56,767]	[60,285]
[Gains from money held in trust, net]	[403]	[—]
[Gains from trading securities, net]	[—]	[4,200]
[Gains on sales of securities]	[3,284]	[31,775]
[Gains from derivative instruments, net]	[7,671]	[—]
[Gains from separate accounts, net]	[—]	[6,395]
Other ordinary revenues	7,790	7,202
[Reversal of reserve for outstanding claims]	[2,503]	[1,632]
Total ordinary revenues	436,485	439,706
Ordinary expenditures:		
Claims and other payments	288,977	265,799
[Claims]	[119,619]	[89,011]
[Annuities]	[46,198]	[63,621]
[Benefits]	[63,709]	[62,661]
[Surrenders]	[42,378]	[38,433]
[Other payments]	[16,927]	[11,893]
Provision for policy reserve and others	40,738	42,806
Provision for policy reserve	40,700	42,768
Interest on accumulated dividends to policyholders	38	38
Investment expenses	26,124	23,098
[Interest expenses]	[636]	[1,460]
[Losses from money held in trust, net]	[—]	[213]
[Losses from trading securities, net]	[4,528]	[—]
[Losses on sales of securities]	[5,869]	[5,202]
[Losses on valuation of securities]	[5,103]	[52]
[Losses from derivative instruments, net]	[—]	[11,056]
[Losses from separate accounts, net]	[3,386]	[—]
Operating expenses	43,821	43,132
Other ordinary expenditures	9,943	10,036
Total ordinary expenditures	409,605	384,874
Ordinary profits	26,879	54,832
Extraordinary gains:		
Gains on disposal of fixed assets	17	2,001
Total extraordinary gains	17	2,001
Extraordinary losses:		
Losses on disposal of fixed assets	33	7,070
Impairment losses	114	1,605
Provision for reserve for price fluctuation of securities	1,053	1,185
Total extraordinary losses	1,200	9,861
Surplus before income taxes	25,696	46,972
Income taxes:		
Current	4,329	12,845
Deferred	301	(1,668)
Total income taxes	4,631	11,176
Net surplus for the period	21,065	35,795

5. Non-consolidated Statements of Changes in Net Assets

(Millions of yen)

	For the six months ended September 30, 2012	For the six months ended September 30, 2013
Foundation funds, surplus and others		
Foundation funds		
Balance at the beginning of current period	35,000	35,000
Changes in the current period		
Total changes in the current period	—	—
Balance at the end of current period	35,000	35,000
Accumulated foundation funds redeemed		
Balance at the beginning of current period	71,000	71,000
Changes in the current period		
Total changes in the current period	—	—
Balance at the end of current period	71,000	71,000
Reserve for revaluation		
Balance at the beginning of current period	112	112
Changes in the current period		
Total changes in the current period	—	—
Balance at the end of current period	112	112
Surplus		
Legal reserve for future losses		
Balance at the beginning of current period	2,325	2,399
Changes in the current period		
Additions to legal reserve for future losses	74	86
Total changes in the current period	74	86
Balance at the end of current period	2,399	2,485
Other surplus		
Reserve for redemption of foundation funds		
Balance at the beginning of current period	—	9,000
Changes in the current period		
Additions to reserve for redemption of foundation funds	9,000	9,000
Total changes in the current period	9,000	9,000
Balance at the end of current period	9,000	18,000
Reserve for dividend allowances		
Balance at the beginning of current period	3,895	3,895
Changes in the current period		
Total changes in the current period	—	—
Balance at the end of current period	3,895	3,895
Accumulated fund for price fluctuation		
Balance at the beginning of current period	11,000	11,000
Changes in the current period		
Additions to accumulated fund for price fluctuation	—	10,000
Total changes in the current period	—	10,000
Balance at the end of current period	11,000	21,000
Reserve for advanced depreciation of real estate for tax purpose		
Balance at the beginning of current period	289	4,114
Changes in the current period		
Additions to reserve for advanced depreciation of real estate for tax purpose	3,857	—
Reversal of reserve for advanced depreciation of real estate for tax purpose	(32)	(144)
Total changes in the current period	3,825	(144)
Balance at the end of current period	4,114	3,969
Other reserves		
Balance at the beginning of current period	767	767
Changes in the current period		
Total changes in the current period	—	—
Balance at the end of current period	767	767
Unappropriated surplus		
Balance at the beginning of current period	57,827	71,084
Changes in the current period		
Additions to reserve for dividends to policyholders	(23,989)	(27,762)
Additions to legal reserve for future losses	(74)	(86)
Payment of interest on foundation funds	(621)	(621)
Net surplus for the current period	21,065	35,795
Additions to reserve for redemption of foundation funds	(9,000)	(9,000)
Additions to accumulated fund for price fluctuation	—	(10,000)
Additions to reserve for advanced depreciation of real estate for tax purpose	(3,857)	—
Reversal of reserve for advanced depreciation of real estate for tax purpose	32	144
Reversal of revaluation reserve for land	79	256
Total changes in the current period	(16,365)	(11,273)
Balance at the end of current period	41,461	59,810

5. Non-consolidated Statements of Changes in Net Assets (Continued)

(Millions of yen)

	For the six months ended September 30, 2012	For the six months ended September 30, 2013
Total surplus		
Balance at the beginning of current period	76,104	102,260
Changes in the current period		
Additions to reserve for dividends to policyholders	(23,989)	(27,762)
Payment of interest on foundation funds	(621)	(621)
Net surplus for the current period	21,065	35,795
Reversal of revaluation reserve for land	79	256
Total changes in the current period	(3,466)	7,667
Balance at the end of current period	72,638	109,928
Total foundation funds, surplus and others		
Balance at the beginning of current period	182,216	208,372
Changes in the current period		
Additions to reserve for dividends to policyholders	(23,989)	(27,762)
Payment of interest on foundation funds	(621)	(621)
Net surplus for the current period	21,065	35,795
Reversal of revaluation reserve for land	79	256
Total changes in the current period	(3,466)	7,667
Balance at the end of current period	178,750	216,040
Valuation and translation adjustments		
Net unrealized gains (losses) on available-for-sale securities, net of tax		
Balance at the beginning of current period	67,684	215,885
Changes in the current period		
Net changes, excluding foundation funds, surplus and others	(12,706)	12,047
Total changes in the current period	(12,706)	12,047
Balance at the end of current period	54,978	227,933
Deferred valuation gains (losses) under hedge accounting		
Balance at the beginning of current period	170	62
Changes in the current period		
Net changes, excluding foundation funds, surplus and others	(62)	(48)
Total changes in the current period	(62)	(48)
Balance at the end of current period	108	14
Revaluation reserve for land, net of tax		
Balance at the beginning of current period	3,383	3,421
Changes in the current period		
Net changes, excluding foundation funds, surplus and others	(80)	(256)
Total changes in the current period	(80)	(256)
Balance at the end of current period	3,303	3,165
Total valuation and translation adjustments		
Balance at the beginning of current period	71,239	219,370
Changes in the current period		
Net changes, excluding foundation funds, surplus and others	(12,849)	11,743
Total changes in the current period	(12,849)	11,743
Balance at the end of current period	58,389	231,113
Total net assets		
Balance at the beginning of current period	253,455	427,742
Changes in the current period		
Additions to reserve for dividends to policyholders	(23,989)	(27,762)
Payment of interest on foundation funds	(621)	(621)
Net surplus for the current period	21,065	35,795
Reversal of revaluation reserve for land	79	256
Net changes, excluding foundation funds, surplus and others	(12,849)	11,743
Total changes in the current period	(16,315)	19,411
Balance at the end of current period	237,140	447,154

Notes to the Non-consolidated Financial Statements

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 Fukuoku 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.

II. Notes to Balance Sheet

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 balance sheet date. 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 market 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 amount written-off as of September 30, 2013 was ¥557 million.

(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.

Foreign currency-denominated subordinated bonds issued by the Company for which currency swaps are used to hedge the foreign currency fluctuations are translated at the contracts 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 other assets 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 balance sheet date 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.

Based on the provision of paragraph 5, Article 69 of the Enforcement Regulation of the Insurance Business Law, in relation to certain individual annuity insurance policies, hospitalization riders with surgery benefits and long-term hospitalization benefits, and non-participating tuition insurance, there is an additional policy reserve included.

(14) Software

The software for internal use recorded in “intangible fixed assets” 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, and group 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).

2. Financial Instruments

The carrying amounts, fair values and their related differences of major financial assets and liabilities as of September 30, 2013 were as follows:

	Carrying amount	Fair value	Difference
(Millions of yen)			
Cash and deposits:			
Cash and deposits not treated as securities.....	¥ 28,853	¥ 28,853	¥ —
Total cash and deposits	28,853	28,853	—
Call loans	109,300	109,300	—
Monetary claims bought:			
Claims treated as loans	1,041	1,081	39
Total monetary claims bought	1,041	1,081	39
Money held in trust:			
Trading securities.....	30,047	30,047	—
Total money held in trust	30,047	30,047	—
Securities:			
Trading securities.....	270,170	270,170	—
Held-to-maturity debt securities	844,627	910,803	66,175
Policy-reserve-matching bonds	1,233,193	1,304,043	70,850
Investments in subsidiaries and affiliates	1,393	1,023	(369)
Available-for-sale securities	2,330,478	2,330,478	—
Total securities	4,679,862	4,816,518	136,656
Loans:			
Policy loans.....	66,122	66,122	(0)
Ordinary loans	790,524	813,929	23,405
Total loans.....	856,647	880,052	23,404
Assets total	5,705,752	5,865,852	160,100
Subordinated bonds(*1)	119,405	118,873	(532)
Liabilities total	119,405	118,873	(532)
Derivative instruments:(*2)			
Hedge accounting not applied	363	363	—
Hedge accounting applied	2,423	2,423	—
Total derivative instruments	¥ 2,787	¥ 2,787	¥ —

(*1) The market value of derivative instruments that are currency swaps under designated hedge accounting is included in the market value of subordinated bonds because it is accounted for as an integral part of the subordinated bonds that are the hedge items.

(*2) Assets and liabilities generated by derivative instruments are offset and presented net. Net liabilities in total are presented in brackets.

(1) Cash and deposits excluding those which are treated as securities based on “Accounting Standards for Financial Instruments” (ASBJ Statement No.10) , Call loans:

The fair values of cash and deposits, and call loans are based on their book values since fair values approximate book values due to their short maturities.

(2) 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

balance sheet date. 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 as of September 30, 2013 were ¥35,560 million, ¥7,653 million and ¥8,855 million, respectively.

(3) 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.

(4) Subordinated Bonds

Subordinated bonds issued by the Company are measured at the quoted market price at the balance sheet date.

(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.

3. Investment and Rental Property

The carrying amount and the fair value of investment and rental properties as of September 30, 2013 were ¥182,191 million and ¥250,678 million, 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 was ¥1,234 million as of September 30, 2013.

4. Securities lent under lending agreements

The amount of securities lent under lending agreements was ¥50,122 million as of September 30, 2013.

5. Loans Receivable

The amounts of credits to bankrupt borrowers, delinquent loans and restructured loans, which were included in loans, were ¥191 million, ¥902 million and ¥658 million, respectively and their total amount was ¥1,751 million as of September 30, 2013. There was no balance of delinquent loans past 3 months or more as of September 30, 2013.

The direct write-offs related to loans decreased credits to bankrupt borrowers by ¥251 million and delinquent loans by ¥286 million as of September 30, 2013.

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 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.

6. Accumulated Depreciation of Tangible Fixed Assets

Accumulated depreciation of tangible fixed assets totaled to ¥142,805 million as of September 30, 2013.

7. Separate Accounts

Total assets in separate accounts provided for in Article 118 of the Insurance Business Law were ¥84,310 million as of September 30, 2013. The amount of separate account liabilities was the same as separate account assets.

8. Reserve for Dividends to Policyholders

Changes in reserve for dividends to policyholders for the six months ended September 30, 2013 were as follows:

	(Millions of yen)
Balance at the beginning of current period.....	¥ 52,307
Transfer from surplus in previous fiscal year	27,762
Dividends paid in the current period	(14,685)
Increase in interest	38
Balance at the end of current period	<u>¥ 65,423</u>

9. Stocks of Subsidiaries

The amount of stocks of subsidiaries the Company held as of September 30, 2013 was ¥36,953 million.

10. Pledged Assets and Secured Debts

Assets pledged as collateral as of September 30, 2013 were ¥28,646 million of securities and ¥1,002 million of bank deposits. Secured debts as of September 30, 2013 were ¥4,661 million.

11. 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”) was ¥2 million as of September 30, 2013.

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”) was ¥29 million as of September 30, 2013.

12. Commitment Line

As of September 30, 2013, there were unused commitment line agreements under which the Company is the lender of ¥872 million.

13. Subordinated Bonds

Repayments of subordinated bonds are subordinated to other obligations.

14. 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 was estimated at ¥10,534 million as of September 30, 2013. The contribution was charged as operating expenses in the year in which it was paid.

III. Notes to Statement of Operations

1. Gains on Sales of Securities

Major items of gains on sales of securities for the six months ended September 30, 2013 were as follows:

	(Millions of yen)
Domestic bonds	¥ 17,241
Domestic stocks and others.....	11,662
Foreign securities	2,429

2. Losses on Sales of Securities

Major items of losses on sales of securities for the six months ended September 30, 2013 were as follows:

	(Millions of yen)
Domestic bonds	¥ 32
Domestic stocks and others.....	2,312
Foreign securities	2,857

3. Losses on Valuation of Securities

Major items of losses on valuation of securities for the six months ended September 30, 2013 were as follows:

	(Millions of yen)
Domestic stocks and others.....	¥ 52

4. Policy Reserves for the Reinsurance Contracts

For the six months ended September 30, 2013, provision of reserve for outstanding claims for ceded reinsurance considered in calculation of reversal of reserve for outstanding claims was ¥0 million and reversal for policy reserve for ceded reinsurance considered in calculation of provision for policy reserve was ¥0 million.

5. Interest, Dividends and Other Income

Breakdown of interest, dividends and other income for the six months ended September 30, 2013 was as follows:

	(Millions of yen)
Interest on deposits	¥ 3
Interest and dividends on securities	43,821
Interest on loans	8,772
Income from real estate for rent.....	7,578
Other interest and dividends.....	109
Total	<u>¥60,285</u>

6. Impairment Losses of Fixed Assets

For the six months ended September 30, 2013, impairment losses of fixed assets was 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

Asset	Impairment losses		
	Land	Buildings and others	Total
			(Millions of yen)
(i) Real estate for rent...	¥ 1,511	¥ 11	¥ 1,523
(ii) Unused real estate ...	33	49	82
Total (i)+(ii).....	<u>¥ 1,544</u>	<u>¥ 60</u>	<u>¥ 1,605</u>

(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.

6. Breakdown of Ordinary Profits (Fundamental Profit)

(Millions of Yen)

		Six months ended September 30, 2012	Six months ended September 30, 2013
Fundamental profit	A	36,096	39,596
Capital gains		11,231	32,236
Gains from money held in trust, net		275	—
Gains from trading securities, net		—	—
Gains on sales of securities		3,284	31,775
Gains from derivative instruments, net		7,671	—
Foreign exchange gains, net		—	460
Other capital gains		—	—
Capital losses		20,289	16,700
Losses from money held in trust, net		—	317
Losses from trading securities, net		7,874	72
Losses on sales of securities		5,869	5,202
Losses on valuation of securities		5,103	52
Losses from derivative instruments, net		—	11,056
Foreign exchange losses, net		1,442	—
Other capital losses		—	—
Net capital gains (losses)	B	(9,058)	15,535
Fundamental profit plus net capital gains (losses)	A+B	27,038	55,132
Non-recurring gains		6	—
Reinsurance income		—	—
Reversal of contingency reserve		—	—
Reversal of specific allowance for possible loan losses		6	—
Other non-recurring gains		—	—
Non-recurring losses		165	299
Reinsurance premiums		—	—
Provision for contingency reserve		165	57
Provision for specific allowance for possible loan losses		—	241
Allowance for specified overseas loans		—	—
Write-off of loans		—	—
Other non-recurring losses		—	—
Non-recurring gains (losses)	C	(158)	(299)
Ordinary profits	A+B+C	26,879	54,832

Notes: 1. The following amounts in respect of gains / losses from money held in trust have been excluded from capital gains / losses and included in fundamental profit due to their income nature (being interest and dividend income): ¥128 million in respect of the six months ended September 30, 2012 and ¥104 million in respect of the six months ended September 30, 2013.

2. The following amounts in respect of gains / losses from trading securities have been excluded from capital gains / losses and included in fundamental profit due to their income nature (being interest and dividend income): ¥3,345 million in respect of the six months ended September 30, 2012 and ¥4,273 million in respect of the six months ended September 30, 2013.

7. Disclosed Claims Based on Categories of Obligors

(Millions of yen)

	As of March 31, 2013	As of September 30, 2013
Claims against bankrupt and quasi-bankrupt obligors	326	432
Claims with collection risk	526	667
Claims for special attention	950	658
Subtotal	1,803	1,758
[Percentage of total]	[0.19%]	[0.19%]
Claims against normal obligors	955,991	909,281
Total	957,795	911,040

- Notes: 1. Claims against bankrupt and quasi-bankrupt obligors are loans to borrowers who are subject to bankruptcy, corporate reorganisation or rehabilitation or other similar proceedings and other borrowers in serious financial difficulties.
2. Claims with collection risk are loans to obligors (other than bankrupt and quasi-bankrupt obligors) with deteriorated financial condition and results of operations from which it is unlikely that the principal and interest on the loans will be recovered.
3. Claims for special attention are loans on which principal and/or interest are past due for three months or more and loans with a concessionary interest rate, as well as loans with renegotiated conditions in favour of the borrower, including renegotiated schedule and/or waivers, in each case, other than the loans described in note 1 or 2 above.
4. Claims against normal obligors are all other loans.

8. Risk-monitored Loans

(Millions of yen)

	As of March 31, 2013	As of September 30, 2013
Credits to bankrupt borrowers	217	191
Delinquent loans	590	902
Delinquent loans past three months or more	—	—
Restructured loans	950	658
Total	1,759	1,751
[Percentage of total loans]	[0.19%]	[0.20%]

- Notes: 1. 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 related to credits to bankrupt borrowers were ¥251 million as of September 30, 2013, and ¥1 million as of March 31, 2013. The amounts written-off related to delinquent loans were ¥286 million as of September 30, 2013 and ¥288 million as of March 31, 2013.
2. Credits to bankrupt borrowers represent loans which are subject to bankruptcy, corporate reorganisation or rehabilitation or other similar, including but not limited to foreign, proceedings. Accruing interest of these loans is not recorded as income after determining that principal 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.
3. Delinquent loans are credits whose accruing interest is not recorded as income due to the same reasons as described in note 2 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.
4. Delinquent loans past three months or more are loans for which interest payment or repayment of principal are delinquent for three 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.
5. 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 three months or more.

9. Solvency Margin Ratio

(Millions of yen)

	As of March 31, 2013	As of September 30, 2013
Total solvency margin (A)	919,451	1,029,926
Foundation funds and surplus	178,622	199,887
Reserve for price fluctuation of securities	41,628	42,813
Contingency reserve	83,446	83,503
Allowance for possible loan losses	1,796	1,592
Net unrealized gains on available-for-sale securities x 90% (multiplied by 100% if losses)	280,694	296,359
Net unrealized gains on real estate x 85%	72,441	79,292
Excess amount of policy reserve based on full-time Zillmer method	187,478	191,411
Qualifying subordinated debt	66,187	119,405
The amount of "excess amount of policy reserve based on full-time Zillmer method" and "qualifying subordinated debt" excluded from the calculation of solvency margin	—	—
Deductible items	(19,000)	(19,000)
Others	26,155	34,658
Total amount of risk $\sqrt{(R_1 + R_8)^2 + (R_2 + R_3 + R_7)^2} + R_4$ (B)	189,414	200,265
Insurance risk R_1	27,301	26,821
3rd sector insurance risk R_8	9,634	9,645
Assumed investment yield risk R_2	35,956	35,962
Investment risk R_3	145,367	156,299
Minimum guarantee risk R_7	2	0
Business risk R_4	4,365	4,574
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	970.8%	1028.5%

Notes: 1. Above figures are calculated based on Articles 86 and 87 of the Enforcement Regulation of the Insurance Business Law and Ministry of Finance No.50,1996.

2. "Deductible items" represent the capital increase to the subsidiary, Fukokushinrai Life Insurance Co., Ltd.

3. "Minimum guarantee risk" is calculated by standard method.

10. Status of Separate Account

(1) Separate Account Assets by Products

(Millions of yen)

	As of March 31, 2013		As of September 30, 2013	
	Amount		Amount	
Individual variable insurance	—		—	
Individual variable annuities	461		327	
Group annuities	78,353		83,982	
Total	78,815		84,310	

(2) Individual Variable Insurance (Separate Account)

The company has not sold the individual variable insurance.

(3) Individual Variable Annuities (Separate Account)

(i) Policies in Force

(Millions of yen)

	As of March 31, 2013		As of September 30, 2013	
	Number	Amount	Number	Amount
Individual annuities	140	468	101	319
Total	140	468	101	319

(ii) Breakdown of Separate Account Assets for Individual Variable Annuities

(Millions of yen)

	As of March 31, 2013		As of September 30, 2013	
	Amount	Percentage	Amount	Percentage
Cash, deposits, call loans	97	21.0	79	24.2
Securities	364	79.0	248	75.8
Domestic bonds	—	—	—	—
Domestic stocks	—	—	—	—
Foreign securities	—	—	—	—
Foreign bonds	—	—	—	—
Foreign stocks and other securities	—	—	—	—
Other securities	364	79.0	248	75.8
Loans	—	—	—	—
Others	—	—	—	—
Allowance for possible loan losses	—	—	—	—
Total	461	100.0	327	100.0

(iii) Investment Income and Expenses of Separate Account for Individual Variable Annuities

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
	Amount	Amount
Interest, dividends and other income	0	31
Gains on sales of securities	—	—
Gains on valuation of securities	33	43
Gains on redemption of securities	—	—
Gains from derivative instruments	—	—
Foreign exchange gains, net	—	—
Other investment income	—	0
Losses on sales of securities	2	—
Losses on valuation of securities	53	41
Losses on redemption of securities	—	—
Losses from derivative instruments	—	—
Foreign exchange losses, net	—	—
Other investment expenses	—	—
Net investment income	(22)	33

(iv) Fair Value Information on Securities in Separate Account for Individual Variable Annuities

* Net Valuation Gains/Losses on Trading Securities

(Millions of yen)

	As of March 31, 2013		As of September 30, 2013	
	Carrying value on balance sheets	Net valuation gains/losses included in the statements of operations	Carrying value on balance sheets	Net valuation gains/losses included in the statements of operations
Trading securities	364	51	248	1

Note: The company had no balances of money held in trust and derivative instruments.

(reference) Fair Value Information on Securities (Total of General Account and Separate Account)

Net Valuation Gains/Losses on Trading Securities

(Millions of yen)

	As of March 31, 2013		As of September 30, 2013	
	Carrying value on balance sheet	Net valuation gains/losses included in the statement of operations	Carrying value on balance sheet	Net valuation gains/losses included in the statement of operations
Trading securities	364,268	42,594	381,045	1,318

Note: The table above includes money held in trust for trading purpose.

Fair Value Information on Securities (with fair value, other than trading securities)

(Millions of yen)

	As of March 31, 2013					As of September 30, 2013				
	Book value	Fair value	Gains/losses			Book value	Fair value	Gains/losses		
			Gains	Losses				Gains	Losses	
Held-to-maturity debt securities	822,875	902,871	79,996	80,084	88	844,627	910,803	66,175	66,187	11
Domestic bonds	772,539	849,531	76,992	76,992	—	774,605	837,820	63,215	63,215	—
Foreign bonds	50,335	53,339	3,003	3,091	88	70,022	72,983	2,960	2,972	11
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Policy-reserve-matching bonds	1,037,091	1,121,931	84,840	85,184	344	1,233,193	1,304,043	70,850	71,308	458
Domestic bonds	1,015,980	1,100,527	84,547	84,891	344	1,212,387	1,283,009	70,621	71,073	451
Foreign bonds	21,110	21,403	292	292	—	20,806	21,034	228	234	6
Investments in subsidiaries and affiliates	1,393	948	(444)	—	444	1,393	1,023	(369)	—	369
Available-for-sale securities	2,074,912	2,386,795	311,883	323,232	11,349	2,001,189	2,330,478	329,288	337,853	8,565
Domestic bonds	1,050,811	1,155,266	104,455	104,882	426	811,671	878,514	66,842	67,518	675
Domestic stocks	269,432	388,416	118,984	126,549	7,565	269,988	432,422	162,434	165,912	3,477
Foreign securities	703,721	784,093	80,371	83,532	3,160	862,904	952,784	89,879	94,249	4,369
Foreign bonds	490,828	553,673	62,844	64,074	1,229	650,985	716,044	65,059	67,972	2,913
Foreign stocks and other securities	212,892	230,419	17,526	19,457	1,930	211,919	236,739	24,820	26,276	1,456
Other securities	50,947	59,018	8,071	8,268	197	56,625	66,756	10,130	10,173	42
Money held in trust	—	—	—	—	—	—	—	—	—	—
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Total	3,936,271	4,412,547	476,275	488,502	12,226	4,080,403	4,546,348	465,944	475,349	9,404
Domestic bonds	2,839,330	3,105,326	265,995	266,766	770	2,798,664	2,999,344	200,679	201,807	1,127
Domestic stocks	269,432	388,416	118,984	126,549	7,565	269,988	432,422	162,434	165,912	3,477
Foreign securities	776,561	859,785	83,223	86,916	3,692	955,126	1,047,825	92,699	97,456	4,757
Foreign bonds	562,275	628,416	66,141	67,459	1,317	741,813	810,062	68,248	71,179	2,931
Foreign stocks and other securities	214,285	231,368	17,082	19,457	2,375	213,312	237,763	24,450	26,276	1,826
Other securities	50,947	59,018	8,071	8,268	197	56,625	66,756	10,130	10,173	42
Money held in trust	—	—	—	—	—	—	—	—	—	—
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—

Note: The table above includes assets which are considered appropriate to deem as securities under the Financial Instruments and Exchange Law.

• Held-to-maturity Debt Securities

(Millions of yen)

	As of March 31, 2013			As of September 30, 2013		
	Carrying value on the balance sheet	Fair value	Differences	Carrying value on the balance sheet	Fair value	Differences
Securities whose fair value exceeds the carrying value on the balance sheet	819,253	899,337	80,084	840,671	906,859	66,187
Domestic bonds	772,539	849,531	76,992	774,605	837,820	63,215
Foreign bonds	46,714	49,805	3,091	66,066	69,038	2,972
Money claims bought	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—
Others	—	—	—	—	—	—
Securities whose fair value does not exceed the carrying value on the balance sheet	3,621	3,533	(88)	3,956	3,944	(11)
Domestic bonds	—	—	—	—	—	—
Foreign bonds	3,621	3,533	(88)	3,956	3,944	(11)
Money claims bought	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—
Others	—	—	—	—	—	—

• Policy-reserve-matching Bonds

(Millions of yen)

	As of March 31, 2013			As of September 30, 2013		
	Carrying value on the balance sheet	Fair value	Differences	Carrying value on the balance sheet	Fair value	Differences
Bonds whose fair value exceeds the carrying value on the balance sheet	1,032,379	1,117,564	85,184	1,207,086	1,278,395	71,308
Domestic bonds	1,011,268	1,096,160	84,891	1,187,679	1,258,753	71,073
Foreign bonds	21,110	21,403	292	19,407	19,641	234
Others	—	—	—	—	—	—
Bonds whose fair value does not exceed the carrying value on the balance sheet	4,711	4,367	(344)	26,106	25,648	(458)
Domestic bonds	4,711	4,367	(344)	24,707	24,255	(451)
Foreign bonds	—	—	—	1,398	1,392	(6)
Others	—	—	—	—	—	—

• Available-for-sale Securities

(Millions of yen)

	As of March 31, 2013			As of September 30, 2013		
	Book value	Carrying value on the balance sheet	Differences	Book value	Carrying value on the balance sheet	Differences
Securities whose carrying value on the balance sheet exceeds the book value	1,929,626	2,252,859	323,232	1,798,615	2,136,468	337,853
Domestic bonds	1,033,793	1,138,675	104,882	788,416	855,935	67,518
Domestic stocks	209,314	335,864	126,549	241,089	407,001	165,912
Foreign securities	644,141	727,674	83,532	718,977	813,227	94,249
Foreign bonds	464,221	528,295	64,074	533,848	601,821	67,972
Foreign stocks	179,920	199,378	19,457	185,129	211,406	26,276
Other securities	42,376	50,644	8,268	50,131	60,304	10,173
Money held in trust	—	—	—	—	—	—
Money claims bought	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—
Others	—	—	—	—	—	—
Securities whose carrying value on the balance sheet does not exceed the book value	145,286	133,936	(11,349)	202,574	194,009	(8,565)
Domestic bonds	17,017	16,591	(426)	23,254	22,579	(675)
Domestic stocks	60,117	52,552	(7,565)	28,898	25,421	(3,477)
Foreign securities	59,579	56,419	(3,160)	143,926	139,557	(4,369)
Foreign bonds	26,607	25,377	(1,229)	117,136	114,223	(2,913)
Foreign stocks	32,972	31,041	(1,930)	26,789	25,333	(1,456)
Other securities	8,570	8,373	(197)	6,494	6,451	(42)
Money held in trust	—	—	—	—	—	—
Money claims bought	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—
Others	—	—	—	—	—	—

* Book value of securities whose market value are deemed extremely difficult to obtain are as follows:

(Millions of yen)

	As of March 31, 2013	As of September 30, 2013
Held-to-maturity bonds	—	—
Unlisted foreign bonds	—	—
Others	—	—
Policy-reserve-matching bonds	—	—
Investments in subsidiaries and affiliates	35,560	35,560
Available-for-sale securities	15,405	16,508
Unlisted domestic stocks (except over-the-counter stocks)	7,738	7,653
Unlisted foreign stocks (except over-the-counter stocks)	—	—
Unlisted foreign bonds	—	—
Others	7,667	8,855
Total	50,966	52,069

(reference) Fair Value Information on Derivative Instruments (Total of General Account and Separate Account)

(i) Gains and Losses on Derivatives

(Millions of yen)

As of March 31, 2013	Interest-related	Currency-related	Stock-related	Bond-related	Others	Total
Hedge accounting applied	93	(888)	—	—	—	(795)
Hedge accounting not applied	(137)	967	—	(498)	—	331
Total	(43)	78	—	(498)	—	(463)
As of September 30, 2013	Interest-related	Currency-related	Stock-related	Bond-related	Others	Total
Hedge accounting applied	22	2,401	—	—	—	2,423
Hedge accounting not applied	(267)	2,184	(100)	(1,453)	—	363
Total	(244)	4,585	(100)	(1,453)	—	2,787

Note: Gains and losses from applying fair value hedge accounting (currency-related, losses of ¥888 million as of March 31, 2013 and gains of ¥2401 million as of September 30, 2013) included in gains and losses with hedge accounting applied, and gains and losses with hedge accounting not applied are reported in the statements of operations.

(ii) Interest-related Transactions

(Millions of yen)

	As of March 31, 2013				As of September 30, 2013			
	Notional amount/ contract value		Fair value	Gains (losses)	Notional amount/ contract value		Fair value	Gains (losses)
		Over 1 year				Over 1 year		
Over-the-counter transactions								
Yen interest rate swaption contracts								
Sold								
Receipt fixed, payment floating	—	—	—	—	—	—	—	—
	[—]				[—]			
Payment fixed, receipt floating	—	—	—	—	—	—	—	—
	[—]				[—]			
Bought								
Receipt fixed, payment floating	—	—	—	—	—	—	—	—
	[—]				[—]			
Payment fixed, receipt floating	300,000	—	170	(137)	300,000	40	—	(267)
	[307]				[307]			
Total				(137)				(267)

Notes: Figures in [] are option premiums which are included in balance sheet.

• Currency-related Transactions

(Millions of yen)

	As of March 31, 2013				As of September 30, 2013			
	Notional amount/ contract value	Over 1 year	Fair value	Gains (losses)	Notional amount/ contract value	Over 1 year	Fair value	Gains (losses)
Over-the-counter transactions								
Currency forward contracts								
Sold								
US dollar	190,966	—	189,966	999	238,371	—	236,197	2,173
Euro	54,731	—	54,070	660	93,514	—	92,351	1,162
Australian dollar	52,090	—	50,993	1,097	47,365	—	47,070	294
Canadian dollar	35,994	—	36,684	(690)	37,204	—	36,738	465
British pound	29,554	—	29,611	(57)	33,559	—	33,168	390
Singapore dollar	18,595	—	18,606	(11)	26,726	—	26,867	(140)
0	0	—	0	0	—	—	—	—
Bought	—	—	—	—	—	—	—	—
Currency Options								
Sold								
Calls	15,681	—	—	—	5,095	—	—	—
US dollar	[108]	—	33	74	[18]	—	4	13
Euro	[66]	—	32	34	[18]	—	4	13
6,279	6,279	—	—	—	—	—	—	—
Puts	[41]	—	1	40	[—]	—	—	—
Bought								
Calls	—	—	—	—	—	—	—	—
Puts	[—]	—	—	—	[—]	—	—	—
20,550	20,550	—	9	(107)	4,800	—	15	(2)
US dollar	[116]	—	9	(107)	[18]	—	15	(2)
Euro	[66]	—	0	(66)	[18]	—	15	(2)
11,550	11,550	—	9	(41)	[—]	—	—	—
[50]	[50]	—	9	(41)	[—]	—	—	—
Total				967				2,184

Notes: 1. Figures in [] are option premiums which are included in balance sheet.
2. Forward exchange rates are used for exchange rates as of the end of period.

• Stock-related Transactions

(Millions of yen)

	As of March 31, 2013				As of September 30, 2013			
	Notional amount/ contract value	Over 1 year	Fair value	Gains (losses)	Notional amount/ contract value	Over 1 year	Fair value	Gains (losses)
Exchange-traded transactions								
Yen stock index futures								
Sold	—	—	—	—	7,175	—	7,230	(54)
Bought	—	—	—	—	—	—	—	—
Over-the-counter transactions								
Option								
Sold								
Calls	—	—	—	—	6,250	—	—	—
Puts	[—]	—	—	—	[126]	—	172	(45)
Bought								
Calls	—	—	—	—	—	—	—	—
Puts	[—]	—	—	—	[—]	—	—	—
Puts	[—]	—	—	—	[—]	—	—	—
Total								

Note: Figures in [] are option premiums which are included in balance sheet.

• Bond-related Transactions

	As of March 31, 2013				As of September 30, 2013			
	Notional amount/ contract value	Over 1 year	Fair value	Gains (losses)	Notional amount/ contract value	Over 1 year	Fair value	Gains (losses)
Exchange-traded transactions								
Yen bond futures								
Sold	174,087	—	174,552	(464)	143,046	—	144,120	(1,074)
Bought	—	—	—	—	—	—	—	—
Foreign bond futures								
Sold	10,517	—	10,551	(34)	20,005	—	20,385	(379)
Bought	—	—	—	—	—	—	—	—
Total				(498)				(1,453)

(iii) Hedge Accounting Applied

• Interest-related Transactions

[As of March 31, 2013]

(Millions of yen)

Method of hedge accounting	Hedging instruments	Hedged items	Notional amount / contract value		Fair value
				Over 1 year	
Deferral hedge method	Yen interest rate swap contracts	Loans			
	Receipt fixed, payment floating		12,495	495	93
	Payment fixed, receipt floating		—	—	—
Total					

* Interest rate swap contracts by contractual maturity dates

(Millions of yen)

	1 year or shorter	Over 1 year to 3 years	Over 3 years
Notional amount (receipts fixed, payments floating)	12,000	495	—
Average fixed rate (receipt)	1.65%	2.30%	—
Average floating rate (payment)	0.53%	1.15%	—
Notional amount (receipts floating, payments fixed)	—	—	—
Average floating rate (receipt)	—	—	—
Average fixed rate (payment)	—	—	—

[As of September 30, 2013]

(Millions of yen)

Method of hedge accounting	Hedging instruments	Hedged items	Notional amount / contract value		Fair value
				Over 1 year	
Deferral hedge method	Interest rate swap contracts	Loans			
	Receipt fixed, payment floating		2,392	392	22
	Payment fixed, receipt floating		—	—	—
Total					

* Interest rate swap contracts by contractual maturity dates

(Millions of yen)

	1 year or shorter	Over 1 year to 3 years	Over 3 years
Notional amount (receipts fixed, payments floating)	2,000	392	—
Average fixed rate (receipt)	2.12%	2.31%	—
Average floating rate (payment)	0.51%	1.13%	—
Notional amount (receipts floating, payments fixed)	—	—	—
Average floating rate (receipt)	—	—	—
Average fixed rate (payment)	—	—	—

• Currency-related Transactions

[As of March 31, 2013]

(Millions of yen)

Method of hedge accounting	Hedging instruments	Hedged items	Notional amount / contract value		Fair Value
				Over 1 year	
Fair value hedge method	Currency forward contracts	Foreign currency-denominated bonds			
	Sold		139,523	—	140,412
	US dollar		94,974	—	96,269
	Euro		34,703	—	34,409
	Australian dollar		9,845	—	9,732
Bought	—	—	—		
Total					

[As of September 30, 2013]

(Millions of yen)

Method of hedge accounting	Hedging instruments	Hedged items	Notional amount / contract value		Fair Value
				Over 1 year	
Fair value hedge method	Currency forward contracts	Foreign currency-denominated bonds			
	Sold		286,209	—	283,808
	US dollar		231,758	—	229,033
	Euro		37,226	—	37,576
	Australian dollar		17,224	—	17,198
Bought	—	—	—		
Total					

Notes 1. Forward exchange rates are used for exchange rates as of the end of fiscal period.

2. Regarding assets and liabilities which are denominated in foreign currencies but have fixed settlement in yen under currency forward contracts and are reported in yen amounts in the balance sheet, those currency forward contracts are excluded from the table above.

• Stock-related Transactions

No ending balance as of March 31, 2013 and September 30, 2013.

• Bond-related Transactions

No ending balance as of March 31, 2013 and September 30, 2013.

11. Status of the Company, Subsidiaries and Affiliates

(1) Selected Financial Data

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Ordinary revenues	553,885	486,743
Ordinary profits	28,488	57,596
Net surplus for the period	21,186	37,019
Comprehensive income	9,514	48,117

	As of March 31, 2013	As of September 30, 2013
Total assets	7,538,862	7,688,221
Solvency Margin Ratio	994.6%	1053.4%

(2) Scope of consolidation and application of equity method

Number of consolidated subsidiaries: 5

Number of unconsolidated subsidiaries accounted for under the equity method: 0

Number of affiliates accounted for under the equity method: 0

(3) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2013	As of September 30, 2013
Assets:		
Cash and deposits	72,868	85,820
Call loans	70,300	109,300
Monetary claims bought	1,111	1,041
Money held in trust	31,322	31,047
Securities	6,108,723	6,288,466
Loans	910,657	859,973
Tangible fixed assets	272,228	232,558
Intangible fixed assets	18,727	17,277
Agency receivables	6	2
Reinsurance receivables	56	20
Other assets	54,698	63,670
Deferred tax assets	362	1,030
Allowance for possible loan losses	(2,201)	(1,988)
Total assets	7,538,862	7,688,221
Liabilities:		
Policy reserves	6,856,928	6,929,046
Reserve for outstanding claims	24,663	23,035
Policy reserve	6,779,259	6,840,007
Reserve for dividends to policyholders	52,307	65,423
Reserve for dividends to policyholders (subsidiary)	697	579
Agency payables	375	171
Reinsurance payables	113	120
Subordinated bonds	66,187	119,405
Other liabilities	53,918	54,458
Reserve for employees' retirement benefits	45,153	44,112
Reserve for price fluctuation of securities	46,625	47,961
Deferred tax liabilities	16,938	20,775
Deferred tax liabilities for revaluation reserve for land	16,119	15,947
Total liabilities	7,102,360	7,231,998
Net assets:		
Foundation funds	35,000	35,000
Accumulated foundation funds redeemed	71,000	71,000
Reserve for revaluation	112	112
Consolidated surplus	102,904	111,795
Total foundation funds, surplus and others	209,016	217,907
Net unrealized gains (losses) on available-for-sale securities, net of tax	219,719	230,658
Deferred valuation gains (losses) under hedge accounting	62	14
Revaluation reserve for land, net of tax	3,421	3,165
Foreign currency translation adjustment	(635)	(473)
Total accumulated other comprehensive income	222,569	233,365
Minority interests	4,916	4,950
Total net assets	436,502	456,223
Total liabilities and net assets	7,538,862	7,688,221

(4) Consolidated Statements of Operations and Comprehensive Income
[Consolidated Statements of Operations]

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Ordinary revenues:		
Premium and other income	467,052	363,388
Investment income	78,840	115,807
[Interest, dividends and other income]	[66,612]	[71,606]
[Gains from money held in trust, net]	[403]	[—]
[Gains from trading securities, net]	[—]	[4,200]
[Gains on sales of securities]	[3,504]	[32,933]
[Gains from derivative instruments, net]	[7,671]	[—]
[Gains from separate accounts, net]	[—]	[6,395]
Other ordinary revenues	7,992	7,547
[Reversal of reserve for outstanding claims]	[2,333]	[1,628]
Total ordinary revenues	553,885	486,743
Ordinary expenditures:		
Claims and other payments	302,904	287,384
[Claims]	[120,668]	[90,264]
[Annuities]	[46,297]	[63,822]
[Benefits]	[67,087]	[66,834]
[Surrenders]	[51,504]	[54,228]
[Other payments]	[17,120]	[11,975]
Provision for policy reserve and others	136,498	60,786
Provision for policy reserve	136,460	60,748
Interest on accumulated dividends to policyholders	38	38
Interest on accumulated dividends to policyholders (subsidiary)	0	0
Investment expenses	25,933	22,613
[Interest expenses]	[646]	[1,472]
[Losses from money held in trust, net]	[—]	[213]
[Losses from trading securities, net]	[4,528]	[—]
[Losses on sales of securities]	[6,062]	[5,202]
[Losses on valuation of securities]	[5,103]	[52]
[Losses from derivative instruments, net]	[—]	[11,056]
[Losses from separate accounts, net]	[3,386]	[—]
Operating expenses	49,036	47,429
Other ordinary expenditures	11,023	10,932
Total ordinary expenditures	525,397	429,147
Ordinary profits	28,488	57,596
Extraordinary gains:		
Gains on disposal of fixed assets	17	2,001
Total extraordinary gains	17	2,001
Extraordinary losses:		
Losses on disposal of fixed assets	80	7,071
Impairment losses	114	1,605
Provision for reserve for price fluctuation of securities	1,193	1,335
Total extraordinary losses	1,388	10,012
Provision for reserve for dividends to policyholders (subsidiary)	228	256
Surplus before income taxes	26,888	49,329
Income taxes:		
Current	5,162	13,883
Deferred	381	(1,774)
Total income taxes	5,544	12,108
Net surplus before minority interests	21,344	37,220
Minority interests	157	201
Net surplus for the period	21,186	37,019

(4) Consolidated Statements of Operations and Comprehensive Income (Continued)

[Consolidated Statements of Comprehensive Income]

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Net surplus before minority interests	21,344	37,220
Other comprehensive income	(11,829)	10,897
Net unrealized gains (losses) on available-for-sale securities, net of tax	(11,799)	10,784
Deferred valuation gains (losses) under hedge accounting	(62)	(48)
Revaluation reserve for land, net of tax	(0)	—
Foreign currency translation adjustment	33	161
Comprehensive income	9,514	48,117
Comprehensive income attributable to parent company	9,245	48,071
Comprehensive income attributable to minority interests	268	46

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Cash flows from operating activities:		
Surplus before income taxes	26,888	49,329
Depreciation of real estate for rent and other assets	2,904	2,509
Depreciation	3,190	3,541
Impairment losses	114	1,605
Amortization of goodwill	381	381
Increase (Decrease) in reserve for outstanding claims	(2,333)	(1,628)
Increase (Decrease) in policy reserve	136,460	60,748
Interest on accumulated dividends to policyholders	38	38
Interest on accumulated dividends to policyholders (subsidiary)	0	0
Provision for reserve for dividends to policyholders (subsidiary)	228	256
Increase (Decrease) in allowance for possible loan losses	(133)	(212)
Increase (Decrease) in reserve for employees' retirement benefits	(695)	(1,040)
Increase (Decrease) in reserve for price fluctuation of securities	1,193	1,335
Interest, dividends and other income	(66,612)	(71,606)
(Gains) Losses on securities	7,501	(27,005)
Interest expenses	646	1,472
Foreign exchange (gains) losses, net	1,443	(461)
(Gains) Losses on tangible fixed assets	43	4,994
Others	(468)	(3,427)
Subtotal	110,791	20,831
Interest, dividends and other income received	72,199	79,773
Interest paid	(1,371)	(2,215)
Dividends to policyholders paid	(12,903)	(14,685)
Dividends to policyholders paid (subsidiary)	(326)	(374)
Corporate income tax (paid) refunded	(2,626)	(10,101)
Net cash provided by (used in) operating activities (I)	165,763	73,227
Cash flows from investing activities:		
(Increase) Decrease in deposits	159	(298)
Proceeds from sales and redemption of monetary claims bought	34	68
Payments for increase in money held in trust	—	(2,000)
Proceeds from decrease in money held in trust	5,034	1,999
Payments for purchase of securities	(454,082)	(646,053)
Proceeds from sales and redemption of securities	253,749	521,367
Payments for additions to loans	(40,398)	(31,044)
Proceeds from collections of loans	82,840	76,630
Proceeds and payments from settlement of derivatives, net	6,359	(11,775)
Others	2,101	(8,301)
Subtotal (IIa)	(144,201)	(99,408)
(I+IIa)	21,561	(26,180)
Payments for purchase of tangible fixed assets	(2,229)	(733)
Proceeds from sales of tangible fixed assets	63	30,364
Payments for purchase of intangible fixed assets	(1,088)	(1,018)
Net cash provided by (used in) investing activities	(147,457)	(70,795)

(5) Consolidated Statements of Cash Flows (Continued)

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Cash flows from financing activities:		
Financing of subordinated bonds	—	49,870
Interest payment for foundation funds	(621)	(621)
Dividends paid to minority interests	(12)	(12)
Payments for lease obligations	(234)	(402)
Net cash provided by (used in) financing activities	(867)	48,833
Effect of exchange rate changes on cash and cash equivalents	(92)	358
Net increase (decrease) in cash and cash equivalents	17,346	51,624
Cash and cash equivalents at the beginning of the period	138,504	142,596
Cash and cash equivalents at the end of the period	155,850	194,220

(6) Consolidated Statements of Changes in Net Assets

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Foundation funds, surplus and others		
Foundation funds		
Balance at the beginning of current period	35,000	35,000
Changes in the current period		
Total changes in the current period	—	—
Balance at the end of current period	35,000	35,000
Accumulated foundation funds redeemed		
Balance at the beginning of current period	71,000	71,000
Changes in the current period		
Total changes in the current period	—	—
Balance at the end of current period	71,000	71,000
Reserve for revaluation		
Balance at the beginning of current period	112	112
Changes in the current period		
Total changes in the current period	—	—
Balance at the end of current period	112	112
Consolidated surplus		
Balance at the beginning of current period	77,183	102,904
Changes in the current period		
Additions to reserve for dividends to policyholders	(23,989)	(27,762)
Payment of interest on foundation funds	(621)	(621)
Net surplus for the period	21,186	37,019
Reversal of revaluation reserve for land	79	256
Total changes in the current period	(3,344)	8,891
Balance at the end of current period	73,838	111,795
Total foundation funds, surplus and others		
Balance at the beginning of current period	183,295	209,016
Changes in the current period		
Additions to reserve for dividends to policyholders	(23,989)	(27,762)
Payment of interest on foundation funds	(621)	(621)
Net surplus for the period	21,186	37,019
Reversal of revaluation reserve for land	79	256
Total changes in the current period	(3,344)	8,891
Balance at the end of current period	179,950	217,907

(6) Consolidated Statements of Changes in Net Assets (Continued)

(Millions of yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Accumulated other comprehensive income		
Net unrealized gains (losses) on available-for-sale securities, net of tax		
Balance at the beginning of current period	68,806	219,719
Changes in the current period		
Net changes, excluding foundation funds, surplus and others	(11,910)	10,938
Total changes in the current period	(11,910)	10,938
Balance at the end of current period	56,895	230,658
Deferred valuation gains (losses) under hedge accounting		
Balance at the beginning of current period	170	62
Changes in the current period		
Net changes, excluding foundation funds, surplus and others	(62)	(48)
Total changes in the current period	(62)	(48)
Balance at the end of current period	108	14
Revaluation reserve for land, net of tax		
Balance at the beginning of current period	3,383	3,421
Changes in the current period		
Net changes, excluding foundation funds, surplus and others	(80)	(256)
Total changes in the current period	(80)	(256)
Balance at the end of current period	3,303	3,165
Foreign currency translation adjustment		
Balance at the beginning of current period	(828)	(635)
Changes in the current period		
Net changes, excluding foundation funds, surplus and others	33	161
Total changes in the current period	33	161
Balance at the end of current period	(795)	(473)
Total accumulated other comprehensive income		
Balance at the beginning of current period	71,532	222,569
Changes in the current period		
Net changes, excluding foundation funds, surplus and others	(12,020)	10,796
Total changes in the current period	(12,020)	10,796
Balance at the end of current period	59,512	233,365
Minority interests		
Balance at the beginning of current period	4,421	4,916
Changes in the current period		
Net changes, excluding foundation funds, surplus and others	256	34
Total changes in the current period	256	34
Balance at the end of current period	4,678	4,950
Total net assets		
Balance at the beginning of current period	259,249	436,502
Changes in the current period		
Additions to reserve for dividends to policyholders	(23,989)	(27,762)
Payment of interest on foundation funds	(621)	(621)
Net surplus for the period	21,186	37,019
Reversal of revaluation reserve for land	79	256
Net changes, excluding foundation funds, surplus and others	(11,764)	10,830
Total changes in the current period	(15,108)	19,721
Balance at the end of current period	244,140	456,223

Notes to the Consolidated Financial Statements

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. Principles of Consolidation

(1) Scope of Consolidation

Consolidated subsidiaries for the six months ended September 30, 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.

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 period 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 six months ended September 30, 2013.

(3) Interim Closing Date of Consolidated Subsidiaries

Among the subsidiaries to be consolidated, the interim closing date of overseas subsidiaries is June 30. For the preparation of consolidated financial statements, financial statements as of that date are used and concerning any important transaction taking place in between June 30 and September 30, necessary adjustments for consolidation are made.

II. Notes to Balance Sheet

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 balance sheet date. 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 market 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 amount written-off as of September 30, 2013 was ¥557 million.

(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 “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.

Foreign currency-denominated subordinated bonds issued by the Company for which currency swaps are used to hedge the foreign currency fluctuations are translated at the contracts 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 and its consolidated subsidiaries account 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 other assets 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 balance sheet date 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.

Based on the provision of paragraph 5, Article 69 of the Enforcement Regulation of the Insurance Business Law, in relation to certain individual annuity insurance policies, hospitalization riders with surgery benefits and long-term hospitalization benefits, and non-participating tuition insurance issued by the Company, there is an additional policy reserve included.

(14) Amortization Method for Intangible Fixed Assets

Intangible fixed assets are amortized as follows:

- i) Software for internal use is amortized based on a straight-line method over the estimated useful lives.
- ii) Lease assets are amortized based on a straight-line method over the lease terms.

(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, and group 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).

2. Financial Instruments

The carrying amounts, fair values and their related differences of major financial assets and liabilities as of September 30, 2013 were as follows:

	Carrying amount	Fair value	Difference
(Millions of yen)			
Cash and deposits:			
Cash and deposits not treated as securities.....	¥ 85,737	¥ 85,737	¥ —
Total cash and deposits	85,737	85,737	—
Call loans	109,300	109,300	—
Monetary claims bought:			
Claims treated as loans	1,041	1,081	39
Total monetary claims bought	1,041	1,081	39
Money held in trust:			
Trading securities.....	30,047	30,047	—
Total money held in trust	30,047	30,047	—
Securities:			
Trading securities.....	270,170	270,170	—
Held-to-maturity debt securities	1,261,347	1,356,147	94,800
Policy-reserve-matching bonds	2,066,573	2,187,536	120,962
Available-for-sale securities	2,592,519	2,592,519	—
Total securities	6,190,610	6,406,373	215,763
Loans:			
Policy loans.....	69,448	69,447	(0)
Ordinary loans	790,524	813,929	23,405
Total loans.....	859,973	883,377	23,404
Assets total	7,276,710	7,515,917	239,207
Subordinated bonds(*1)	119,405	118,873	(532)
Liabilities total	119,405	118,873	(532)
Derivative instruments:(*2)			
Hedge accounting not applied	363	363	—
Hedge accounting applied	2,423	2,423	—
Total derivative instruments	¥ 2,787	¥ 2,787	¥ —

(*1) The market value of derivative instruments that are currency swaps under designated hedge accounting is included in the market value of subordinated bonds because it is accounted for as an integral part of the subordinated bonds that are the hedge items.

(*2) Assets and liabilities generated by derivative instruments are offset and presented net. Net liabilities in total are presented in brackets.

(1) Cash and deposits excluding those which are treated as securities based on “Accounting Standards for Financial Instruments” (ASBJ Statement No.10) , Call loans:

The fair values of cash and deposits, and call loans are based on their book values since fair values approximate book values due to their short maturities.

(2) 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

balance sheet date. 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 as of September 30, 2013 were ¥519 million, ¥7,653 million and ¥8,855 million, respectively.

(3) 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.

(4) Subordinated Bonds

Subordinated bonds issued by the Company are measured at the quoted market price at the balance sheet date.

(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.

3. Investment and Rental Property

The carrying amount and the fair value of investment and rental properties as of September 30, 2013 were ¥180,339 million and ¥248,395 million, 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 was ¥1,218 million as of September 30, 2013.

4. Securities lent under lending agreements

The amount of securities lent under lending agreements was ¥50,122 million as of September 30, 2013.

5. Loans Receivable

The amounts of credits to bankrupt borrowers, delinquent loans and restructured loans, which were included in loans, were ¥191 million, ¥902 million and ¥658 million, respectively and their total amount

was ¥1,751 million as of September 30, 2013. There was no balance of delinquent loans past 3 months or more as of September 30, 2013.

The direct write-offs related to loans decreased credits to bankrupt borrowers described above by ¥251 million and delinquent loans described above by ¥286 million as of September 30, 2013.

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.

6. Accumulated Depreciation of Tangible Fixed Assets

Accumulated depreciation of tangible fixed assets totaled to ¥143,116 million as of September 30, 2013.

7. Separate Accounts

Total assets in separate accounts provided for in Article 118 of the Insurance Business Law were ¥84,310 million as of September 30, 2013. The amount of separate account liabilities was the same as separate account assets.

8. Reserve for Dividends to Policyholders

Changes in reserve for dividends to policyholders for the six months ended September 30, 2013 were as follows:

	(Millions of yen)
Balance at the beginning of current period.....	¥ 52,307
Transfer from surplus in previous fiscal year	27,762
Dividends paid in the current period	(14,685)
Increase in interest	38
Balance at the end of current period	<u>¥ 65,423</u>

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

Changes in reserve for dividends to policyholders for the six months ended September 30, 2013 were as follows:

	(Millions of yen)
Balance at the beginning of current period.....	¥ 697
Dividends paid in the current period	(374)
Increase in interest	0

Provision for reserve for dividends to policyholders ...	256
Balance at the end of current period	¥ 579

10. Stocks of Unconsolidated Subsidiaries

The amount of stocks of unconsolidated subsidiaries the Company held as of September 30, 2013 was ¥519 million.

11. Pledged Assets and Secured Debts

Assets pledged as collateral as of September 30, 2013 were ¥28,646 million of securities and ¥1,002 million of bank deposits. Secured debts as of September 30, 2013 were ¥4,661 million.

12. 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") was ¥2 million as of September 30, 2013.

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") was ¥47 million as of September 30, 2013.

13. Commitment Line

As of September 30, 2013, there were unused commitment line agreements under which the Company is the lender of ¥872 million.

14. Subordinated Bonds

Repayments of subordinated bonds are subordinated to other obligations.

15. 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 was estimated at ¥12,453 million as of September 30, 2013. The contribution was charged as operating expenses in the year in which it was paid.

III. Notes to Statement of Operations

1. Policy Reserves for the Reinsurance Contracts

For the six months ended September 30, 2013, provision of reserve for outstanding claims for ceded reinsurance considered in calculation of reversal of reserve for outstanding claims was ¥0 million and reversal for policy reserve for ceded reinsurance considered in calculation of provision for policy reserve was ¥4 million.

2. Impairment Losses of Fixed Assets

For the six months ended September 30, 2013, impairment losses of fixed assets was 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

Asset	Impairment losses		
	Land	Buildings and others	Total
			(Millions of yen)
(i) Real estate for rent...	¥ 1,511	¥ 11	¥ 1,523
(ii) Unused real estate ...	33	49	82
Total (i)+(ii)	¥ 1,544	¥ 60	¥ 1,605

(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.

IV. Notes to Statement of Cash Flows

1. Scope of Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 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 statement of cash flows to the consolidated balance sheet account as of September 30, 2013 were as follows:

	(Millions of yen)
Cash and deposits	¥ 85,820
Call loans	109,300
Monetary claims bought.....	1,041
Time deposits maturing over 3 months of the date of acquisition	(300)
Foreign currency deposits maturing over 3 months of the date of acquisition ...	(599)
Monetary claims bought maturing over 3 months of the date of acquisition	(1,041)
Cash and cash equivalents.....	¥ 194,220

(7) Consolidated Solvency Margin Ratio

(Millions of yen)

	As of March 31, 2013	As of September 30, 2013
Total solvency margin (A)	956,020	1,067,599
Common stock and others	180,855	203,803
Reserve for price fluctuation of securities	46,625	47,961
Contingency reserve	85,102	85,236
Catastrophe loss reserve	—	—
Allowance for possible loan losses	1,796	1,592
Net unrealized gains on available - for - sale securities x 90% (multiplied by 100% if losses)	286,774	300,808
Net unrealized gains on real estate x 85%	72,441	79,292
Excess amount of policy reserve based on full-time Zillmer method	189,458	193,474
Qualifying subordinated debt	66,187	119,405
The amount of "excess amount of policy reserve based on full-time Zillmer method" and "qualifying subordinated debt" excluded from the calculation of solvency margin	—	—
Deductible items	—	—
Others	26,777	36,024
Total amount of risk $[(R_1^2 + R_5^2)^{1/2} + R_8 + R_9]^2 + (R_2 + R_3 + R_7)^2)^{1/2} + R_4 + R_6$ (B)	192,238	202,688
Insurance risk R_1	27,902	27,427
General insurance risk R_5	—	—
Catastrophe risk R_6	—	—
3rd sector insurance risk R_8	9,754	9,763
Small amount and short-term insurance risk R_9	—	—
Assumed investment yield risk R_2	36,326	36,333
Minimum guarantee risk R_7	2	0
Investment risk R_3	147,663	158,195
Business risk R_4	4,432	4,634
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	994.6%	1053.4%

Notes: 1. Above figures are calculated based on Articles 86 and 87 of the Enforcement Regulation of the Insurance Business Law and Ministry of Finance Ordinance No. 50, 1996.
2. "Minimum guarantee risk" is calculated by standard method.