

## Financial Results for the Six Months Ended September 30, 2014

Fukoku Mutual Life Insurance Company (President: Yoshiteru Yoneyama) announces financial results for the six months ended September 30, 2014.

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Attached: Supplementary Materials for the Six Months Ended September 30, 2014

# 1. Business Highlights

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

### (i) Policies in Force

		As of March 31, 2014		As of September 30, 2014			
		Number of policies	Amount	Number of policies		Amount	
		(Thousands)	(100 millions of yen)	(Thousands)	Changes (%, Pre-FYE)	(100 millions of yen)	Changes (%, Pre-FYE)
	Individual insurance	3,044	242,084	3,050	100.2	239,090	98.8
	Individual annuities	758	29,487	746	98.5	29,072	98.6
Subtotal		3,802	271,572	3,797	99.9	268,163	98.7
Group insurance		—	165,468	—	—	166,863	100.8
Group annuities		—	20,305	—	—	20,499	101.0

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, 2013		Total		New business	Net increase by conversion
		Number of policies	Amount	Amount	Amount
		(Thousands)	(100 millions of yen)	(100 millions of yen)	(100 millions of yen)
	Individual insurance	176	7,988	8,020	(32)
	Individual annuities	7	251	260	(9)
Subtotal		183	8,239	8,280	(41)
Group insurance		—	78	78	—
Group annuities		—	0	0	—

Six months ended September 30, 2014		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)	(100 millions of yen)
	Individual insurance	172	98.0	7,641	95.7	7,108	533
	Individual annuities	9	127.1	334	133.3	343	(8)
Subtotal		182	99.2	7,976	96.8	7,451	524
Group insurance		—	—	35	45.3	35	—
Group annuities		—	—	0	0.7	0	—

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, 2013	Six months ended September 30, 2014	
			Changes (%, YoY)
Amount of surrender and lapse (100 millions of yen)	7,777	7,360	94.6
Surrender and lapse ratio (%)	2.79	2.71	(0.08)

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, 2014	As of September 30, 2014	
			Changes (%, Pre-FYE)
Individual insurance	2,750	2,737	99.5
Individual annuities	1,326	1,323	99.8
Total	4,077	4,060	99.6
Medical coverage and living benefits	1,061	1,062	100.1

### (ii) New Policies

(100 millions of yen except percentage)

	Six months ended September 30, 2013	Six months ended September 30, 2014	
			Changes (%, Pre-FYE)
Individual insurance	95	89	94.1
Individual annuities	11	14	123.2
Total	106	103	92.7
Medical coverage and living benefits	38	34	89.3

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, 2013	Six months ended September 30, 2014	
			Changes (%, Pre-FYE)
Premium and other income	3,291	3,027	92.0
Investment income	1,033	945	91.5
Claims and other payments	2,657	2,528	95.1
Investment expenses	230	184	80.0
Ordinary profits	548	507	92.6

## (4) Total Assets

(100 millions of yen except percentage)

	As of March 31, 2014	As of September 30, 2014	
			Changes (%, Pre-FYE)
Total assets	62,147	63,634	102.4

## 2. Investment Results of General Account Assets

### (1) Asset Composition

(Millions of yen)

	As of March 31, 2014		As of September 30, 2014	
	Amount	Percentage	Amount	Percentage
Cash, deposits, call loans	183,333	3.0	159,941	2.5
Monetary claims bought	1,011	0.0	925	0.0
Money held in trust	31,981	0.5	33,305	0.5
Securities	4,798,502	78.2	5,008,023	79.8
Domestic bonds	2,876,176	46.9	2,881,545	45.9
Domestic stocks	482,308	7.9	550,464	8.8
Foreign securities	1,365,396	22.3	1,502,394	23.9
Foreign bonds	1,109,910	18.1	1,231,566	19.6
Foreign stocks and other securities	255,485	4.2	270,827	4.3
Other securities	74,621	1.2	73,619	1.2
Loans	835,860	13.6	777,252	12.4
Policy loans	65,206	1.1	64,593	1.0
Ordinary loans	770,654	12.6	712,658	11.3
Real estate	228,183	3.7	225,589	3.6
Others	56,903	0.9	75,979	1.2
Allowance for possible loan losses	(2,281)	( 0.0)	(2,066)	(0.0)
Total	6,133,495	100.0	6,278,950	100.0
Foreign currency denominated assets	1,302,072	21.2	1,472,975	23.5

### (2) Changes (Increase/Decrease) in Assets

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Cash, deposits, call loans	34,386	(23,392)
Monetary claims bought	(69)	(85)
Money held in trust	(275)	1,324
Securities	174,616	209,520
Domestic bonds	(77,783)	5,368
Domestic stocks	43,921	68,156
Foreign securities	199,554	136,998
Foreign bonds	193,234	121,655
Foreign stocks and other securities	6,319	15,342
Other securities	8,924	(1,001)
Loans	(50,860)	(58,608)
Policy loans	(684)	(613)
Ordinary loans	(50,176)	(57,995)
Real estate	(39,611)	(2,594)
Others	7,781	19,075
Allowance for possible loan losses	212	215
Total	126,180	145,455
Foreign currency denominated assets	239,355	170,902

## (3) Investment Income

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Interest, dividends and other income	60,285	66,494
Interest from deposits	3	2
Interest and dividends from securities	43,821	51,278
Interest from loans	8,772	8,191
Income from real estate for rent	7,578	6,891
Other interest and dividends	109	131
Gains on trading account securities	—	—
Gains from money held in trust, net	—	1,374
Gains from trading securities, net	4,200	16,149
Gains on sales of securities	31,775	4,990
Gains on sales of domestic bonds	17,241	3,023
Gains on sales of domestic stocks	11,662	1,230
Gains on sales of foreign securities	2,429	735
Others	442	—
Gains on redemption of securities	—	—
Gains from derivative instruments, net	—	—
Foreign exchange gains, net	460	528
Reversal of allowance for possible loan losses	—	212
Other investment income	209	26
Total	96,931	89,776

## (4) Investment Expenses

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Interest expenses	1,460	2,160
Losses on trading account securities	—	—
Losses from money held in trust, net	213	—
Losses from trading securities, net	—	—
Losses on sales of securities	5,202	167
Losses on sales of domestic bonds	32	0
Losses on sales of domestic stocks	2,312	63
Losses on sales of foreign securities	2,857	103
Others	—	—
Losses on valuation of securities	52	111
Losses on valuation of domestic bonds	—	—
Losses on valuation of domestic stocks	52	—
Losses on valuation of foreign securities	—	111
Other losses on valuation of securities	—	—
Losses on redemption of securities	—	—
Losses from derivative instruments, net	11,056	11,014
Foreign exchange losses, net	—	—
Provision for allowance for possible loan losses	38	—
Write-off of loans	—	—
Depreciation of real estate for rent and other assets	2,509	2,413
Other investment expenses	2,565	2,607
Total	23,098	18,474

## (5) Net Investment Income

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Net investment income	73,833	71,301

## (6) Net Valuation Gains/Losses on Trading Securities

(Millions of yen)

	As of March 31, 2014		As of September 30, 2014	
	Carrying value on the balance sheet	Net valuation gains/losses included in the statement of operations	Carrying value on the balance sheet	Net valuation gains/losses included in the statement of operations
Trading securities	302,041	7,200	316,669	11,509

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, 2014					As of September 30, 2014				
	Book value	Fair value	Gains/losses			Book value	Fair value	Gains/losses		
			Gains	Losses				Gains	Losses	
Held-to-maturity debt securities	843,433	922,909	79,476	79,476	—	816,384	910,740	94,356	94,356	—
Domestic bonds	768,744	845,557	76,813	76,813	—	741,590	833,390	91,800	91,800	—
Foreign bonds	74,689	77,352	2,662	2,662	—	74,794	77,349	2,555	2,555	—
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Policy-reserve-matching bonds	1,210,016	1,294,587	84,570	84,798	227	1,227,469	1,330,756	103,287	103,293	6
Domestic bonds	1,190,715	1,275,012	84,297	84,522	224	1,190,970	1,293,960	102,989	102,989	—
Foreign bonds	19,301	19,575	273	276	2	36,498	36,795	297	303	6
Investments in subsidiaries and affiliates	1,393	1,096	(296)	—	296	1,433	1,191	(241)	2	244
Available-for-sale securities	2,046,003	2,421,417	375,414	379,801	4,387	2,151,386	2,625,767	474,380	476,647	2,267
Domestic bonds	815,104	886,899	71,794	72,132	337	833,715	913,541	79,825	79,992	166
Domestic stocks	269,792	439,094	169,301	171,769	2,467	277,689	507,388	229,698	230,684	985
Foreign securities	905,773	1,028,769	122,996	124,501	1,505	990,600	1,140,746	150,145	151,260	1,115
Foreign bonds	690,428	774,677	84,249	85,398	1,149	769,991	871,352	101,361	102,168	807
Foreign stocks and other securities	215,345	254,092	38,746	39,102	355	220,609	269,394	48,784	49,092	307
Other securities	55,332	66,653	11,321	11,397	76	49,381	64,091	14,709	14,709	—
Money held in trust	—	—	—	—	—	—	—	—	—	—
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Total	4,100,846	4,640,011	539,164	544,075	4,911	4,196,674	4,868,456	671,781	674,299	2,517
Domestic bonds	2,774,564	3,007,469	232,904	233,467	562	2,766,276	3,040,893	274,616	274,783	166
Domestic stocks	269,792	439,094	169,301	171,769	2,467	277,689	507,388	229,698	230,684	985
Foreign securities	1,001,157	1,126,794	125,636	127,440	1,804	1,103,327	1,256,083	152,756	154,122	1,365
Foreign bonds	784,419	871,604	87,185	88,337	1,152	881,284	985,497	104,213	105,027	813
Foreign stocks and other securities	216,738	255,189	38,450	39,102	652	222,042	270,585	48,542	49,094	551
Other securities	55,332	66,653	11,321	11,397	76	49,381	64,091	14,709	14,709	—
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, 2014	As of September 30, 2014
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	15,620	17,043
Unlisted domestic stocks (except over-the-counter stocks)	7,653	7,515
Unlisted foreign stocks (except over-the-counter stocks)	—	—
Unlisted foreign bonds	—	—
Others	7,967	9,528
Total	51,181	52,604

## (8) Fair Value Information on Money Held in Trust

(Millions of yen)

	As of March 31, 2014					As of September 30, 2014				
	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	31,981	31,981	—	—	—	33,305	33,305	—	—	—

\* Money held in trust for trading purpose

(Millions of yen)

	As of March 31, 2014		As of September 30, 2014	
	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	30,981	—	32,305	505

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

(Millions of yen)

	As of March 31, 2014					As of September 30, 2014				
	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, 2014	Interest-related	Currency-related	Stock-related	Bond-related	Others	Total
Hedge accounting applied	3	(2,427)	—	—	—	(2,423)
Hedge accounting not applied	(18)	(2,119)	(152)	370	—	(1,920)
Total	(14)	(4,546)	(152)	370	—	(4,343)
As of September 30, 2014	Interest-related	Currency-related	Stock-related	Bond-related	Others	Total
Hedge accounting applied	2	(14,000)	—	—	—	(13,998)
Hedge accounting not applied	(392)	(2,095)	—	104	—	(2,383)
Total	(390)	(16,096)	—	104	—	(16,382)

Note: Gains and losses from applying fair value hedge accounting (currency-related, losses of ¥2,427 million as of March 31, 2014 and losses of ¥14,000 million as of September 30, 2014) 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)

Interest-related transactions	As of March 31, 2014				As of September 30, 2014			
	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	290	170	3	3	187	127	2	2
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	[ — ]	—	—	—	[ — ]	—	—	—
Bought								
Receipt fixed, payment floating	—	—	—	—	—	—	—	—
Payment fixed, receipt floating	[ 100,000 89 ]	—	70	(18)	[ 300,000 525 ]	100,000	132	(392)
Total				(14)				(390)

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

(reference) Interest rate swap contracts by contractual maturity dates

(Millions of yen)

Yen interest rate swap contracts	As of March 31, 2014			As of September 30, 2014		
	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
Notional amount (receipts fixed, payments floating)	120	170	—	60	127	—
Average fixed rate (receipt)	2.12%	2.47%	—	2.12%	2.47%	—
Average floating rate (payment)	1.11%	1.11%	—	1.10%	1.10%	—
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, 2014				As of September 30, 2014			
	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	575,950	—	580,474	(4,523)	698,416	—	714,498	(16,082)
US dollar	354,098	—	355,881	(1,782)	448,013	—	463,674	(15,660)
Euro	101,850	—	102,236	(386)	127,662	—	128,025	(363)
British Pound	33,915	—	34,240	(325)	61,911	—	62,130	(218)
Australian dollar	51,149	—	52,730	(1,580)	34,620	—	34,194	425
Canadian dollar	34,936	—	35,385	(448)	26,192	—	26,457	(264)
Singapore dollar	—	—	—	—	15	—	15	(0)
Bought	—	—	—	—	200	—	200	0
US dollar	—	—	—	—	200	—	200	0
Currency Options								
Sold								
Calls	—	—	—	—	—	—	—	—
Puts	[ — ]	—	—	—	[ — ]	—	—	—
Bought								
Calls	—	—	—	—	—	—	—	—
Puts	[ — ]	—	—	—	[ — ]	—	—	—
US dollar	9,800	—	0	(23)	15,800	—	9	(14)
	[ 23 ]	—	0	(23)	[ 24 ]	—	9	(14)
	[ 23 ]	—	0	(23)	[ 24 ]	—	9	(14)
Total				(4,546)				(16,096)

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, 2014				As of September 30, 2014			
	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 options								
Sold								
Calls	—	—	—	—	—	—	—	—
Puts	[ — ]	—	—	—	[ — ]	—	—	—
Bought								
Calls	—	—	—	—	—	—	—	—
Puts	[ 10,687 ]	—	153	(152)	[ — ]	—	—	—
	[ 306 ]	—	153	(152)	[ — ]	—	—	—
Total				(152)				—

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

## (v) Bond-related Transactions

(Millions of yen)

	As of March 31, 2014				As of September 30, 2014			
	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	144,825	—	144,620	205	145,715	—	145,840	(125)
Bought	—	—	—	—	—	—	—	—
Foreign bond futures								
Sold	27,492	—	27,327	165	36,031	—	35,801	229
Bought	—	—	—	—	—	—	—	—
Total				370				104

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

(millions of yen)

As of March 31, 2014			As of September 30, 2014		
Carrying value on the balance sheets	Fair value	Gains (losses)	Carrying value on the balance sheets	Fair value	Gains (losses)
132,914	223,067	90,152	132,819	223,369	90,550

Notes: 1. As of September 30, 2014, 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, 2014.

2. As of March 31, 2014, fair value is based on the appraisal value by the real-estate appraiser, the appraisal value for property tax as of January 1, 2014 and the road rate as of January 1, 2013.

### 3. Non-consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2014	As of September 30, 2014
<b>Assets:</b>		
Cash and deposits	34,768	31,906
Call loans	148,700	128,100
Monetary claims bought	1,011	925
Money held in trust	31,981	33,305
Securities	4,877,141	5,090,208
[Government bonds]	[2,097,463]	[2,087,188]
[Local government bonds]	[157,102]	[156,394]
[Corporate bonds]	[654,161]	[670,327]
[Stocks]	[504,442]	[575,169]
[Foreign securities]	[1,389,208]	[1,527,403]
Loans	835,860	777,252
Policy loans	65,206	64,593
Ordinary loans	770,654	712,658
Tangible fixed assets	232,115	229,367
Intangible fixed assets	10,827	10,096
Reinsurance receivables	78	20
Other assets	44,592	64,370
Lease investment assets	835	818
Other assets	43,757	63,552
Allowance for possible loan losses	(2,281)	(2,066)
<b>Total assets</b>	<b>6,214,796</b>	<b>6,363,487</b>

	As of March 31, 2014	As of September 30, 2014
<b>Liabilities:</b>		
Policy reserves	5,412,622	5,453,045
Reserve for outstanding claims	23,067	18,861
Policy reserve	5,338,547	5,368,166
Reserve for dividends to policyholders	51,007	66,017
Reinsurance payables	98	115
Subordinated bonds	122,346	121,518
Other liabilities	53,524	61,326
Corporate income tax payable	11,945	8,857
Asset retirement obligations	2,951	2,981
Other liabilities	38,628	49,486
Reserve for employees' retirement benefits	43,112	47,005
Reserve for price fluctuation of securities	44,016	45,271
Deferred tax liabilities	29,245	58,384
Deferred tax liabilities for revaluation reserve for land	15,929	15,913
<b>Total liabilities</b>	<b>5,720,895</b>	<b>5,802,581</b>
<b>Net assets:</b>		
Foundation funds	35,000	30,000
Accumulated foundation funds redeemed	71,000	86,000
Reserve for revaluation	112	112
Surplus	124,780	113,260
Legal reserve for future losses	2,485	2,582
Other surplus	122,294	110,678
Reserve for redemption of foundation funds	18,000	12,000
Reserve for dividend allowances	3,895	3,895
Accumulated fund for price fluctuation	21,000	31,000
Reserve for advanced depreciation of real estate for tax purpose	3,969	262
Other reserves	767	767
Unappropriated surplus	74,662	62,752
Total foundation funds, surplus and others	230,892	229,372
Net unrealized gains (losses) on available-for-sale securities, net of tax	259,861	328,366
Deferred valuation gains (losses) under hedge accounting	2	1
Revaluation reserve for land, net of tax	3,144	3,165
Total valuation and translation adjustments	263,008	331,533
<b>Total net assets</b>	<b>493,900</b>	<b>560,906</b>
<b>Total liabilities and net assets</b>	<b>6,214,796</b>	<b>6,363,487</b>

#### 4. Non-consolidated Statements of Operations

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
<b>Ordinary revenues:</b>		
Premium and other income	329,176	302,779
[Premium income]	[329,129]	[302,736]
Investment income	103,327	94,569
[Interest, dividends and other income]	[60,285]	[66,494]
[Gains from money held in trust, net]	[—]	[1,374]
[Gains from trading securities, net]	[4,200]	[16,149]
[Gains on sales of securities]	[31,775]	[4,990]
[Gains from separate accounts, net]	[6,395]	[4,792]
Other ordinary revenues	7,202	8,701
[Reversal of reserve for outstanding claims]	[1,632]	[4,205]
<b>Total ordinary revenues</b>	<b>439,706</b>	<b>406,049</b>
<b>Ordinary expenditures:</b>		
Claims and other payments	265,799	252,884
[Claims]	[89,011]	[66,404]
[Annuities]	[63,621]	[76,452]
[Benefits]	[62,661]	[57,604]
[Surrenders]	[38,433]	[38,172]
[Other payments]	[11,893]	[14,044]
Provision for policy reserve and others	42,806	29,649
Provision for policy reserve	42,768	29,619
Interest on accumulated dividends to policyholders	38	30
Investment expenses	23,098	18,474
[Interest expenses]	[1,460]	[2,160]
[Losses from money held in trust, net]	[213]	[—]
[Losses on sales of securities]	[5,202]	[167]
[Losses on valuation of securities]	[52]	[111]
[Losses from derivative instruments, net]	[11,056]	[11,014]
Operating expenses	43,132	43,324
Other ordinary expenditures	10,036	10,935
<b>Total ordinary expenditures</b>	<b>384,874</b>	<b>355,269</b>
<b>Ordinary profits</b>	<b>54,832</b>	<b>50,780</b>
<b>Extraordinary gains:</b>		
Gains on disposal of fixed assets	2,001	4
<b>Total extraordinary gains</b>	<b>2,001</b>	<b>4</b>
<b>Extraordinary losses:</b>		
Losses on disposal of fixed assets	7,070	26
Impairment losses	1,605	95
Provision for reserve for price fluctuation of securities	1,185	1,255
<b>Total extraordinary losses</b>	<b>9,861</b>	<b>1,376</b>
<b>Surplus before income taxes</b>	<b>46,972</b>	<b>49,407</b>
<b>Income taxes:</b>		
Current	12,845	10,263
Deferred	(1,668)	127
<b>Total income taxes</b>	<b>11,176</b>	<b>10,390</b>
<b>Net surplus for the period</b>	<b>35,795</b>	<b>39,016</b>

## 5. Non-consolidated Statements of Changes in Net Assets

[For the six months ended September 30, 2013]

(Millions of yen)

	Foundation funds, surplus and others											
	Foundation funds	Accumulated foundation funds redeemed	Reserve for revaluation	Surplus								Total foundation funds, surplus and others
				Legal reserve for future losses	Other surplus						Total surplus	
					Reserve for redemption of foundation funds	Reserve for dividend allowances	Accumulated fund for price fluctuation	Reserve for advanced depreciation of real estate for tax purpose	Other reserves	Unappropriated surplus		
Balance at the beginning of current period	35,000	71,000	112	2,399	9,000	3,895	11,000	4,114	767	71,084	102,260	208,372
Changes in the current period												
Additions to reserve for dividends to policyholders										(27,762)	(27,762)	(27,762)
Additions to legal reserve for future losses				86						(86)	—	—
Payment of interest on foundation funds										(621)	(621)	(621)
Net surplus for the current period										35,795	35,795	35,795
Additions to reserve for redemption of foundation funds					9,000					(9,000)	—	—
Additions to accumulated fund for price fluctuation							10,000			(10,000)	—	—
Reversal of reserve for advanced depreciation of real estate for tax purpose								(144)		144	—	—
Reversal of revaluation reserve for land										256	256	256
Net changes, excluding foundation funds, surplus and others												
Total changes in the current period	—	—	—	86	9,000	—	10,000	(144)	—	(11,273)	7,667	7,667
Balance at the end of current period	35,000	71,000	112	2,485	18,000	3,895	21,000	3,969	767	59,810	109,928	216,040

	Valuation and translation adjustments				Total net assets
	Net unrealized gains (losses) on available-for-sale securities, net of tax	Deferred valuation gains (losses) under hedge accounting	Revaluation reserve for land, net of tax	Total valuation and translation adjustments	
Balance at the beginning of current period	215,885	62	3,421	219,370	427,742
Changes in the current period					
Additions to reserve for dividends to policyholders					(27,762)
Additions to legal reserve for future losses					—
Payment of interest on foundation funds					(621)
Net surplus for the current period					35,795
Additions to reserve for redemption of foundation funds					—
Additions to accumulated fund for price fluctuation					—
Reversal of reserve for advanced depreciation of real estate for tax purpose					—
Reversal of revaluation reserve for land					256
Net changes, excluding foundation funds, surplus and others	12,047	(48)	(256)	11,743	11,743
Total changes in the current period	12,047	(48)	(256)	11,743	19,411
Balance at the end of current period	227,933	14	3,165	231,113	447,154

[For the six months ended September 30, 2014]

(Millions of yen)

	Foundation funds, surplus and others											Total foundation funds, surplus and others
	Foundation funds	Accumulated foundation funds redeemed	Reserve for revaluation	Surplus							Total surplus	
				Legal reserve for future losses	Other surplus							
					Reserve for redemption of foundation funds	Reserve for dividend allowances	Accumulated fund for price fluctuation	Reserve for advanced depreciation of real estate for tax purpose	Other reserves	Unappropriated surplus		
Balance at the beginning of current period	35,000	71,000	112	2,485	18,000	3,895	21,000	3,969	767	74,662	124,780	230,892
Cumulative effect of changes in accounting policies										(3,297)	(3,297)	(3,297)
Restated balance	35,000	71,000	112	2,485	18,000	3,895	21,000	3,969	767	71,365	121,482	227,595
Changes in the current period												
Financing of additional foundation funds	10,000										—	10,000
Additions to reserve for dividends to policyholders										(31,595)	(31,595)	(31,595)
Additions to legal reserve for future losses				97						(97)	—	—
Additions to accumulated foundation funds redeemed		15,000									—	15,000
Payment of interest on foundation funds										(621)	(621)	(621)
Net surplus for the current period										39,016	39,016	39,016
Redemption of foundation funds	(15,000)										—	(15,000)
Additions to reserve for redemption of foundation funds					9,000					(9,000)	—	—
Reversal of reserve for redemption of foundation funds					(15,000)						(15,000)	(15,000)
Additions to accumulated fund for price fluctuation							10,000			(10,000)	—	—
Additions to reserve for advanced depreciation of real estate for tax purpose								0		(0)	—	—
Reversal of reserve for advanced depreciation of real estate for tax purpose								(3,707)		3,707	—	—
Reversal of revaluation reserve for land										(21)	(21)	(21)
Net changes, excluding foundation funds, surplus and others												
Total changes in the current period	(5,000)	15,000	—	97	(6,000)	—	10,000	(3,707)	—	(8,612)	(8,222)	1,777
Balance at the end of current period	30,000	86,000	112	2,582	12,000	3,895	31,000	262	767	62,752	113,260	229,372

	Valuation and translation adjustments				Total net assets
	Net unrealized gains (losses) on available-for-sale securities, net of tax	Deferred valuation gains (losses) under hedge accounting	Revaluation reserve for land, net of tax	Total valuation and translation adjustments	
Balance at the beginning of current period	259,861	2	3,144	263,008	493,900
Cumulative effect of changes in accounting policies					(3,297)
Restated balance	259,861	2	3,144	263,008	490,603
Changes in the current period					
Financing of additional foundation funds					10,000
Additions to reserve for dividends to policyholders					(31,595)
Additions to legal reserve for future losses					—
Additions to accumulated foundation funds redeemed					15,000
Payment of interest on foundation funds					(621)
Net surplus for the current period					39,016
Redemption of foundation funds					(15,000)
Additions to reserve for redemption of foundation funds					—
Reversal of reserve for redemption of foundation funds					(15,000)
Additions to accumulated fund for price fluctuation					—
Additions to reserve for advanced depreciation of real estate for tax purpose					—
Reversal of reserve for advanced depreciation of real estate for tax purpose					—
Reversal of revaluation reserve for land					(21)
Net changes, excluding foundation funds, surplus and others	68,504	(1)	21	68,524	68,524
Total changes in the current period	68,504	(1)	21	68,524	70,302
Balance at the end of current period	328,366	1	3,165	331,533	560,906

# 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 Fukoku Mutual Life Insurance Company (the "Company") in accordance with the provisions set forth in the Insurance Business Law of Japan and its related rules and regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects from accounting principles generally accepted in countries and jurisdictions other than Japan.

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

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

## II. Notes to Balance Sheets

### 1. Significant Accounting Policies

#### (1) Valuation Methods of Securities

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

- i) Trading securities are stated at fair market value. Costs of their sales are determined by the moving average method.
- ii) Held-to-maturity debt securities are stated at amortized cost under the straight-line method, cost being determined by the moving average method.
- iii) Policy-reserve-matching bonds are stated at amortized cost under the straight-line method, cost being determined by the moving average method in accordance with "Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching Bonds in Insurance Industry" (Industry Audit Committee Report No.21 issued by the Japanese Institute of Certified Public Accountants on November 16, 2000).
- iv) Investments in subsidiaries and affiliates are stated at cost, cost being determined by the moving average method.
- v) Available-for-sale securities with fair market values 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, 2014 was ¥268 million.



## **(7) Reserve for Employees' Retirement Benefits and Method of Amortizing Retirement Benefit Expenses**

Reserve for employees' retirement benefits is presented for the employees' retirement benefits based on projected benefit obligations and pension plan assets at the balance sheet date.

The Company uses the following methods for amortizing retirement benefit obligations and retirement benefit expenses:

- |  |                       |
|--|-----------------------|
| • Method for allocation of projected retirement benefits ..... | Benefit formula basis |
| • Amortization period of actuarial differences .....           | 10 years              |
| • Amortization period of prior service cost .....              | 10 years              |

## **(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" 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.

The Company applies foreign currency swap appropriated treatment as a hedge for the foreign exchange fluctuation risk associated with foreign currency denominated bonds issued by the Company.

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 Employees' Retirement Benefits**

Accounting of unrecognized actuarial differences and unrecognized prior service costs related to employees' retirement benefits is different to the methods used for these items in the interim consolidated financial statements.

### **(13) Accounting for Consumption Taxes**

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

### **(14) Policy Reserve**

Policy reserve is based on Article 116 of the Insurance Business Law, and the premium reserve 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, certain individual annuity insurance policies, certain hospitalization riders with surgery benefits and long-term hospitalization benefits, and non-participating educational insurance have funded policy reserves included.

### **(15) Amortization Method for Software**

The software for internal use recorded in "intangible fixed assets" is amortized based on straight-line method over the estimated useful lives.

### **(16) Deferred Assets**

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

### **(17) Policy-reserve-matching Bonds**

Of the bonds corresponding to the sub-groups of individual insurance, 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 the Insurance Industry" (Industry Audit Committee Report No.21 issued by the Japanese Institute of Certified Public Accountants on November 16, 2000).

## **2. Accounting changes and error corrections and its implementation**

In accordance with "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012), effective from the six months ended September 30, 2014, the Company changed its method for allocation of projected retirement benefits from the straight-line basis to the benefit formula basis. In addition, the Company changed its method for determining the discount rate from the discount rate based on the average period until the estimated payment date of retirement benefits to the method that uses the single weighted average discount rate reflecting the estimated payment period for retirement benefits and the estimated amount for each period.

As a result of these changes, compared with the previous method, at the beginning of the six months ended September 30, 2014, surplus decreased by ¥3,297 million. Ordinary profits and surplus before income taxes for the six months ended September 30, 2014 increased by ¥19 million.

### 3. Financial Instruments

The carrying amounts, fair values and their related differences of major financial assets and liabilities as of September 30, 2014 were as follows:

	Carrying amount	Fair value	Difference
(Millions of yen)			
Cash and deposits: .....			
Cash and deposits not treated as securities	¥ 31,841	¥ 31,841	¥ —
Total cash and deposits	31,841	31,841	—
Call loans .....	128,100	128,100	—
Monetary claims bought:			
Claims treated as loans .....	925	969	43
Total monetary claims bought .....	925	969	43
Money held in trust:			
Trading securities .....	32,305	32,305	—
Total money held in trust .....	32,305	32,305	—
Securities:			
Trading securities .....	284,363	284,363	—
Held-to-maturity debt securities .....	816,384	910,740	94,356
Policy-reserve-matching bonds .....	1,227,469	1,330,756	103,287
Investments in subsidiaries and affiliates .....	1,433	1,191	(241 )
Available-for-sale securities .....	2,625,767	2,625,767	—
Total securities .....	4,955,418	5,152,820	197,401
Loans:			
Policy loans .....	64,593	64,593	(0 )
Ordinary loans .....	712,658	734,833	22,174
Total loans .....	777,252	799,426	22,174
Assets total	5,925,843	6,145,462	219,619
Subordinated bonds* <sup>1</sup>	121,518	128,095	6,577
Liabilities total	121,518	128,095	6,577
Derivative instruments* <sup>2</sup> :			
Hedge accounting not applied .....	(2,383 )	(2,383 )	—
Hedge accounting applied .....	(13,998 )	(13,998 )	—
Total derivative instruments .....	¥ (16,382)	¥ (16,382)	¥ —

\*<sup>1</sup> The fair value of derivative instruments that are currency swaps under designated hedge accounting is included in the fair value of subordinated bonds because it is accounted for as an integral part of the subordinated bonds that are the hedge items.

\*<sup>2</sup> Assets and liabilities generated by derivative instruments are offset and presented net. Net liabilities in total are presented in brackets.

- (1) Cash, deposits (excluding financial instruments treated as securities based on “Accounting Standards for Financial Instruments” (ASBJ Statement No.10)) and call loans:

The fair values of cash, 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, 2014 were ¥35,560 million, ¥7,515 million and ¥9,528 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 stated at fair market value.

(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.

#### **4. Investment and Rental Property**

Notes related to the fair value of investment and rental properties are omitted as no significant change has occurred since the previous fiscal year-end.

#### **5. Securities Lent under Lending Agreements**

The amount of securities lent under lending agreements was ¥47,702 million as of September 30, 2014.

#### **6. Loans Receivable**

The amounts of credits to bankrupt borrowers, delinquent loans and restructured loans, which were included in loans, were ¥225 million, ¥794 million and ¥377 million, respectively and their total amount was ¥1,396 million as of September 30, 2014. There was no balance of delinquent loans past 3 months or more as of September 30, 2014.

The direct write-offs of loans led to a decrease in credits to bankrupt borrowers of ¥248 million as of September 30, 2014.

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.

## 7. Accumulated Depreciation of Tangible Fixed Assets

Accumulated depreciation of tangible fixed assets totaled to ¥147,221 million as of September 30, 2014.

## 8. Separate Accounts

Total assets in separate accounts provided for in Article 118 of the Insurance Business Law were ¥85,896 million as of September 30, 2014. The amount of separate account liabilities was the same as separate account assets.

## 9. Reserve for Dividends to Policyholders

Changes in reserve for dividends to policyholders for the six months ended September 30, 2014 were as follows:

	(Millions of yen)
Balance at the beginning of current period.....	¥ 51,007
Transfer from surplus in previous fiscal year .....	31,595
Dividends paid in the current period .....	(16,617)
Increase in interest .....	30
Balance at the end of current period .....	<u>¥ 66,017</u>

## 10. Stocks of Subsidiaries

The amount of stocks of subsidiaries the Company held as of September 30, 2014 was ¥36,994 million.

## 11. Pledged Assets and Secured Debts

Assets pledged as collateral as of September 30, 2014 were ¥31,546 million of securities and ¥931 million of bank deposits. Secured debts as of September 30, 2014 were ¥4,769 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, 2014.

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 ¥30 million as of September 30, 2014.

### **13. Additional Foundation Funds**

The Company raised additional foundation funds of ¥10,000 million during the six months ended September 30, 2014 in accordance with Article 60 of the Insurance Business Law.

### **14. Redemption of Foundation Funds**

In the six months ended September 30, 2014, in connection with the redemption of foundation funds of ¥15,000 million, the Company reversed the reserve for redemption of foundation funds and provided the equivalent amount for accumulated foundation funds redeemed in accordance with Article 56 of the Insurance Business Law.

### **15. Commitment Line**

As of September 30, 2014, there were unused commitment line agreements under which the Company is the lender of ¥10,872 million.

### **16. Subordinated Bonds**

Repayments of subordinated bonds are subordinated to other obligations.

### **17. 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 ¥10,372 million as of September 30, 2014. The contribution was charged as operating expenses in the year in which it was paid.

### III. Notes to Statements of Operations

#### 1. Gains on Sales of Securities

Major items of gains on sales of securities for the six months ended September 30, 2014 were as follows:

	(Millions of yen)
Domestic bonds .....	¥ 3,023
Domestic stocks and others.....	1,230
Foreign securities .....	735

#### 2. Losses on Sales of Securities

Major items of losses on sales of securities for the six months ended September 30, 2014 were as follows:

	(Millions of yen)
Domestic bonds .....	¥ 0
Domestic stocks and others.....	63
Foreign securities .....	103

#### 3. Losses on Valuation of Securities

Major items of losses on valuation of securities for the six months ended September 30, 2014 were as follows:

	(Millions of yen)
Foreign securities .....	¥ 111

#### 4. Policy Reserves for the Reinsurance Contracts

For the six months ended September 30, 2014, reversal of reserve for outstanding claims for ceded reinsurance considered in calculation of reversal of reserve for outstanding claims was ¥1 million and provision 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, 2014 was as follows:

	(Millions of yen)
Interest on deposits .....	¥ 2
Interest and dividends on securities .....	51,278
Interest on loans .....	8,191
Income from real estate for rent .....	6,891
Other interest and dividends.....	131
Total .....	<u>¥66,494</u>

## 6. Breakdown of Ordinary Profits (Fundamental Profit)

(Millions of yen)

		Six months ended September 30, 2013	Six months ended September 30, 2014
<b>Fundamental profit</b>	<b>A</b>	<b>39,596</b>	<b>43,634</b>
Capital gains		32,236	18,536
Gains from money held in trust, net		—	1,261
Gains from trading securities, net		—	11,755
Gains on sales of securities		31,775	4,990
Gains from derivative instruments, net		—	—
Foreign exchange gains, net		460	528
Other capital gains		—	—
Capital losses		16,700	11,293
Losses from money held in trust, net		317	—
Losses from trading securities, net		72	—
Losses on sales of securities		5,202	167
Losses on valuation of securities		52	111
Losses from derivative instruments, net		11,056	11,014
Foreign exchange losses, net		—	—
Other capital losses		—	—
Net capital gains (losses)	<b>B</b>	<b>15,535</b>	<b>7,242</b>
Fundamental profit plus net capital gains (losses)	<b>A+B</b>	<b>55,132</b>	<b>50,877</b>
Non-recurring gains		—	7
Reinsurance income		—	—
Reversal of contingency reserve		—	—
Reversal for specific allowance for possible loan losses		—	7
Other non-recurring gains		—	—
Non-recurring losses		299	104
Reinsurance premiums		—	—
Provision for contingency reserve		57	104
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)	<b>C</b>	<b>(299)</b>	<b>(97)</b>
Ordinary profits	<b>A+B+C</b>	<b>54,832</b>	<b>50,780</b>

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): ¥104 million in respect of the six months ended September 30, 2013 and ¥112 million in respect of the six months ended September 30, 2014.

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): ¥4,273 million in respect of the six months ended September 30, 2013 and ¥4,394 million in respect of the six months ended September 30, 2014.



## 7. Disclosed Claims Based on Categories of Obligors

(Millions of yen)

	As of March 31, 2014	As of September 30, 2014
Claims against bankrupt and quasi-bankrupt obligors	216	239
Claims with collection risk	732	786
Claims for special attention	660	377
Subtotal	1,609	1,403
[Percentage of total]	[0.18%]	[0.17%]
Claims against normal obligors	910,205	827,531
Total	911,815	828,934

- 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, 2014	As of September 30, 2014
Credits to bankrupt borrowers	195	225
Delinquent loans	747	794
Delinquent loans past three months or more	—	—
Restructured loans	660	377
Total	1,602	1,396
[Percentage of total loans]	[0.19%]	[0.18%]

- 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 ¥248 million as of September 30, 2014, and ¥251 million as of March 31, 2014.
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, 2014	As of September 30, 2014
Total solvency margin (A)	1,109,068	1,226,165
Foundation funds and surplus	196,835	211,692
Reserve for price fluctuation of securities	44,016	45,271
Contingency reserve	110,291	110,396
Allowance for possible loan losses	1,594	1,389
Net unrealized gains on available-for-sale securities x 90%	337,872	426,942
Net unrealized gains on real estate x 85%	90,719	93,087
Excess amount of policy reserve based on full-time Zillmer method	193,088	195,102
Qualifying subordinated debt	122,346	121,518
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	31,303	39,765
Total amount of risk $\sqrt{(R_1 + R_8)^2 + (R_2 + R_3 + R_7)^2} + R_4$ (B)	201,663	217,158
Insurance risk $R_1$	26,371	25,953
3rd sector insurance risk $R_8$	9,631	9,591
Assumed investment yield risk $R_2$	35,884	35,924
Minimum guarantee risk $R_7$	0	0
Investment risk $R_3$	157,866	173,339
Business risk $R_4$	4,595	4,896
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	1,099.9%	1,129.2%

Notes: 1. Above figures are calculated based on Articles 86 and 87 of the Enforcement Regulations of the Insurance Business Insurance Law and Notification No. 50 of the Ministry of Finance, 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, 2014	As of September 30, 2014
	Amount	Amount
Individual variable insurance	—	—
Individual variable annuities	272	167
Group annuities	82,408	85,729
Total	82,680	85,896

### (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, 2014		As of September 30, 2014	
	Number	Amount	Number	Amount
Individual variable annuities	81	265	51	164
Total	81	265	51	164

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

(Millions of yen)

	As of March 31, 2014		As of September 30, 2014	
	Amount	Percentage	Amount	Percentage
Cash, deposits, call loans	131	48.2	62	37.2
Securities	141	51.8	105	62.8
Domestic bonds	—	—	—	—
Domestic stocks	—	—	—	—
Foreign securities	—	—	—	—
Foreign bonds	—	—	—	—
Foreign stocks and other securities	—	—	—	—
Other securities	141	51.8	105	62.8
Loans	—	—	—	—
Others	—	—	—	—
Allowance for possible loan losses	—	—	—	—
Total	272	100.0	167	100.0

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

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
	Amount	Amount
Interest, dividends and other income	31	11
Gains on sales of securities	—	—
Gains on valuation of securities	43	23
Gains on redemption of securities	—	—
Gains from derivative instruments	—	—
Foreign exchange gains, net	—	—
Other investment income	0	—
Losses on sales of securities	—	—
Losses on valuation of securities	41	27
Losses on redemption of securities	—	—
Losses from derivative instruments	—	—
Foreign exchange losses, net	—	—
Other investment expenses	—	—
Net investment income	33	7

## (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, 2014		As of September 30, 2014	
	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	141	(11)	105	(3)

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, 2014		As of September 30, 2014	
	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	380,680	10,324	398,854	13,839

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, 2014					As of September 30, 2014				
	Book value	Fair value	Gains/losses			Book value	Fair value	Gains/losses		
			Gains	Losses				Gains	Losses	
Held-to-maturity debt securities	843,433	922,909	79,476	79,476	—	816,384	910,740	94,356	94,356	—
Domestic bonds	768,744	845,557	76,813	76,813	—	741,590	833,390	91,800	91,800	—
Foreign bonds	74,689	77,352	2,662	2,662	—	74,794	77,349	2,555	2,555	—
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Policy-reserve-matching bonds	1,210,016	1,294,587	84,570	84,798	227	1,227,469	1,330,756	103,287	103,293	6
Domestic bonds	1,190,715	1,275,012	84,297	84,522	224	1,190,970	1,293,960	102,989	102,989	—
Foreign bonds	19,301	19,575	273	276	2	36,498	36,795	297	303	6
Investments in subsidiaries and affiliates	1,393	1,096	(296)	—	296	1,433	1,191	(241)	2	244
Available-for-sale securities	2,046,003	2,421,417	375,414	379,801	4,387	2,151,386	2,625,767	474,380	476,647	2,267
Domestic bonds	815,104	886,899	71,794	72,132	337	833,715	913,541	79,825	79,992	166
Domestic stocks	269,792	439,094	169,301	171,769	2,467	277,689	507,388	229,698	230,684	985
Foreign securities	905,773	1,028,769	122,996	124,501	1,505	990,600	1,140,746	150,145	151,260	1,115
Foreign bonds	690,428	774,677	84,249	85,398	1,149	769,991	871,352	101,361	102,168	807
Foreign stocks and other securities	215,345	254,092	38,746	39,102	355	220,609	269,394	48,784	49,092	307
Other securities	55,332	66,653	11,321	11,397	76	49,381	64,091	14,709	14,709	—
Money held in trust	—	—	—	—	—	—	—	—	—	—
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Total	4,100,846	4,640,011	539,164	544,075	4,911	4,196,674	4,868,456	671,781	674,299	2,517
Domestic bonds	2,774,564	3,007,469	232,904	233,467	562	2,766,276	3,040,893	274,616	274,783	166
Domestic stocks	269,792	439,094	169,301	171,769	2,467	277,689	507,388	229,698	230,684	985
Foreign securities	1,001,157	1,126,794	125,636	127,440	1,804	1,103,327	1,256,083	152,756	154,122	1,365
Foreign bonds	784,419	871,604	87,185	88,337	1,152	881,284	985,497	104,213	105,027	813
Foreign stocks and other securities	216,738	255,189	38,450	39,102	652	222,042	270,585	48,542	49,094	551
Other securities	55,332	66,653	11,321	11,397	76	49,381	64,091	14,709	14,709	—
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, 2014			As of September 30, 2014		
	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	843,433	922,909	79,476	816,384	910,740	94,356
Domestic bonds	768,744	845,557	76,813	741,590	833,390	91,800
Foreign bonds	74,689	77,352	2,662	74,794	77,349	2,555
Money claims bought	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—
Others	—	—	—	—	—	—
Securities whose fair value does not exceed the carrying value on the balance sheet	—	—	—	—	—	—
Domestic bonds	—	—	—	—	—	—
Foreign bonds	—	—	—	—	—	—
Money claims bought	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—
Others	—	—	—	—	—	—

• Policy-reserve-matching Bonds

(Millions of yen)

	As of March 31, 2014			As of September 30, 2014		
	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	1,205,007	1,289,805	84,798	1,207,169	1,310,462	103,293
Domestic bonds	1,186,005	1,270,527	84,522	1,190,970	1,293,960	102,989
Foreign bonds	19,001	19,277	276	16,198	16,502	303
Others	—	—	—	—	—	—
Bonds whose fair value does not exceed the carrying value on the balance sheet	5,009	4,782	(227)	20,300	20,293	(6)
Domestic bonds	4,709	4,484	(224)	—	—	—
Foreign bonds	300	297	(2)	20,300	20,293	(6)
Others	—	—	—	—	—	—

• Available-for-sale Securities

(Millions of yen)

	As of March 31, 2014			As of September 30, 2014		
	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	1,859,060	2,238,861	379,801	2,015,164	2,491,812	476,647
Domestic bonds	796,157	868,289	72,132	813,700	893,693	79,992
Domestic stocks	232,850	404,620	171,769	262,868	493,552	230,684
Foreign securities	780,763	905,265	124,501	889,214	1,040,475	151,260
Foreign bonds	581,574	666,973	85,398	688,245	790,414	102,168
Foreign stocks	199,188	238,291	39,102	200,968	250,060	49,092
Other securities	49,288	60,686	11,397	49,381	64,091	14,709
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	186,942	182,555	(4,387)	136,222	133,955	(2,267)
Domestic bonds	18,947	18,609	(337)	20,015	19,848	(166)
Domestic stocks	36,941	34,474	(2,467)	14,821	13,835	(985)
Foreign securities	125,009	123,504	(1,505)	101,386	100,271	(1,115)
Foreign bonds	108,853	107,703	(1,149)	81,745	80,937	(807)
Foreign stocks	16,156	15,800	(355)	19,640	19,333	(307)
Other securities	6,043	5,967	(76)	—	—	—
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, 2014	As of September 30, 2014
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	15,620	17,043
Unlisted domestic stocks (except over-the-counter stocks)	7,653	7,515
Unlisted foreign stocks (except over-the-counter stocks)	—	—
Unlisted foreign bonds	—	—
Others	7,967	9,528
Total	51,181	52,604

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

(i) Gains and Losses on Derivatives

(Millions of yen)

As of March 31, 2014	Interest-related	Currency-related	Stock-related	Bond-related	Others	Total
Hedge accounting applied	3	(2,427)	—	—	—	(2,423)
Hedge accounting not applied	(18)	(2,119)	(152)	370	—	(1,920)
Total	(14)	(4,546)	(152)	370	—	(4,343)
As of September 30, 2014	Interest-related	Currency-related	Stock-related	Bond-related	Others	Total
Hedge accounting applied	2	(14,000)	—	—	—	(13,998)
Hedge accounting not applied	(392)	(2,096)	—	104	—	(2,384)
Total	(390)	(16,097)	—	104	—	(16,383)

Note: Gains and losses from applying fair value hedge accounting (currency-related, losses of ¥2,427 million as of March 31, 2014 and losses of ¥14,000 million as of September 30, 2014) 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) Hedge Accounting not Applied

• Interest-related Transactions

(Millions of yen)

		As of March 31, 2014				As of September 30, 2014			
		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		100,000	—			300,000	100,000		
		[ 89 ]		70	(18)	[ 525 ]		132	(392)
Total					(18)				(392)

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

• Currency-related Transactions

(Millions of yen)

	As of March 31, 2014				As of September 30, 2014			
	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	211,168	—	213,264	(2,096)	235,730	—	237,812	(2,082)
Euro	61,874	—	61,883	(8)	88,583	—	88,502	81
US dollar	58,325	—	58,658	(333)	78,008	—	80,032	(2,024)
Canadian dollar	34,936	—	35,385	(448)	26,205	—	26,469	(264)
Australian dollar	37,324	—	38,449	(1,175)	22,738	—	22,341	396
British Pound	18,708	—	18,838	(130)	20,177	—	20,448	(271)
Singapore dollar	—	—	—	—	15	—	15	(0)
Swiss franc	—	—	—	—	1	—	1	0
Bought	9	—	9	0	200	—	200	0
US dollar	—	—	—	—	200	—	200	0
Euro	9	—	9	0	—	—	—	—
Currency Options								
Sold								
Calls	—	—	—	—	—	—	—	—
Puts	[ — ]	—	—	—	[ — ]	—	—	—
Bought								
Calls	—	—	—	—	—	—	—	—
Puts	[ — ]	—	—	—	[ — ]	—	—	—
US dollar	9,800	—	0	(23)	15,800	—	9	(14)
	[ 23 ]	—	0	(23)	[ 24 ]	—	9	(14)
	9,800	—	0	(23)	15,800	—	9	(14)
	[ 23 ]	—	0	(23)	[ 24 ]	—	9	(14)
Total				(2,119)				(2,096)

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, 2014				As of September 30, 2014			
	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 options								
Sold								
Calls	—	—	—	—	—	—	—	—
Puts	[ — ]	—	—	—	[ — ]	—	—	—
Bought								
Calls	—	—	—	—	—	—	—	—
Puts	10,687	—	153	(152)	—	—	—	—
	[ 306 ]	—	153	(152)	[ — ]	—	—	—
Total				(152)				—

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

• Bond-related Transactions

(Millions of yen)

	As of March 31, 2014				As of September 30, 2014			
	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	144,825	—	144,620	205	145,715	—	145,840	(125)
Bought	—	—	—	—	—	—	—	—
Foreign bond futures								
Sold	27,492	—	27,327	165	36,031	—	35,801	229
Bought	—	—	—	—	—	—	—	—
Total				370				104



(iii) Hedge Accounting Applied

• Interest-related Transactions

[As of March 31, 2014]

(Millions of yen)

As of March 31, 2017			(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		290	170	3
	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)	120	170	—
Average fixed rate (receipt)	2.12%	2.47%	—
Average floating rate (payment)	1.11%	1.11%	—
Notional amount (receipts floating, payments fixed)	—	—	—
Average floating rate (receipt)	—	—	—
Average fixed rate (payment)	—	—	—

[As of September 30, 2014]

(Millions of yen)

As of September 30, 2014			(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		187	127	2
	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)	60	127	—
Average fixed rate (receipt)	2.12%	2.47%	—
Average floating rate (payment)	1.10%	1.10%	—
Notional amount (receipts floating, payments fixed)	—	—	—
Average floating rate (receipt)	—	—	—
Average fixed rate (payment)	—	—	—

• Currency-related Transactions

[As of March 31, 2014]

(Millions of yen)

As of March 31, 2014			(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		364,791	—	367,218
	US dollar		295,783	—	297,232
	Euro		39,976	—	40,353
	British pound		15,206	—	15,401
	Australian dollar		13,825	—	14,231
	Bought		—	—	—
Total					

[As of September 30, 2014]

(Millions of yen)

As at September 30, 2019			(Amounts in 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		462,941	—	476,941
	US dollar		370,171	—	383,809
	British pound		41,751	—	41,698
	Euro		39,127	—	39,572
	Australian dollar		11,890	—	11,860
	Bought		—	—	—
Total					

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

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, 2014 and September 30, 2014.

• Bond-related Transactions

No ending balance as of March 31, 2014 and September 30, 2014.

## 11. Status of the Company, Subsidiaries and Affiliates

### (1) Selected Financial Data

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Ordinary revenues	486,743	493,244
Ordinary profits	57,596	52,123
Net surplus for the period	37,019	39,402
Comprehensive income	48,117	109,450

	As of March 31, 2014	As of September 30, 2014
Total assets	7,817,668	8,018,858
Solvency margin ratio	1,120.0%	1151.5%

### (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, 2014	As of September 30, 2014
<b>Assets:</b>		
Cash and deposits	91,021	89,615
Call loans	148,700	128,100
Monetary claims bought	1,011	925
Money held in trust	31,981	33,305
Securities	6,406,927	6,671,738
Loans	839,244	780,651
Tangible fixed assets	232,492	229,727
Intangible fixed assets	16,369	15,083
Agency receivables	1	1
Reinsurance receivables	94	22
Other assets	51,065	71,100
Deferred tax assets	1,041	653
Allowance for possible loan losses	(2,281)	(2,066)
<b>Total assets</b>	<b>7,817,668</b>	<b>8,018,858</b>

	As of March 31, 2014	As of September 30, 2014
<b>Liabilities:</b>		
Policy reserves	6,995,343	7,085,888
Reserve for outstanding claims	25,170	21,082
Policy reserve	6,918,429	6,998,185
Reserve for dividends to policyholders	51,007	66,017
Reserve for dividends to policyholders (subsidiary)	735	602
Agency payables	339	382
Reinsurance payables	113	129
Subordinated bonds	122,346	121,518
Other liabilities	57,036	65,328
Net defined benefit liabilities	48,840	52,391
Reserve for price fluctuation of securities	50,325	51,742
Deferred tax liabilities	27,502	56,750
Deferred tax liabilities for revaluation reserve for land	15,929	15,913
<b>Total liabilities</b>	<b>7,317,778</b>	<b>7,450,044</b>
<b>Net assets:</b>		
Foundation funds	35,000	30,000
Accumulated foundation funds redeemed	71,000	86,000
Reserve for revaluation	112	112
Consolidated surplus	126,584	115,450
Total foundation funds, surplus and others	232,696	231,562
Net unrealized gains (losses) on available-for-sale securities, net of tax	263,161	332,758
Deferred valuation gains (losses) under hedge accounting	2	1
Revaluation reserve for land, net of tax	3,144	3,165
Foreign currency translation adjustment	(261)	(299)
Accumulated remeasurements of defined benefit plans	(3,918)	(3,675)
Total accumulated other comprehensive income	262,127	331,950
Minority interests	5,066	5,300
<b>Total net assets</b>	<b>499,890</b>	<b>568,814</b>
<b>Total liabilities and net assets</b>	<b>7,817,668</b>	<b>8,018,858</b>

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

## [Consolidated Statements of Operations]

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
<b>Ordinary revenues:</b>		
Premium and other income	363,388	378,115
Investment income	115,807	106,261
[Interest, dividends and other income]	[71,606]	[78,048]
[Gains from money held in trust, net]	[—]	[1,374]
[Gains from trading securities, net]	[4,200]	[16,149]
[Gains on sales of securities]	[32,933]	[5,133]
[Gains from separate accounts, net]	[6,395]	[4,792]
Other ordinary revenues	7,547	8,867
[Reversal of reserve for outstanding claims]	[1,628]	[4,088]
<b>Total ordinary revenues</b>	<b>486,743</b>	<b>493,244</b>
<b>Ordinary expenditures:</b>		
Claims and other payments	287,384	282,511
[Claims]	[90,264]	[68,473]
[Annuities]	[63,822]	[76,800]
[Benefits]	[66,834]	[62,534]
[Surrenders]	[54,228]	[60,323]
[Other payments]	[11,975]	[14,094]
Provision for policy reserve and others	60,786	79,787
Provision for policy reserve	60,748	79,756
Interest on accumulated dividends to policyholders	38	30
Interest on accumulated dividends to policyholders (subsidiary)	0	0
Investment expenses	22,613	17,934
[Interest expenses]	[1,472]	[2,169]
[Losses from money held in trust, net]	[213]	[—]
[Losses on sales of securities]	[5,202]	[167]
[Losses on valuation of securities]	[52]	[111]
[Losses from derivative instruments, net]	[11,056]	[11,014]
Operating expenses	47,429	48,691
Other ordinary expenditures	10,932	12,194
<b>Total ordinary expenditures</b>	<b>429,147</b>	<b>441,120</b>
<b>Ordinary profits</b>	<b>57,596</b>	<b>52,123</b>
<b>Extraordinary gains:</b>		
Gains on disposal of fixed assets	2,001	4
<b>Total extraordinary gains</b>	<b>2,001</b>	<b>4</b>
<b>Extraordinary losses:</b>		
Losses on disposal of fixed assets	7,071	26
Impairment losses	1,605	95
Provision for reserve for price fluctuation of securities	1,335	1,416
<b>Total extraordinary losses</b>	<b>10,012</b>	<b>1,538</b>
<b>Provision for reserve for dividends to policyholders (subsidiary)</b>	<b>256</b>	<b>267</b>
<b>Surplus before income taxes</b>	<b>49,329</b>	<b>50,322</b>
<b>Income taxes:</b>		
Current	13,883	10,855
Deferred	(1,774)	(28)
<b>Total income taxes</b>	<b>12,108</b>	<b>10,826</b>
<b>Net surplus before minority interests</b>	<b>37,220</b>	<b>39,496</b>
<b>Minority interests</b>	<b>201</b>	<b>94</b>
<b>Net surplus for the period</b>	<b>37,019</b>	<b>39,402</b>

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

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Net surplus before minority interests	37,220	39,496
Other comprehensive income	10,897	69,954
Net unrealized gains (losses) on available-for-sale securities, net of tax	10,784	69,750
Deferred valuation gains (losses) under hedge accounting	(48)	(1)
Foreign currency translation adjustment	161	(38)
Remeasurements of defined benefit plans, net of tax	—	243
Comprehensive income	48,117	109,450
Comprehensive income attributable to parent company	48,071	109,203
Comprehensive income attributable to minority interests	46	246

# (5) Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
<b>Cash flows from operating activities:</b>		
Surplus before income taxes	49,329	50,322
Depreciation of real estate for rent and other assets	2,509	2,413
Depreciation	3,541	3,455
Impairment losses	1,605	95
Amortization of goodwill	381	381
Increase (Decrease) in reserve for outstanding claims	(1,628)	(4,088)
Increase (Decrease) in policy reserve	60,748	79,756
Interest on accumulated dividends to policyholders	38	30
Interest on accumulated dividends to policyholders (subsidiary)	0	0
Provision for reserve for dividends to policyholders (subsidiary)	256	267
Increase (Decrease) in allowance for possible loan losses	(212)	(215)
Increase (Decrease) in reserve for employees' retirement benefits	(1,040)	—
Increase (Decrease) in net defined benefit liabilities	—	(860)
Increase (Decrease) in reserve for price fluctuation of securities	1,335	1,416
Interest, dividends and other income	(71,606)	(78,048)
(Gains) Losses on securities	(27,005)	(16,156)
Interest expenses	1,472	2,169
Foreign exchange (gains) losses, net	(461)	(528)
(Gains) Losses on tangible fixed assets	4,994	10
Others	(3,427)	(1,676)
Subtotal	20,831	38,744
Interest, dividends and other income received	79,773	85,402
Interest paid	(2,215)	(3,100)
Dividends to policyholders paid	(14,685)	(16,617)
Dividends to policyholders paid (subsidiary)	(374)	(399)
Corporate income tax (paid) refunded	(10,101)	(14,280)
Net cash provided by (used in) operating activities (I)	73,227	89,749
<b>Cash flows from investing activities:</b>		
(Increase) Decrease in deposits	(298)	(110)
Proceeds from sales and redemption of monetary claims bought	68	85
Payments for increase in money held in trust	(2,000)	—
Proceeds from decrease in money held in trust	1,999	—
Payments for purchase of securities	(646,053)	(388,484)
Proceeds from sales and redemption of securities	521,367	253,098
Payments for additions to loans	(31,044)	(15,272)
Proceeds from collections of loans	76,630	69,758
Proceeds and payments from settlement of derivatives, net	(11,775)	(10,687)
Others	(8,301)	(12,551)
Subtotal (IIa)	(99,408)	(104,163)
(I+IIa)	(26,180)	(14,414)
Payments for purchase of tangible fixed assets	(733)	(717)
Proceeds from sales of tangible fixed assets	30,364	58
Payments for purchase of intangible fixed assets	(1,018)	(900)
Net cash provided by (used in) investing activities	(70,795)	(105,723)
<b>Cash flows from financing activities:</b>		
Financing of subordinated bonds	49,870	—
Financing of additional foundation funds	—	10,000
Redemption of foundation funds	—	(15,000)
Interest payment for foundation funds	(621)	(621)
Dividends paid to minority interests	(12)	(12)
Payments for lease obligations	(402)	(366)
Net cash provided by (used in) financing activities	48,833	(6,000)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	358	(135)
<b>Net increase (decrease) in cash and cash equivalents</b>	51,624	(22,110)
<b>Cash and cash equivalents at the beginning of the period</b>	142,596	238,373
<b>Cash and cash equivalents at the end of the period</b>	194,220	216,263

(6) Consolidated Statements of Changes in Net Assets

[For the six months ended September 30, 2013]

(Millions of yen)

	Foundation funds, surplus and others				
	Foundation funds	Accumulated foundation funds redeemed	Reserve for revaluation	Consolidated surplus	Total foundation funds, surplus and others
Balance at the beginning of current period	35,000	71,000	112	102,904	209,016
Changes in the current period					
Additions to reserve for dividends to policyholders				(27,762)	(27,762)
Payment of interest on foundation funds				(621)	(621)
Net surplus for the current period				37,019	37,019
Reversal of revaluation reserve for land				256	256
Net changes, excluding foundation funds, surplus and others					
Total changes in the current period	—	—	—	8,891	8,891
Balance at the end of current period	35,000	71,000	112	111,795	217,907

	Accumulated other comprehensive income						Minority interests	Total net assets
	Net unrealized gains (losses) on available-for-sale securities, net of tax	Deferred valuation gains (losses) under hedge accounting	Revaluation reserve for land, net of tax	Foreign currency translation adjustment	Accumulated remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	219,719	62	3,421	(635)	—	222,569	4,916	436,502
Changes in the current period								
Additions to reserve for dividends to policyholders								(27,762)
Payment of interest on foundation funds								(621)
Net surplus for the current period								37,019
Reversal of revaluation reserve for land								256
Net changes, excluding foundation funds, surplus and others	10,938	(48)	(256)	161	—	10,796	34	10,830
Total changes in the current period	10,938	(48)	(256)	161	—	10,796	34	19,721
Balance at the end of current period	230,658	14	3,165	(473)	—	233,365	4,950	456,223

**[For the six months ended September 30, 2014]**

(Millions of yen)

	Foundation funds, surplus and others				
	Foundation funds	Accumulated foundation funds redeemed	Reserve for revaluation	Consolidated surplus	Total foundation funds, surplus and others
Balance at the beginning of current period	35,000	71,000	112	126,584	232,696
Cumulative effect of changes in accounting policies				(3,297)	(3,297)
Restated balance	35,000	71,000	112	123,286	229,399
Changes in the current period					
Financing of additional foundation funds	10,000				10,000
Additions to reserve for dividends to policyholders				(31,595)	(31,595)
Additions to accumulated foundation funds redeemed		15,000			15,000
Payment of interest on foundation funds				(621)	(621)
Net surplus for the current period				39,402	39,402
Redemption of foundation funds	(15,000)				(15,000)
Reversal of reserve for redemption of foundation funds				(15,000)	(15,000)
Reversal of revaluation reserve for land				(21)	(21)
Net changes, excluding foundation funds, surplus and others					
Total changes in the current period	(5,000)	15,000	—	(7,836)	2,163
Balance at the end of current period	30,000	86,000	112	115,450	231,562

	Accumulated other comprehensive income						Minority interests	Total net assets
	Net unrealized gains (losses) on available-for-sale securities, net of tax	Deferred valuation gains (losses) under hedge accounting	Revaluation reserve for land, net of tax	Foreign currency translation adjustment	Accumulated remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of current period	263,161	2	3,144	(261)	(3,918)	262,127	5,066	499,890
Cumulative effect of changes in accounting policies								(3,297)
Restated balance	263,161	2	3,144	(261)	(3,918)	262,127	5,066	496,593
Changes in the current period								
Financing of additional foundation funds								10,000
Additions to reserve for dividends to policyholders								(31,595)
Additions to accumulated foundation funds redeemed								15,000
Payment of interest on foundation funds								(621)
Net surplus for the current period								39,402
Redemption of foundation funds								(15,000)
Reversal of reserve for redemption of foundation funds								(15,000)
Reversal of revaluation reserve for land								(21)
Net changes, excluding foundation funds, surplus and others	69,597	(1)	21	(38)	243	69,822	234	70,057
Total changes in the current period	69,597	(1)	21	(38)	243	69,822	234	72,220
Balance at the end of current period	332,758	1	3,165	(299)	(3,675)	331,950	5,300	568,814



# 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 as of September 30, 2014 are listed below:

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

Major unconsolidated subsidiary is Fukoku Seimei Building Company Limited.

Eight 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, 2014.

#### (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 the September 30, necessary adjustments for consolidation are made.

## **II. Notes to Balance Sheets**

### **1. Significant Accounting Policies**

#### **(1) Valuation Methods of Securities**

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

- i) Trading securities are stated at fair market value. Costs of their sales are determined by the moving average method.
- ii) Held-to-maturity debt securities are stated at amortized cost under the straight-line method, cost being determined by the moving average method.
- iii) Policy-reserve-matching bonds are stated at amortized cost under the straight-line method, cost being determined by the moving average method in accordance with "Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching Bonds in Insurance Industry" (Industry Audit Committee Report No.21 issued by the Japanese Institute of Certified Public Accountants on November 16, 2000).
- iv) Investments in unconsolidated subsidiaries and affiliates which are not accounted for under the equity method are stated at cost, cost being determined by the moving average method.
- v) Available-for-sale securities with fair market value are stated at fair market value based on the market prices at the 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, except for investment in unconsolidated subsidiaries and affiliates, are translated into Japanese yen at the effective exchange rate prevailing at the balance sheet date. Investment in unconsolidated subsidiaries and affiliates are translated into Japanese yen at the exchange rate prevailing at the time 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, 2014 was ¥268 million.

## **(7) Accounting of Employees' Retirement Benefits**

Reserve for employees' retirement benefits is presented for the employees' retirement benefits based on projected benefit obligations and pension plan assets at the balance sheet date.

The Company uses the following methods of accounting in relation to retirement benefits.

- |  |                       |
|--|-----------------------|
| • Method for allocation of projected retirement benefits ..... | Benefit formula basis |
| • Amortization period of actuarial differences .....           | 10 years              |
| • Amortization period of prior service cost .....              | 10 years              |

## **(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" 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.

The Company applies foreign currency swap appropriated treatment as a hedge for the foreign exchange fluctuation risk associated with foreign currency denominated bonds issued by the Company.

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

#### **(12) Accounting for Consumption Taxes**

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

#### **(13) Policy Reserve**

Policy reserve is based on Article 116 of the Insurance Business Law, and the premium reserve 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, the Company's certain individual annuity insurance policies, certain hospitalization riders with surgery benefits and long-term hospitalization benefits, and non-participating educational insurance have funded policy reserves included.

#### **(14) Amortization Method for Intangible Fixed Assets**

Intangible fixed assets are amortized as follows:

- i) Software

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

ii) Lease assets

Lease assets are amortized based on a straight-line method over the lease 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, 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 by the Company as policy-reserve-matching bonds in accordance with "Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching Bonds in the Insurance Industry" (Industry Audit Committee Report No.21 issued by the Japanese Institute of Certified Public Accountants on November 16, 2000).

## 2. Accounting Changes and Error Corrections and Its Implementation

In accordance with "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012), effective from the six months ended September 30, 2014, the Company changed its method for allocation of projected retirement benefits from the straight-line basis to the benefit formula basis. In addition, the Company changed its method for determining the discount rate from the discount rate based on the average period until the estimated payment date of retirement benefits to the method that uses the single weighted average discount rate reflecting the estimated payment period for retirement benefits and the estimated amount for each period.

As a result of these changes, compared with the previous method, at the beginning of the six months ended September 30, 2014, surplus decreased by ¥3,297 million. Ordinary profits and surplus before income taxes for the six months ended September 30, 2014 increased by ¥19 million.

## 3. Financial Instruments

The carrying amounts, fair values and their related differences of major financial assets and liabilities as of September 30, 2014 were as follows:

	Carrying amount	Fair value	Difference
(Millions of yen)			
Cash and deposits: .....			
Cash and deposits not treated as securities	¥ 89,549	¥ 89,549	¥ —
Total cash and deposits	89,549	89,549	—
Call loans .....	128,100	128,100	—
Monetary claims bought:			
Claims treated as loans .....	925	969	43
Total monetary claims bought .....	925	969	43
Money held in trust:			
Trading securities.....	32,305	32,305	—
Total money held in trust .....	32,305	32,305	—
Securities:			
Trading securities.....	284,363	284,363	—
Held-to-maturity debt securities .....	1,259,341	1,398,910	139,568
Policy-reserve-matching bonds .....	2,103,491	2,275,514	172,022

Investments in subsidiaries and affiliates	40	42	2
Available-for-sale securities .....	2,924,752	2,924,752	—
Total securities .....	6,571,989	6,883,583	311,593
Loans:			
Policy loans.....	67,993	67,993	(0 )
Ordinary loans .....	712,658	734,833	22,174
Total loans.....	780,651	802,826	22,174
Assets total	7,603,522	7,937,334	333,812
Subordinated bonds* <sup>1</sup>	121,518	128,095	6,577
Liabilities total	121,518	128,095	6,577
Derivative instruments* <sup>2</sup> :			
Hedge accounting not applied .....	(2,383 )	(2,383 )	—
Hedge accounting applied .....	(13,998 )	(13,998 )	—
Total derivative instruments .....	¥ (16,382 )	¥ (16,382 )	¥ —

\*1 The fair value of derivative instruments that are currency swaps under designated hedge accounting is included in the fair 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, deposits (excluding financial instruments treated as securities based on “Accounting Standards for Financial Instruments” (ASBJ Statement No.10)) and call loans:

The fair values of cash, 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, 2014 were ¥519 million, ¥7,515 million and ¥9,528 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 stated at fair market value.

(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.

#### **4. Investment and Rental Property**

Notes related to the fair value of investment and rental properties are omitted as no significant change has occurred since the previous fiscal year-end.

#### **5. Securities Lent under Lending Agreements**

The amount of securities lent under lending agreements was ¥47,702 million as of September 30, 2014.

#### **6. Loans Receivable**

The amounts of credits to bankrupt borrowers, delinquent loans and restructured loans, which were included in loans, were ¥229 million, ¥794 million and ¥377 million, respectively and their total amounts were ¥1,401 million as of September 30, 2014. There was no balance of delinquent loans past 3 months or more as of September 30, 2014.

The direct write-offs of loans led to a decrease in credit to bankrupt borrowers of ¥248 million as of September 30, 2014.

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.

#### **7. Accumulated Depreciation of Tangible Fixed Assets**

Accumulated depreciation of tangible fixed assets totaled to ¥147,591 million as of September 30, 2014.

## 8. Separate Accounts

Total assets in separate accounts provided for in Article 118 of the Insurance Business Law were ¥85,896 million as of September 30, 2014. The amount of separate account liabilities was the same as separate account assets.

## 9. Reserve for Dividends to Policyholders

Changes in reserve for dividends to policyholders for the six months ended September 30, 2014 were as follows:

	(Millions of yen)
Balance at the beginning of current period.....	¥ 51,007
Transfer from surplus in previous fiscal year .....	31,595
Dividends paid in the current period .....	(16,617)
Increase in interest .....	30
Balance at the end of current period .....	<u>¥ 66,017</u>

## 10. Reserve for Dividends to Policyholders (Fukokushinrai Life Insurance Company, Ltd.)

Changes in reserve for dividends to policyholders for the six months ended September 30, 2014 were as follows:

	(Millions of yen)
Balance at the beginning of current period.....	¥ 735
Dividends paid in the current period .....	(399)
Increase in interest .....	0
Provision for reserve for dividends to policyholders .....	267
Balance at the end of current period .....	<u>¥ 602</u>

## 11. Stocks of Unconsolidated Subsidiaries

The amount of stocks of unconsolidated subsidiaries the Company held as of September 30, 2014 was ¥560 million.

## 12. Pledged Assets and Secured Debts

Assets pledged as collateral as of September 30, 2014 were ¥31,546 million of securities and ¥931 million of deposits. Secured debts as of September 30, 2014 were ¥4,769 million.

## 13. 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, 2014.

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 ¥48 million as of September 30, 2014.

## 14. Additional Foundation Funds

The Company raised additional foundation funds of ¥10,000 million during the six months ended September 30, 2014 in accordance with Article 60 of the Insurance Business Law.



#### **15. Redemption of Foundation Funds**

In the six months ended September 30, 2014, in connection with the redemption of foundation funds of ¥15,000 million, the Company reversed the reserve for redemption of foundation funds and provided the equivalent amount for accumulated foundation funds redeemed in accordance with Article 56 of the Insurance Business Law.

#### **16. Commitment Line**

As of September 30, 2014, there were unused commitment line agreements under which the Company is the lender of ¥872 million.

#### **17. Subordinated Bonds**

Repayments of subordinated bonds are subordinated to other obligations.

#### **18. 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 ¥12,395 million as of September 30, 2014. The contribution was charged as operating expenses in the year in which it was paid.

### III. Notes to Statements of Operations

#### 1. Policy Reserves for the Reinsurance Contracts

For the six months ended September 30, 2014, reversal of reserve for outstanding claims for ceded reinsurance considered in calculation of reversal of reserve for outstanding claims was ¥1 million and reversal of policy reserve for ceded reinsurance considered in calculation of provision for policy reserve was ¥1 million.

### IV. Notes to Statements of Cash Flows

#### 1. Scope of Cash and Cash Equivalents

Cash and cash equivalents as of September 30, 2014 consist of "Cash," "Deposits in transfer account," "Current deposits," "Ordinary deposits," "Notice deposits," "Time deposits maturing within 3 months of the date of acquisition," "Foreign currency deposits maturing within 3 months of the date of acquisition," "Negotiable certificate of deposits maturing within 3 months of the date of acquisition," "Call loans" and "Monetary claims bought maturing within 3 months of the date of acquisition."

#### 2. Reconciliations of Cash and Cash Equivalents

Reconciliations of cash and cash equivalents in the consolidated statements of cash flows to the consolidated balance sheets accounts as of September 30, 2014 were as follows:

	(Millions of yen)
Cash and deposits .....	¥ 89,615
Call loans .....	128,100
Monetary claims bought.....	925
Time deposits maturing over 3 months of the date of acquisition .....	(300)
Foreign currency deposits maturing over 3 months of the date of acquisition ...	(1,151)
Monetary claims bought maturing over 3 months of the date of acquisition .....	(925)
Cash and cash equivalents.....	<u>¥ 216,263</u>

## (5) Consolidated Solvency Margin Ratio

(Millions of yen)

	As of March 31, 2014	As of September 30, 2014
Total solvency margin (A)	1,143,749	1,264,453
Common stock and others	201,167	217,065
Reserve for price fluctuation of securities	50,325	51,742
Contingency reserve	112,094	112,274
Catastrophe loss reserve	—	—
Allowance for possible loan losses	1,594	1,389
Net unrealized gains on available - for - sale securities x 90%	343,140	433,824
Net unrealized gains on real estate x 85%	90,719	93,087
Sum of unrecognized actuarial differences and unrecognized prior service cost	(5,661)	(5,309)
Excess amount of policy reserve based on full-time Zillmer method	195,290	197,331
Qualifying subordinated debt	122,346	121,518
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	32,732	41,530
Total amount of risk $\sqrt{(\sqrt{(R_1^2 + R_5^2 + R_8 + R_9)^2 + (R_2 + R_3 + R_7)^2} + R_4 + R_6)}$ (B)	204,232	219,603
Insurance risk $R_1$	26,983	26,570
General insurance risk $R_5$	—	—
Catastrophe risk $R_6$	—	—
3rd sector insurance risk $R_8$	9,748	9,707
Small amount and short-term insurance risk $R_9$	—	—
Assumed investment yield risk $R_2$	36,260	36,305
Minimum guarantee risk $R_7$	0	0
Investment risk $R_3$	159,903	175,253
Business risk $R_4$	4,657	4,956
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	1,120.0%	1,151.5%

Notes: 1. Above figures are calculated based on Articles 86-2 and 88 of the Enforcement Regulations of the Insurance Business Law and Notification of the Financial Services Agency No. 23, 2011.

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