

Financial Results for the Six Months Ended September 30, 2018

Fukoku Mutual Life Insurance Company (President: Yoshiteru Yoneyama) announces financial results for the six months ended September 30, 2018.

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Attached: Supplementary Materials for the Six Months Ended September 30, 2018

1. Business Highlights

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

(i) Policies in Force

		As of March 31, 2018		As of September 30, 2018			
		Number of policies (Thousands)	Amount (100 millions of yen)	Number of policies		Amount	
				(Thousands)	Changes (%, Pre-FYE)	(100 millions of yen)	Changes (%, Pre-FYE)
	Individual insurance	3,180	227,653	3,180	100.0	226,826	99.6
	Individual annuities	687	26,684	671	97.7	26,090	97.8
	Subtotal	3,868	254,338	3,852	99.6	252,916	99.4
	Group insurance	—	170,732	—	—	172,154	100.8
	Group annuities	—	21,803	—	—	21,984	100.8

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 and (c) special riders for term insurance attached to individual annuities.

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, 2017		Total		New business	Net increase by conversion
		Number of policies (Thousands)	Amount (100 millions of yen)	Amount (100 millions of yen)	Amount (100 millions of yen)
	Individual insurance	180	6,979	6,691	288
	Individual annuities	3	90	97	(7)
	Subtotal	183	7,070	6,789	281
	Group insurance	—	315	315	—
	Group annuities	—	158	158	—

Six months ended September 30, 2018		Total				New business		Net increase by conversion	
		Number of policies		Amount		Amount		Amount	
		(Thousands)	Changes (%, YoY)	(100 millions of yen)	Changes (%, YoY)	(100 millions of yen)	Changes (%, YoY)	(100 millions of yen)	Changes (%, YoY)
	Individual insurance	174	96.7	7,539	108.0	6,577	98.3	961	333.4
	Individual annuities	3	117.5	104	115.1	111	114.2	(7)	—
	Subtotal	177	97.1	7,644	108.1	6,689	98.5	954	339.2
	Group insurance	—	—	492	156.0	492	156.0	—	—
	Group annuities	—	—	0	0.4	0	0.4	—	—

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 and special riders for term insurance attached to individual annuities.

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, 2017	Six months ended September 30, 2018	
			Changes (%, YoY)
Amount of surrender and lapse (100 millions of yen)	6,334	6,151	97.1
Surrender and lapse ratio (%)	2.44	2.42	(0.02)

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 is increase-decrease points over year.

(2) Annualized Premiums

(i) Policies in Force

(100 millions of yen, %)

	As of March 31, 2018	As of September 30, 2018	
			Changes (% , Pre-FYE)
Individual insurance	2,747	2,736	99.6
Individual annuities	1,296	1,266	97.7
Total	4,043	4,003	99.0
Medical coverage and living benefits	1,107	1,113	100.6

(ii) New Policies

(100 millions of yen, %)

	Six months ended September 30, 2017	Six months ended September 30, 2018	
			Changes (% , YoY)
Individual insurance	73	76	103.2
Individual annuities	2	3	112.4
Total	76	79	103.5
Medical coverage and living benefits	39	36	93.3

- 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.

2. Investment Results of General Account Assets

(1) Asset Composition

(Millions of yen, %)

	As of March 31, 2018		As of September 30, 2018	
	Amount	% of total	Amount	% of total
Cash, deposits, and call loans	240,462	3.7 %	191,069	2.9 %
Monetary claims bought	443	0.0	320	0.0
Money held in trust	31,502	0.5	31,971	0.5
Securities	5,380,830	82.2	5,556,277	83.6
Domestic bonds	2,818,618	43.1	2,791,453	42.0
Domestic stocks	740,828	11.3	761,564	11.5
Foreign securities	1,713,869	26.2	1,892,390	28.5
Foreign bonds	1,434,457	21.9	1,590,116	23.9
Foreign stocks and other securities	279,412	4.3	302,274	4.6
Other securities	107,514	1.6	110,869	1.7
Loans	593,734	9.1	567,050	8.5
Policy loans	57,181	0.9	56,888	0.9
Ordinary loans	536,553	8.2	510,162	7.7
Real estate	213,674	3.3	212,701	3.2
Others	85,664	1.3	85,369	1.3
Allowance for possible loan losses	(2,049)	(0.0)	(1,998)	(0.0)
Total	6,544,262	100.0	6,642,762	100.0
Foreign currency denominated assets	1,998,720	30.5	2,201,280	33.1

Note: The amount of real estate is equal to the amounts of land, buildings, and construction in progress.

(2) Changes (Increase/Decrease) in Assets

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash, deposits, and call loans	21,872	(49,392)
Monetary claims bought	(291)	(123)
Money held in trust	995	468
Securities	185,266	175,447
Domestic bonds	29,330	(27,164)
Domestic stocks	71,203	20,736
Foreign securities	77,251	178,520
Foreign bonds	53,800	155,658
Foreign stocks and other securities	23,451	22,862
Other securities	7,480	3,354
Loans	(31,916)	(26,684)
Policy loans	(331)	(292)
Ordinary loans	(31,584)	(26,391)
Real estate	(1,908)	(973)
Others	(8,449)	(294)
Allowance for possible loan losses	(67)	51
Total	165,502	98,500
Foreign currency denominated assets	130,115	202,560

Note: The amount of real estate is equal to the amounts of land, buildings, and construction in progress.

(3) Investment Income

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Interest, dividends and other income	71,021	74,517
Interest on deposits	7	18
Interest and dividends on securities	58,645	62,255
Interest on loans	5,135	4,760
Income from real estate for rent	7,171	7,425
Other interest and dividends	61	57
Gains on money held in trust, net	1,084	498
Gains on trading securities, net	8,311	5,380
Gains on sales of securities	12,062	14,983
Gains on sales of domestic bonds	4,621	859
Gains on sales of domestic stocks	1,208	12,604
Gains on sales of foreign securities	6,232	1,519
Reversal of allowance for possible loan losses	–	48
Other investment income	734	201
Total	93,214	95,630

(4) Investment Expenses

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Interest expenses	2,190	1,933
Losses on sales of securities	1,800	5,916
Losses on sales of domestic bonds	–	1,416
Losses on sales of domestic stocks	535	391
Losses on sales of foreign securities	1,196	4,107
Other losses on sales of securities	68	–
Losses on valuation of securities	–	241
Losses on valuation of foreign securities	–	241
Losses on derivative instruments, net	10,143	8,754
Foreign exchange losses, net	6,298	3,939
Provision of allowance for possible loan losses	67	–
Depreciation of real estate for rent and other assets	2,113	2,065
Other investment expenses	3,333	3,791
Total	25,947	26,642

(5) Net Investment Income

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net investment income	67,267	68,987

(6) Net Valuation Gains/Losses on Trading Securities

(Millions of yen)

	As of March 31, 2018		As of September 30, 2018	
	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	179,768	(7,938)	151,713	3,196

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, 2018					As of September 30, 2018				
	Book value	Fair value	Gains/losses			Book value	Fair value	Gains/losses		
				Gains	Losses				Gains	Losses
Held-to-maturity debt securities	758,872	897,574	138,702	138,702	—	760,598	885,497	124,899	124,977	78
Domestic bonds	738,632	876,835	138,203	—	—	739,050	863,809	124,758	124,758	—
Foreign bonds	20,239	20,738	498	—	—	21,547	21,688	140	219	78
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Policy-reserve-matching bonds	973,736	1,134,148	160,412	162,375	1,962	959,209	1,097,964	138,754	142,062	3,307
Domestic bonds	971,937	1,132,289	160,352	162,315	1,962	957,410	1,096,116	138,706	142,014	3,307
Foreign bonds	1,799	1,859	59	59	—	1,799	1,847	48	48	—
Investments in subsidiaries and affiliates	—	—	—	—	—	—	—	—	—	—
Available-for-sale securities	2,941,466	3,404,811	463,345	531,772	68,427	3,110,092	3,621,701	511,609	558,563	46,954
Domestic bonds	1,023,447	1,080,932	57,484	67,947	10,462	1,028,728	1,077,325	48,596	58,949	10,353
Domestic stocks	305,353	671,850	366,497	370,278	3,780	308,401	692,588	384,187	387,323	3,135
Foreign securities	1,538,185	1,558,823	20,637	73,359	52,721	1,697,968	1,754,688	56,719	89,012	32,292
Foreign bonds	1,290,483	1,290,268	(214)	46,425	46,640	1,441,180	1,463,694	22,514	51,825	29,311
Foreign stocks and other securities	247,701	268,554	20,852	26,933	6,081	256,788	290,994	34,205	37,186	2,981
Other securities	74,480	93,205	18,725	20,187	1,462	74,993	97,099	22,105	23,278	1,172
Money held in trust	—	—	—	—	—	—	—	—	—	—
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Total	4,674,074	5,436,534	762,459	832,849	70,390	4,829,900	5,605,164	775,263	825,603	50,340
Domestic bonds	2,734,016	3,090,057	356,040	368,465	12,425	2,725,189	3,037,251	312,061	325,722	13,661
Domestic stocks	305,353	671,850	366,497	370,278	3,780	308,401	692,588	384,187	387,323	3,135
Foreign securities	1,560,224	1,581,421	21,196	73,918	52,721	1,721,315	1,778,224	56,908	89,280	32,371
Foreign bonds	1,312,522	1,312,866	343	46,984	46,640	1,464,527	1,487,230	22,703	52,093	29,389
Foreign stocks and other securities	247,701	268,554	20,852	26,933	6,081	256,788	290,994	34,205	37,186	2,981
Other securities	74,480	93,205	18,725	20,187	1,462	74,993	97,099	22,105	23,278	1,172
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, 2018	As of September 30, 2018
Held-to-maturity debt securities	—	—
—	—	—
—	—	—
Policy-reserve-matching bonds	—	—
Investments in subsidiaries and affiliates	64,837	64,837
Available-for-sale securities	28,021	26,696
Unlisted domestic stocks (except over-the-counter stocks)	5,697	5,696
Unlisted foreign stocks (except over-the-counter stocks)	—	—
Unlisted foreign bonds	—	—
Others	22,323	20,999
Total	92,858	91,533

Note: In this table, domestic and overseas investment partnerships are included in “Others” within “Available-for-sale securities.” However, unrealized gains on available-for-sale securities corresponding to these holdings by domestic and overseas investment partnerships (¥1,285 million as of March 31, 2018 and ¥2,492 million as of September 30, 2018) are included in their balance sheet carrying amounts.

(8) Fair Value Information on Money Held in Trust

(Millions of yen)

	As of March 31, 2018					As of September 30, 2018				
	Carrying value on the balance sheet	Fair value	Gains/losses			Carrying value on the balance sheet	Fair value	Gains/losses		
				Gains	Losses				Gains	Losses
Money held in trust	31,502	31,502	—	—	—	31,971	31,971	—	—	—

• Money held in trust for trading purpose

(Millions of yen)

	As of March 31, 2018		As of September 30, 2018	
	Carrying value on the balance sheet	Net valuation gains/losses included in the statements of operations	Carrying value on the balance sheet	Net valuation gains/losses included in the statements of operations
Money held in trust for trading purpose	30,502	0	30,971	289

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

(Millions of yen)

	As of March 31, 2018					As of September 30, 2018				
	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, 2017	Interest-related	Currency- related	Stock- related	Bond- related	Others	Total
Hedge accounting applied	–	10,755	(1,082)	–	–	9,672
Hedge accounting not applied	(453)	17	–	(98)	–	(534)
Total	(453)	10,772	(1,082)	(98)	–	9,138
As of September 30, 2018	Interest- related	Currency- related	Stock- related	Bond- related	Others	Total
Hedge accounting applied	–	(13,488)	–	–	–	(13,488)
Hedge accounting not applied	(524)	(3,662)	–	89	–	(4,097)
Total	(524)	(17,151)	–	–	–	(17,586)

Note: Gains and losses from applying fair value hedge accounting (currency-related gains of ¥10,755 million, stock-related losses of ¥1,082 million as of March 31, 2018, and currency-related losses of ¥13,488 million as of September 30, 2018) 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)

(millions of yen)								
	As of March 31, 2017				As of September 30, 2018			
	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	320,000	160,000			320,000	160,000		
	[596]		142	(453)	[596]		71	(524)
Total				(453)				(524)

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

(iii) Currency-related Transactions

(Millions of yen)

	As of March 31, 2017				As of September 30, 2018			
	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								
Currency forward contracts								
Sold	807,994	—	797,222	10,772	724,634	—	741,376	(16,742)
U.S. dollar	624,796	—	615,445	9,351	517,073	—	530,924	(13,851)
Canadian dollar	69,293	—	69,029	264	72,575	—	74,812	(2,236)
Euro	39,258	—	38,768	489	65,573	—	65,947	(373)
British Pound	40,062	—	40,140	(78)	39,753	—	39,982	(228)
Australian dollar	34,582	—	33,838	744	29,657	—	29,709	(51)
Bought	—	—	—	—	—	—	—	—
Currency options								
Sold								
Call	—	—	—	—	97,211	—	—	—
U.S. dollar	[—]	—	—	—	[207]	—	280	(73)
Put	—	—	—	—	97,211	—	—	—
U.S. dollar	[—]	—	—	—	[207]	—	280	(73)
Bought								
Call	—	—	—	—	—	—	—	—
U.S. dollar	[—]	—	—	—	[—]	—	—	—
Put	—	—	—	—	147,267	—	—	—
U.S. dollar	[—]	—	—	—	[562]	—	227	(335)
Canadian dollar	[—]	—	—	—	74,210	—	42	(164)
Australian dollar	[—]	—	—	—	38,760	—	64	(89)
Total	[—]	—	—	—	[153]	—	120	(81)
Total	[—]	—	—	—	[201]	—	—	—
Total				10,772				(17,151)

Notes: 1. Forward exchange rates are used for exchange rates as of September 30, 2018.

2. Figures in [] are option premiums which are included in the balance sheet.

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, 2017				As of September 30, 2018			
	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	1,153	1,153	2,235	(1,082)	—	—	—	—
Bought	—	—	—	—	—	—	—	—
Total				(1,082)				—

(v) Bond-related Transactions

(Millions of yen)

	As of March 31, 2017				As of September 30, 2018			
	Notional amount/ contract value	Fair value	Gains (Losses)		Notional amount/ contract value	Fair value	Gains (Losses)	
	Over 1 year				Over 1 year			
Exchange-traded transactions								
Foreign bond futures								
Sold	21,714	—	21,812	(98)	6,834	—	6,744	89
Bought	—	—	—	—	—	—	—	—
Total				(98)				89

Reference: Fair Value of Real Estate (Land and Leaseholds)

(Millions of yen)

As of March 31, 2018			As of September 30, 2018		
Carrying value on the balance sheet	Fair value	Gains (losses)	Carrying value on the balance sheet	Fair value	Gains (losses)
125,280	253,938	128,658	125,210	254,292	129,081

Notes: 1. As of September 30, 2018, fair value is based on the appraisal value by the real-estate appraiser, the appraisal value for property tax as of January 1, 2018 and the road rate as of January 1, 2018.

2. As of March 31, 2018, fair value is based on the appraisal value by the real-estate appraiser, the appraisal value for property tax as of January 1, 2018 and the road rate as of January 1, 2017.

3. Non-consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Assets:		
Cash and deposits	66,260	60,792
Call loans	176,000	132,000
Monetary claims bought	443	320
Money held in trust	31,502	31,971
Securities:	5,458,790	5,639,563
[Government bonds]	[2,030,971]	[2,025,005]
[Local government bonds]	[114,036]	[102,181]
[Corporate bonds]	[702,661]	[696,419]
[Stocks]	[768,000]	[788,411]
[Foreign securities]	[1,735,580]	[1,916,651]
Loans:	593,734	567,050
Policy loans	57,181	56,888
Ordinary loans	536,553	510,162
Tangible fixed assets	218,549	217,316
Intangible fixed assets	23,701	22,727
Reinsurance receivables	167	60
Other assets:	59,508	58,740
Lease investment assets	700	683
Rest of the other asset	58,807	58,056
Allowance for possible loan losses	(2,049)	(1,998)
Total assets	6,626,609	6,728,544

	As of March 31, 2018	As of September 30, 2018
Liabilities:		
Policy reserves:	5,650,879	5,693,414
Reserve for outstanding claims	19,295	19,045
Policy reserve	5,578,187	5,598,508
Reserve for dividends to policyholders	53,395	75,859
Reinsurance payables	56	66
Subordinated bonds	191,935	191,935
Other liabilities:	46,066	59,862
Corporate income tax payable	2,445	5,304
Asset retirement obligations	3,088	3,115
Rest of the other liabilities	40,532	51,442
Reserve for employees' retirement benefits	25,417	25,066
Reserve for price fluctuation	95,798	97,528
Deferred tax liabilities	10,733	23,271
Deferred tax liabilities for land revaluation	14,241	14,232
Total liabilities	6,035,126	6,105,376
Net assets:		
Foundation funds	10,000	10,000
Accumulated foundation funds redeemed	106,000	106,000
Reserve for revaluation	112	112
Surplus:	135,538	131,420
Legal reserve for future losses	2,954	3,071
Other surplus	132,584	128,349
Reserve for redemption of foundation funds	6,000	8,000
Reserve for dividend allowances	20,000	20,000
Accumulated fund for price fluctuation	41,000	41,000
Reserve for advanced depreciation of real estate for tax purpose	255	210
Other reserves	767	767
Unappropriated surplus	64,561	58,371
Total foundation funds, surplus and others	251,650	247,532
Net unrealized gains (losses) on available-for-sale securities, net of tax	335,658	371,486
Revaluation reserve for land, net of tax	4,173	4,149
Total valuation and translation adjustments	339,831	375,635
Total net assets	591,482	623,168
Total liabilities and net assets	6,626,609	6,728,544

4. Non-consolidated Statements of Operations

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Ordinary revenues:		
Premium and other income	317,834	277,997
[Premium income]	[317,752]	[277,924]
Investment income	98,139	99,860
[Interest, dividends and other income]	[71,021]	[74,517]
[Gains on money held in trust, net]	[1,084]	[498]
[Gains on trading securities, net]	[8,311]	[5,380]
[Gains on sales of securities]	[12,062]	[14,983]
[Gains on separate accounts, net]	[4,924]	[4,229]
Other ordinary revenues	4,758	4,622
[Reversal of reserve for outstanding claims]	[480]	[249]
Total ordinary revenues	420,732	382,480
Ordinary expenses:		
Claims and other payments	280,394	237,785
[Claims]	[85,851]	[66,792]
[Annuities]	[82,817]	[79,531]
[Benefits]	[50,449]	[53,044]
[Surrenders]	[45,413]	[24,562]
[Other payments]	[15,730]	[13,735]
Provision of policy reserve and others:	12,722	20,326
Provision of policy reserve	12,716	20,320
Provision of interest portion of reserve for dividends to policyholders	5	6
Investment expenses	25,947	26,642
[Interest expenses]	[2,190]	[1,933]
[Losses on sales of securities]	[1,800]	[5,916]
[Losses on valuation of securities]	[—]	[241]
[Losses on derivative instruments, net]	[10,143]	[8,754]
[Foreign exchange losses, net]	[6,298]	[3,939]
Operating expenses	44,069	44,644
Other ordinary expenses	9,227	10,543
Total ordinary expenses	372,360	339,943
Ordinary profits	48,371	42,536
Extraordinary gains:		
Gains on disposal of fixed assets	244	1
Total extraordinary gains	244	1
Extraordinary losses:		
Losses on disposal of fixed assets	58	20
Impairment losses	140	68
Provision of reserve for price fluctuation	1,647	1,730
Losses on advanced depreciation of real estate for tax purpose	3	—
Total extraordinary losses	1,848	1,819
Surplus before income taxes	46,767	40,718
Income taxes:		
Current	8,596	7,243
Deferred	105	(1,113)
Total income taxes	8,702	6,130
Net surplus for the period	38,065	34,588

5. Non-consolidated Statements of Changes in Net Assets

[For the six months ended September 30, 2017]

(Millions of yen)

(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						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	Reserve for special account for advanced depreciation of real estate for tax purpose	Other reserves		Unappropriated surplus		
Balance at the beginning of the current period	10,000	106,000	112	2,849	4,000	20,000	41,000	257	100	767	60,453	129,427	245,539	
Changes in the current period														
Additions to reserve for dividends to policyholders											(34,592)	(34,592)	(34,592)	
Additions to legal reserve for future losses				105							(105)	—	—	
Payment of interest on foundation funds											(100)	(100)	(100)	
Net surplus for the current period											38,065	38,065	38,065	
Additions to reserve for redemption of foundation funds					2,000						(2,000)	—	—	
Reversal of reserve for advanced depreciation of real estate for tax purpose								(1)			1	—	—	
Reversal of reserve for special account for advanced depreciation of real estate for tax purpose									(100)		100	—	—	
Reversal of revaluation reserve for land, net of tax											(85)	(85)	(85)	
Net changes, excluding foundation funds, surplus and others														
Total changes in the current period	—	—	—	105	2,000	—	—	(1)	(100)	—	1,284	3,287	3,287	
Balance at the end of the current period	10,000	106,000	112	2,954	6,000	20,000	41,000	255	—	767	61,737	132,714	248,827	

	Valuation and translation adjustments			Total net assets
	Net unrealized gains (losses) on available-for-sale securities, net of tax	Revaluation reserve for land, net of tax	Total valuation and translation adjustments	
Balance at the beginning of the current period	333,545	4,107	337,652	583,192
Changes in the current period				
Additions to reserve for dividends to policyholders				(34,592)
Additions to legal reserve for future losses				—
Payment of interest on foundation funds				(100)
Net surplus for the current period				38,065
Additions to reserve for redemption of foundation funds				—
Reversal of reserve for advanced depreciation of real estate for tax purpose				—
Reversal of reserve for special account for advanced depreciation of real estate for tax purpose				—
Reversal of revaluation reserve for land, net of tax				(85)
Net changes, excluding foundation funds, surplus and others	60,027	85	60,112	60,112
Total changes in the current period	60,027	85	60,112	63,399
Balance at the end of the current period	393,572	4,193	397,765	646,592

[For the six months ended September 30, 2018]

(Millions of yen)

(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 the current period	10,000	106,000	112	2,954	6,000	20,000	41,000	255	767	64,561	135,538	251,650
Changes in the current period												
Additions to reserve for dividends to policyholders										(38,630)	(38,630)	(38,630)
Additions to legal reserve for future losses				117						(117)	—	
Payment of interest on foundation funds										(100)	(100)	(100)
Net surplus for the current period										34,588	34,588	34,588
Additions to reserve for redemption of foundation funds					2,000					(2,000)	—	—
Reversal of reserve for advanced depreciation of real estate for tax purpose								(45)		45	—	—
Reversal of revaluation reserve for land, net of tax										24	24	24
Net changes, excluding foundation funds, surplus and others												
Total changes in the current period	—	—	—	117	2,000	—	—	(45)	—	(6,190)	(4,118)	(4,118)
Balance at the end of the current period	10,000	106,000	112	3,071	8,000	20,000	41,000	210	767	58,371	131,420	247,532

	Valuation and translation adjustments			Total net assets
	Net unrealized gains (losses) on available-for-sale securities, net of tax	Revaluation reserve for land, net of tax	Total valuation and translation adjustments	
Balance at the beginning of the current period	335,658	4,173	339,831	591,482
Changes in the current period				
Additions to reserve for dividends to policyholders				(38,630)
Additions to legal reserve for future losses				—
Payment of interest on foundation funds				(100)
Net surplus for the current period				34,588
Additions to reserve for redemption of foundation funds				—
Reversal of reserve for advanced depreciation of real estate for tax purpose				—
Reversal of revaluation reserve for land, net of tax				24
Net changes, excluding foundation funds, surplus and others	35,828	(24)	35,803	35,803
Total changes in the current period	35,828	(24)	35,803	31,685
Balance at the end of the current period	371,486	4,149	375,635	623,168

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 Act 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 rounded down. As a result, the totals do not add up.

II. Notes to the Non-consolidated Balance Sheets

1. (1) 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 the Insurance Industry” (Industry Audit Committee Report No.21 issued by the Japanese Institute of Certified Public Accountants on November 16, 2000).
- iv) Investments in subsidiaries and affiliates are stated at cost, cost being determined by the moving average method.
- v) Available-for-sale securities with fair market value are stated at fair market value based on the market prices at the end of the current period. 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 market value 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) Derivative instruments are stated at fair market value.

(3) The Company revalued the land used in the operations based on the Act for Revaluation of Land (Act 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 land revaluation.

- Date of revaluation: March 31, 2002
- Method of revaluation as prescribed for in Article 3 Paragraph 3 of the said Act:
Calculation is based on the appraisal value for property tax set forth in Article 2 item 3 of the Enforcement Ordinance of the Act 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 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 before March 31, 2016) 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 with no residual value.

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

(5) Assets and liabilities denominated in foreign currencies, 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 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 is 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 are written-off directly from the borrowers' balances as the estimated uncollectible amounts. The amount written-off as of September 30, 2018 was ¥1 million.

(7) Reserve for employees' retirement benefits is presented 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 gains and losses..... | 10 years |
| • Amortization period of prior service cost..... | 10 years |

- (8) Reserve for price fluctuation is calculated in accordance with Article 115 of the Insurance Business Act.
- (9) 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.
- (10) Hedge accounting is based on "Accounting Standards for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008). The Company applies a fair value hedge accounting as a hedge against the risk of foreign exchange fluctuation in relation to bonds denominated in foreign currencies and against the risk of price fluctuation in relation to domestic stocks, and a designated hedge accounting (“Furiate shori”) for foreign currency swaps as a hedge against the risk of foreign exchange fluctuation in relation to bonds denominated in foreign currencies issued by the Company.
- For assessing 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 mainly applied.
- (11) 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 consolidated financial statements.
- (12) 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 Act, 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 is based on Article 116 of the Insurance Business Act, and the premium reserve is calculated by the following method:
- i) 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.
 - ii) In regard to the policies not subject to the standard policy reserve, the net level premium method is applied.
- Based on the provision of Article 69, paragraph 5, of the Enforcement Regulation of the Insurance Business Act, the Company includes additional funded policy reserves as follows.
- Among individual annuity insurance policies with an assumed interest rate of 5.00% or higher, for policies that have begun paying annuities (excluding wife’s annuity insurance additional rider), the Company reduced the assumed interest rate to 1.00% and funded additional policy reserves. As of September 30, 2018, the balance of these policy reserves was ¥73,347 million.
- The Company also funded additional policy reserves for certain individual annuity insurance policies, whole life insurance policies that include distribution of surplus every five years and highly advanced medical riders. As of September 30, 2018, the balance of these policy reserves was ¥5,628 million.
- (14) The software for internal use is amortized based on straight-line method over the estimated useful lives.
- (15) Of the bonds corresponding to the sub-groups of individual insurance and annuities which are set by insurance types and investment policies, the bonds that are held to match the duration of liabilities are classified as policy-reserve-matching bonds in accordance with “Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching Bonds in Insurance Industry” (Industry Audit Committee Report No. 21 issued by the Japanese Institute of Certified Public Accountants on November 16, 2000).

2. The carrying amounts, fair values and their related differences of major financial assets and liabilities in the general account as of September 30, 2018 were as follows:

	(Millions of yen)		
	Carrying amount	Fair value	Difference
Cash and deposits:			
Cash and deposits not treated as securities.....	¥ 59,069	¥ 59,069	¥ –
Total cash and deposits.....	59,069	59,069	–
Call loans.....	132,000	132,000	–
Monetary claims bought:			
Claims treated as loans.....	320	338	17
Total monetary claims bought.....	320	338	17
Money held in trust:			
Trading securities.....	30,971	30,971	–
Total money held in trust.....	30,971	30,971	–
Securities:			
Trading securities.....	120,741	120,741	–
Held-to-maturity debt securities.....	760,598	885,497	124,899
Policy-reserve-matching bonds.....	959,209	1,097,964	138,754
Available-for-sale securities.....	3621,701	3,621,701	–
Total securities.....	5,462,251	5,725,905	263,654
Loans:			
Policy loans.....	56,888	56,888	(0)
Ordinary loans.....	510,162	529,042	18,879
Total loans.....	567,050	585,930	18,879
Assets total.....	6,251,663	6,534,215	282,551
Subordinated bonds ¹	191,935	199,104	7,169
Liabilities total.....	191,935	199,104	7,169
Derivative instruments ² :			
Hedge accounting not applied.....	(4,097)	(4,097)	–
Hedge accounting applied.....	(13,488)	(13,488)	–
Total derivative instruments.....	¥ (17,586)	¥ (17,586)	¥ –

Notes: 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, March 10, 2008)) 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, March 10, 2008) and securities managed as trust assets in money held in trust:

The fair values of marketable securities are measured at the quoted market prices at the balance sheet date. The fair values of other securities without the quoted market prices are based on the prices reasonably calculated such as the

prices offered by the information vendors or counterparty financial institutions.

Investments in subsidiaries and affiliates, unlisted stocks and investments in partnerships whereby partnership assets consist of unlisted stocks whose fair values are deemed extremely difficult to obtain, are excluded from above securities. The carrying amounts of investments in subsidiaries and affiliates, unlisted stocks and investments in partnerships were ¥64,837 million, ¥5,696 million, and ¥23,492 million as of September 30, 2018, 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 deadlines have not been set up due to the characteristics that the loans are 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 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 possible loan losses from the book values before direct write-offs.

(4) Subordinated bonds:

Subordinated bonds issued by the Company are stated at fair market values.

(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 forward contracts, options and swaps traded over the counter are based on the quoted prices offered by counterparty financial institutions.
- iii) The fair values of foreign currency forward contracts are determined based on the spot exchange rate and forward contract rate.

3. 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.

4. The amount of securities lent under lending agreements was ¥259,698 million as of September 30, 2018.

5. The total amounts of credits to bankrupt borrowers, delinquent loans, delinquent loans past 3 months or more and restructured loans, which were included in loans, was ¥1,042 million as of September 30, 2018;

- i) The balance of credits to bankrupt borrowers was ¥164 million as of September 30, 2018.
- ii) The balance of delinquent loans was ¥877 million as of September 30, 2018.
- iii) There was no balance of delinquent loans past 3 months or more and restructured loans as of September 30, 2018.

The direct write-offs related to loans decreased credits to bankrupt borrowers described above by ¥1 million as of September 30, 2018.

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 Act. Moreover, accrued 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 which accrued 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 payments or repayments 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 exemption, rescheduling of due date for repayments of principal or interest payment, waiver of claim or other terms, have been negotiated for the purpose of assisting and supporting the borrowers in the restructuring of their business. This category excludes loans classified as credits to bankrupt borrowers, delinquent loans and delinquent loans past 3 months or more.

6. Accumulated depreciation of tangible fixed assets were ¥164,234 million as of September 30, 2018.

7. Total assets in separate accounts provided for in Article 118 of the Insurance Business Act were ¥85,782 million as of September 30, 2018. The amounts of separate account liabilities were the same as separate account assets.

8. Changes in reserve for dividends to policyholders for the six months ended September 30, 2018 were as follows:

	(Millions of yen)
Balance at the beginning of the current period.....	¥ 53,395
Transfer from surplus in the previous fiscal year.....	38,630
Dividend payments to policyholders during the current period.....	(16,172)
Increase in interest.....	6
Balance at the end of the current period.....	<u>¥ 75,859</u>

9. The amount of stocks of subsidiaries was ¥64,837 million as of September 30, 2018.

10. Assets pledged as collateral as of September 30, 2018 were ¥21,003 million of securities and ¥759 million of bank deposits. Secured debts as of September 30, 2018, were ¥5,287 million.

11. Reserve for outstanding claims for the reinsurance contracts provided in accordance with Article 71 Paragraph 1 of the Enforcement Regulation of the Insurance Business Act (hereinafter called “reserve for outstanding claims for ceded reinsurance”) was ¥5 million as of September 30, 2018.

Policy reserve for the reinsurance contracts provided in accordance with Article 71 Paragraph 1 of the Enforcement Regulation of the Insurance Business Act (hereinafter called “policy reserve for ceded reinsurance”) was ¥29 million as of September 30, 2018.

12. There were unused commitment line agreements under which the Company is the lender of ¥4,363 million as of September 30, 2018.
13. Repayments of subordinated bonds are subordinated to other obligations.
14. The future contribution to the Life Insurance Policyholders Protection Corporation of Japan under Article 259 of the Insurance Business Act was estimated at ¥8,506 million as of September 30, 2018.
The contribution is recognized as operating expenses when contributed.

III. Notes to the Non-consolidated Statements of Operations

1. Major items of gains on sales of securities for the six months ended September 30, 2018 were as follows:

	(Millions of yen)
Domestic bonds.....	¥ 859
Domestic stocks and others.....	12,604
Foreign securities.....	1,519

2. Major items of losses on sales of securities for the six months ended September 30, 2018 were as follows:

	(Millions of yen)
Domestic bonds.....	¥ 1,416
Domestic stocks and others.....	391
Foreign securities.....	4,107

3. Major items of losses on valuation of securities for the six months ended September 30, 2018 was as follows:

	(Millions of yen)
Foreign securities.....	¥ 241

4. For the six months ended September 30, 2018, in calculating the reversal of reserve for outstanding claims, a reversal of reserves for outstanding claims reinsured of ¥5 million was deducted. In calculating the provision of policy reserves, a reversal of reserves for policy reserves reinsured of ¥1 million was added.

5. Breakdown of interest, dividends and other income for the six months ended September 30, 2018 was as follows:

	(Millions of yen)
Interest on deposits.....	¥ 18
Interest and dividends on securities.....	62,255
Interest on loans.....	4,760
Income from real estate for rent.....	7,425
Other interest and dividends.....	57
Total.....	<u>¥ 74,517</u>

6. Breakdown of Ordinary Profits (Fundamental Profit)

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Fundamental profit A	48,206	47,115
Capital gains	18,412	18,412
Gains on money held in trust, net	974	421
Gains on trading securities, net	5,374	3,087
Gains on sales of securities	12,062	14,983
Gains on derivative instruments, net	—	—
Foreign exchange gains, net	—	—
Other capital gains	—	—
Capital losses	18,242	18,851
Losses on money held in trust, net	—	—
Losses on trading securities, net	—	—
Losses on sales of securities	1,800	5,916
Losses on valuation of securities	—	241
Losses on derivative instruments, net	10,143	8,754
Foreign exchange losses, net	6,298	3,939
Other capital losses	—	—
Net capital gains (losses) B	169	(359)
Fundamental profit plus net capital gains (losses) A+B	48,375	46,756
Non-recurring gains	6	5
Reinsurance income	—	—
Reversal of contingency reserve	—	—
Reversal of specific allowance for possible loan losses	6	5
Others	—	—
Non-recurring losses	10	4,225
Reinsurance premiums	—	—
Provision for contingency reserve	10	433
Provision of specific allowance for possible loan losses	—	—
Provision of allowance for specified overseas loans	—	—
Write-off of loans	—	—
Others	—	3,792
Non-recurring gains (losses) C	(3)	(4,219)
Ordinary profits A+B+C	48,371	42,536

- Notes: 1. The following amounts in respect of gains / losses on 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): ¥110 million in respect of the six months ended September 30, 2017 and ¥77 million in respect of the three months ended September 30, 2018.
2. The following amounts in respect of gains / losses on trading securities have been excluded from capital gains / losses and included in fundamental profit due to their income nature (being interest and dividend income): ¥2,936 million in respect of the three months ended September 30, 2017 and ¥2,292 million in respect of the three months ended September 30, 2018.
3. Other non-recurring losses represent the losses relating to provision of the additional policy reserves in accordance with Article 69, Paragraph 5 of the Enforcement Regulations of the Insurance Business Act.

7. Disclosed Claims Based on Categories of Obligors

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Claims against bankrupt and quasi-bankrupt obligors	181	178
Claims with collection risk	859	871
Claims for special attention	—	—
Subtotal [Percentage of total]	1,040 [0.12%]	1,049 [0.13%]
Claims against normal obligors	850,425	828,863
Total	851,465	829,913

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, 2018	As of September 30, 2018
Credits to bankrupt borrowers	168	164
Delinquent loans	865	877
Delinquent loans past three months or more	—	—
Restructured loans	—	—
Total [Percentage of total loans]	1,033 [0.17%]	1,042 [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 ¥1 million as of March 31, 2018 and ¥1 million as of September 30, 2018.
2. Credits to bankrupt borrowers represent loans which are subject to bankruptcy, corporate reorganization 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, 2018	As of September 30, 2018
Total solvency margin (A)	1,475,658	1,551,115
Foundation funds and surplus	210,194	225,603
Reserve for price fluctuation	95,798	97,528
Contingency reserve	187,050	187,483
General allowance for possible loan losses	1,501	1,458
(Net unrealized gains (losses) on securities (before tax) and deferred hedge gains (losses) (before tax)) × 90%	418,167	462,691
Net unrealized gains on real estate × 85%	122,692	125,844
Excess amount of policy reserve based on full-time Zillmer method	252,776	256,889
Qualifying subordinated debt	191,935	191,935
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	(46,783)	(46,783)
Others	42,325	48,464
Total amount of risk $\sqrt{(R_1 + R_8)^2 + (R_2 + R_3 + R_7)^2} + R_4$ (B)	272,942	285,595
Insurance risk R_1	23,252	23,111
3rd sector insurance risk R_8	9,687	9,722
Assumed investment yield risk R_2	32,156	31,835
Minimum guarantee risk R_7	—	—
Investment risk R_3	232,788	245,617
Business risk R_4	5,957	6,205
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	1,081.2%	1,086.2%

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

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

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

10. Status of Separate Account

(1) Separate Account Assets by Products

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
	Amount	Amount
Individual variable insurance	—	—
Individual variable annuities	33	31
Group annuities	82,313	85,751
Total	82,347	85,782

(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 except number of policies)

	As of March 31, 2018		As of September 30, 2018	
	Number of policies	Amount	Number of policies	Amount
Individual variable annuities	10	27	9	25
Total	10	27	9	25

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

(Millions of yen)

	As of March 31, 2018		As of September 30, 2018	
	Amount	Percentage	Amount	Percentage
Cash, deposits, call loans	7	23.1%	7	22.8%
Securities	26	76.9%	24	77.2%
Domestic bonds	—	—	—	—
Domestic stocks	—	—	—	—
Foreign securities	—	—	—	—
Foreign bonds	—	—	—	—
Foreign stocks and other securities	—	—	—	—
Other securities	26	76.9%	24	77.2%
Loans	—	—	—	—
Others	—	—	—	—
Allowance for possible loan losses	—	—	—	—
Total	33	100.0%	31	100.0%

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

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
	Amount	Amount
Interest, dividends and other income	1	1
Gains on sales of securities	—	—
Gains on valuation of securities	8	8
Gains on redemption of securities	—	—
Gains on derivative instruments	—	—
Foreign exchange gains, net	—	—
Other investment income	—	0
Losses on sales of securities	—	—
Losses on valuation of securities	8	8
Losses on redemption of securities	—	—
Losses on derivative instruments	—	—
Foreign exchange losses, net	—	—
Other investment expenses	—	—
Net investment income	1	0

(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, 2018		As of September 30, 2018	
	Carrying value on the balance sheet	Net valuation gains/losses included in the statements of operations	Carrying value on the balance sheet	Net valuation gains/losses included in the statements of operations
Trading securities	26	0	24	(0)

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, 2018		As of September 30, 2018	
	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	257,729	(5,292)	234,998	5,281

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, 2018					As of September 30, 2018				
	Book value	Fair value	Gains/losses			Book value	Fair value	Gains/losses		
			Gains	Losses				Gains	Losses	
Held-to-maturity debt securities	758,872	897,574	138,702	138,702	—	760,598	885,497	124,899	124,977	78
Domestic bonds	738,632	876,835	138,203	138,203	—	739,050	863,809	124,758	124,758	—
Foreign bonds	20,239	20,738	498	498	—	21,547	21,688	140	219	78
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Policy-reserve-matching bonds	973,736	1,134,148	160,412	162,375	1,962	959,209	1,097,964	138,754	142,062	3,307
Domestic bonds	971,937	1,132,289	160,352	162,315	1,962	957,410	1,096,116	138,706	142,014	3,307
Foreign bonds	1,799	1,859	59	59	—	1,799	1,847	48	48	—
Investments in subsidiaries and affiliates	—	—	—	—	—	—	—	—	—	—
Available-for-sale securities	2,941,466	3,404,811	463,345	531,772	68,427	3,110,092	3,621,701	511,609	558,563	46,954
Domestic bonds	1,023,447	1,080,932	57,484	67,947	10,462	1,028,728	1,077,325	48,596	58,949	10,353
Domestic stocks	305,353	671,850	366,497	370,278	3,780	308,401	692,588	384,187	387,323	3,135
Foreign securities	1,538,185	1,558,823	20,637	73,359	52,721	1,697,968	1,754,688	56,719	89,012	32,292
Foreign bonds	1,290,483	1,290,268	(214)	46,425	46,640	1,441,180	1,463,694	22,514	51,825	29,311
Foreign stocks and other securities	247,701	268,554	20,852	26,933	6,081	256,788	290,994	34,205	37,186	2,981
Other securities	74,480	93,205	18,725	20,187	1,462	74,993	97,099	22,105	23,278	1,172
Money held in trust	—	—	—	—	—	—	—	—	—	—
Monetary claims bought	—	—	—	—	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Total	4,674,074	5,436,534	762,459	832,849	70,390	4,829,900	5,605,164	775,263	825,603	50,340
Domestic bonds	2,734,016	3,090,057	356,040	368,465	12,425	2,725,189	3,037,251	312,061	325,722	13,661
Domestic stocks	305,353	671,850	366,497	370,278	3,780	308,401	692,588	384,187	387,323	3,135
Foreign securities	1,560,224	1,581,421	21,196	73,918	52,721	1,721,315	1,778,224	56,908	89,280	32,371
Foreign bonds	1,312,522	1,312,866	343	46,984	46,640	1,464,527	1,487,230	22,703	52,093	29,389
Foreign stocks and other securities	247,701	268,554	20,852	26,933	6,081	256,788	290,994	34,205	37,186	2,981
Other securities	74,480	93,205	18,725	20,187	1,462	74,993	97,099	22,105	23,278	1,172
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, 2018			As of September 30, 2018		
	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	758,872	897,574	138,702	741,950	866,928	124,977
Domestic bonds	738,632	876,835	138,203	739,050	863,809	124,758
Foreign bonds	20,239	20,738	498	2,899	3,118	219
Monetary claims bought	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—
Others	—	—	—	—	—	—
Securities whose fair value does not exceed the carrying value on the balance sheet	—	—	—	18,647	18,569	(78)
Domestic bonds	—	—	—	—	—	—
Foreign bonds	—	—	—	18,647	18,569	(78)
Monetary claims bought	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—
Others	—	—	—	—	—	—

[Policy-reserve-matching Bonds]

(Millions of yen)

	As of March 31, 2018			As of September 30, 2018		
	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	944,136	1,106,511	162,375	907,794	1,049,857	142,062
Domestic bonds	942,337	1,104,652	162,315	905,995	1,048,009	142,014
Foreign bonds	1,799	1,859	59	1,799	1,847	48
Others	—	—	—	—	—	—
Bonds whose fair value does not exceed the carrying value on the balance sheet	29,599	27,636	(1,962)	51,414	48,107	(3,307)
Domestic bonds	29,599	27,636	(1,962)	51,414	48,107	(3,307)
Foreign bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—

[Available-for-sale Securities]

(Millions of yen)

	As of March 31, 2018			As of September 30, 2018		
	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	1,561,884	2,093,656	531,772	1,935,610	2,494,173	558,563
Domestic bonds	713,551	781,499	67,947	753,175	812,125	58,949
Domestic stocks	274,161	644,439	370,278	272,334	659,657	387,323
Foreign securities	518,137	591,497	73,359	853,388	942,400	89,012
Foreign bonds	360,156	406,581	46,425	640,134	691,960	51,825
Foreign stocks	157,981	184,915	26,933	213,253	250,440	37,186
Other securities	56,032	76,220	20,187	56,711	79,990	23,278
Money held in trust	—	—	—	—	—	—
Monetary claims bought	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—
Others	—	—	—	—	—	—
Securities whose carrying value on the balance sheet does not exceed the book value	1,379,581	1,311,154	(68,427)	1,174,482	1,127,528	(46,954)
Domestic bonds	309,895	299,433	(10,462)	275,552	265,199	(10,353)
Domestic stocks	31,191	27,411	(3,780)	36,067	32,931	(3,135)
Foreign securities	1,020,047	967,325	(52,721)	844,580	812,287	(32,292)
Foreign bonds	930,327	883,686	(46,640)	801,045	771,734	(29,311)
Foreign stocks	89,720	83,639	(6,081)	43,534	40,553	(2,981)
Other securities	18,447	16,984	(1,462)	18,282	17,109	(1,172)
Money held in trust	—	—	—	—	—	—
Monetary claims bought	—	—	—	—	—	—
Negotiable certificate of deposits	—	—	—	—	—	—
Others	—	—	—	—	—	—

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

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Held-to-maturity debt securities	—	—
Unlisted foreign bonds	—	—
Others	—	—
Policy-reserve-matching bonds	—	—
Investments in subsidiaries and affiliates	64,837	64,837
Available-for-sale securities	28,021	26,696
Unlisted domestic stocks (except over-the-counter stocks)	5,697	5,696
Unlisted foreign stocks (except over-the-counter stocks)	—	—
Unlisted foreign bonds	—	—
Others	22,323	20,999
Total	92,858	91,533

Note: In this table, domestic and overseas investment partnerships are included in “others” within “available-for-sale securities.”

However, unrealized gains on available-for-sale securities corresponding to these holdings by domestic and overseas investment partnerships (¥1,285 million as of March 31, 2018 and ¥2,492 million as of September 30, 2018) are included in their balance sheet carrying amounts.

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

(i) Gains and Losses on Derivatives

(Millions of yen)

As of March 31, 2018	Interest- related	Currency- related	Stock- related	Bond- related	Others	Total
Hedge accounting applied	–	10,755	(1,082)	–	–	9,672
Hedge accounting not applied	(453)	17	–	(98)	–	(534)
Total	(453)	10,772	(1,082)	(98)	–	9,138
As of September 30, 2018	Interest- related	Currency- related	Stock- related	Bond- related	Others	Total
Hedge accounting applied	–	(13,488)	–	–	–	(13,488)
Hedge accounting not applied	(524)	(3,662)	–	89	–	(4,097)
Total	(524)	(17,151)	–	89	–	(17,586)

Note: Gains and losses from applying fair value hedge accounting (currency-related gains of ¥10,755 million, stock-related losses of ¥1,082 million as of March 31, 2018, and currency-related losses of ¥13,488 million as of September 30, 2018) 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, 2018				As of September 30, 2018			
	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	320,000	160,000			320,000	160,000		
[596]			142	(453)	[596]		71	(524)
Total				(453)				(524)

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

[Currency-related Transactions]

(Millions of yen)

	As of March 31, 2018				As of September 30, 2018			
	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	192,046	—	192,029	17	150,160	—	153,413	(3,253)
U.S. dollar	99,201	—	99,362	(161)	63,546	—	66,397	(2,850)
British Pound	26,040	—	26,027	12	26,037	—	25,914	122
Australian dollar	26,006	—	25,691	314	25,516	—	25,623	(106)
Canadian dollar	26,167	—	26,327	(159)	24,303	—	24,642	(339)
Euro	14,629	—	14,619	10	10,756	—	10,835	(79)
Bought	—	—	—	—	—	—	—	—
Currency options	—	—	—	—	—	—	—	—
Sold								
Call	—	—	—	—	97,211	—	—	—
U.S. dollar	[—]	—	—	—	[207]	—	280	(73)
Put	—	—	—	—	—	—	—	—
U.S. dollar	[—]	—	—	—	[207]	—	280	(73)
Bought								
Call	—	—	—	—	—	—	—	—
U.S. dollar	[—]	—	—	—	[—]	—	—	—
Put	—	—	—	—	147,267	—	—	—
U.S. dollar	[—]	—	—	—	[562]	—	227	(335)
Canadian dollar	[—]	—	—	—	[207]	—	42	(164)
Australian dollar	[—]	—	—	—	[153]	—	64	(89)
Euro	[—]	—	—	—	[201]	—	120	(81)
Total				17				(3,662)

Notes: 1. Forward exchange rates are used for exchange rates as of September 30, 2018.

2. Figures in [] are option premiums which are included in the balance sheet.

[Stock-related Transactions]

No ending balance as of March 31, 2018 and September 30, 2018.

[Bond-related Transactions]

(Millions of yen)

	As of March 31, 2018				As of September 30, 2018			
	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								
Foreign bond futures								
Sold	21,714	—	21,812	(98)	6,834	—	6,744	89
Bought	—	—	—	—	—	—	—	—
Total				(98)				89

(iii) Hedge Accounting Applied

[Interest-related Transactions]

No ending balance as of March 31, 2018 and September 30, 2018.

[Currency-related Transactions]

(Millions of yen)

Method of hedge accounting	Hedging instruments	As of March 31, 2018				As of September 30, 2018			
		Hedged items	Notional amount/ contract value	Over 1 year	Fair value	Hedged items	Notional amount/ contract value	Over 1 year	Fair value
Fair value hedge method	Currency forward contracts	Foreign currency- denominated bonds	615,948	—	605,193	Foreign currency- denominated bonds	574,483	—	587,972
	Sold		525,595	—	516,082		453,533	—	464,534
	U.S. dollar		24,628	—	24,149		54,819	—	55,113
	Euro		43,126	—	42,701		48,272	—	50,170
	Canadian dollar		14,021	—	14,113		13,716	—	14,068
	British Pound		8,575	—	8,146		4,141	—	4,085
	Australian dollar		—	—	—		—	—	—
	Bought		—	—	—		—	—	—
Total									

Notes: 1. Forward exchange rates are used for exchange rates as of September 30, 2018.

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]

(Millions of yen)

Method of hedge accounting	Hedging instruments	As of March 31, 2018				As of September 30, 2018			
		Hedged items	Notional amount/ contract value	Over 1 year	Fair value	Hedged items	Notional amount/ contract value	Over 1 year	Fair value
Fair value hedge method	Stock forward contracts	Domestic stocks	1,153	1,153	2,235	Domestic stocks	—	—	—
	Sold		—	—	—		—	—	—
	Bought		—	—	—		—	—	—
Total									

[Bond-related Transactions]

No ending balance as of March 31, 2018 and September 30, 2018.

11. Status of the Company, Subsidiaries and Affiliates

(1) Selected Financial Data

(100 Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Ordinary revenues	4,482	4,107
Ordinary profits	493	433
Net surplus attributable to the parent company	382	340
Comprehensive income	988	690

	As of March 31, 2018	As of September 30, 2018
Total assets	84,888	85,701
Solvency margin ratio	1,127.4%	1,130.4%

(2) Scope of Consolidation and Application of Equity Method

Number of consolidated subsidiaries: 6

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, 2018	As of September 30, 2018
Assets:		
Cash and deposits	157,703	149,483
Call loans	176,000	132,000
Monetary claims bought	443	320
Money held in trust	31,502	31,971
Securities	7,203,196	7,367,439
Loans	597,285	570,599
Tangible fixed assets	218,895	217,669
Intangible fixed assets	38,056	35,979
Agency receivables	0	0
Reinsurance receivables	221	60
Other assets	67,341	66,313
Net defined benefit asset	107	143
Deferred tax assets	166	203
Allowance for possible loan losses	(2,049)	(1,998)
Total assets	8,488,872	8,570,186

	As of March 31, 2018	As of September 30, 2018
Liabilities:		
Policy reserves:	7,467,875	7,492,484
Reserve for outstanding claims	22,166	22,391
Policy reserve	7,391,773	7,393,759
Reserve for dividends to policyholders	53,395	75,859
Reserve for dividends to policyholders (subsidiary)	539	474
Agency payables	70	60
Reinsurance payables	75	84
Subordinated bonds	191,935	191,935
Other liabilities	59,509	72,219
Net defined benefit liabilities	34,019	32,840
Reserve for price fluctuation	105,521	107,429
Deferred tax liabilities	8,875	21,824
Deferred tax liabilities for land revaluation	14,241	14,232
Total liabilities	7,882,122	7,933,109
Net assets:		
Foundation funds	10,000	10,000
Accumulated foundation funds redeemed	106,000	106,000
Reserve for revaluation	112	112
Consolidated surplus	139,621	134,989
Total foundation funds, surplus and others	255,733	251,102
Net unrealized gains (losses) on available-for-sale securities, net of tax	344,585	379,208
Revaluation reserve for land, net of tax	4,173	4,149
Foreign currency translation adjustment	(377)	(467)
Accumulated remeasurements of defined benefit plans	(6,055)	(5,449)
Total accumulated other comprehensive income	342,326	377,440
Non-controlling interests	8,690	8,534
Total net assets	606,750	637,077
Total liabilities and net assets	8,488,872	8,570,186

(4) Consolidated Statements of Operations and Comprehensive Income

[Consolidated Statements of Operations]

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Ordinary revenues:		
Premium and other income	332,534	293,442
Investment income	110,304	112,354
[Interest, dividends and other income]	[83,120]	[86,296]
[Gains on money held in trust, net]	[1,084]	[498]
[Gains on trading securities, net]	[8,311]	[5,380]
[Gains on sales of securities]	[12,133]	[15,698]
[Gains on separate accounts, net]	[4,924]	[4,229]
Other ordinary revenues	5,374	4,982
[Reversal of reserve for outstanding claims]	[579]	[—]
Total ordinary revenues	448,213	410,780
Ordinary expenses:		
Claims and other payments	311,120	277,519
[Claims]	[88,937]	[69,881]
[Annuities]	[83,496]	[90,790]
[Benefits]	[57,119]	[59,782]
[Surrenders]	[65,606]	[43,121]
[Other payments]	[15,745]	[13,760]
Provision of policy reserve and others:	3,463	2,217
Provision of reserve for outstanding claims	—	225
Provision of policy reserve	3,457	1,985
Provision of interest portion of reserve for dividends to policyholders	5	6
Provision of interest portion of reserve for dividends to policyholders (subsidiary)	0	0
Investment expenses	25,283	25,959
[Interest expenses]	[2,190]	[1,948]
[Losses on sales of securities]	[1,800]	[5,916]
[Losses on valuation of securities]	[—]	[241]
[Losses on derivative instruments, net]	[10,143]	[8,754]
[Foreign exchange losses, net]	[6,299]	[3,940]
Operating expenses	48,935	48,860
Other ordinary expenses	10,051	12,920
Total ordinary expenses	398,854	367,477
Ordinary profits	49,359	43,303
Extraordinary gains:		
Gains on disposal of fixed assets	244	1
Total extraordinary gains	244	1
Extraordinary losses:		
Losses on disposal of fixed assets	58	20
Impairment losses	140	68
Provision of reserve for price fluctuation	1,829	1,908
Losses on advanced depreciation of real estate for tax purpose	3	—
Total extraordinary losses	2,031	1,997
Provision of reserve for dividends to policyholders (subsidiary)	174	187
Surplus before income taxes	47,397	41,119
Income taxes:		
Current	9,080	7,501
Deferred	(8)	(449)
Total income taxes	9,072	7,051
Net surplus for the period	38,324	34,068
Net surplus attributable to non-controlling interests	59	(7)
Net surplus attributable to the parent company	38,265	34,075

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

[Consolidated Statements of Comprehensive Income]

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net surplus	38,324	34,068
Other comprehensive income:	60,544	34,997
Net unrealized gains (losses) on available-for-sale securities, net of tax	59,735	34,481
Foreign currency translation adjustments	(8)	(90)
Remeasurements of defined benefit plan, net of tax	816	606
Comprehensive income:	98,868	69,066
Comprehensive income attributable to the parent company	98,840	69,213
Comprehensive income attributable to non-controlling interests	28	(147)

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities:		
Surplus before income taxes	47,397	41,119
Depreciation of real estate for rent and other assets	2,113	2,065
Depreciation	3,432	5,950
Impairment losses	140	68
Amortization of goodwill	381	18
Increase (decrease) in reserve for outstanding claims	(579)	225
Increase (decrease) in policy reserve	3,457	1,985
Provision of interest on reserve for dividends to policyholders	5	6
Provision of interest on reserve for dividends to policyholders (subsidiary)	0	0
Provision of reserve for dividends to policyholders (subsidiary)	174	187
Increase (decrease) in allowance for possible loan losses	67	(51)
Increase (decrease) in net defined benefit liabilities	(344)	(373)
Increase (decrease) in reserve for price fluctuation	1,829	1,908
Interest, dividends and other income	(83,120)	(86,296)
Losses (gains) on securities, net	(14,510)	(10,894)
Interest expenses	2,190	1,948
Foreign exchange losses (gains), net	6,299	3,940
Losses (gains) on tangible fixed assets, net	(220)	15
Others	4,650	(1,425)
Subtotal	(26,634)	(39,601)
Interest, dividends and other income received	88,155	89,650
Interest expenses paid	(2,157)	(1,934)
Dividends to policyholders paid	(16,276)	(16,172)
Dividends to policyholders paid (subsidiary)	(279)	(252)
Corporate income tax (paid) refunded	(6,861)	(4,915)
Net cash provided by (used in) operating activities [a]	35,946	26,773
Cash flows from investing activities:		
Net decrease (increase) in deposits	14	(29)
Proceeds from sales and redemption of monetary claims bought	253	123
Increase in money held in trust	(8,800)	(2,000)
Decrease in money held in trust	8,833	2,000
Payments for purchase of securities	(433,376)	(416,483)
Proceeds from sales and redemption of securities	342,383	350,901
Payments for additions to loans	(36,803)	(30,230)
Proceeds from collections of loans	64,914	53,028
Proceeds from and payments for settlements of derivatives, net	4,081	(26,910)
Others	(2,350)	(3,045)
Subtotal [b]	(60,848)	(72,644)
[a + b]	(24,901)	(45,870)
Payments for purchase of tangible fixed assets	(1,956)	(2,489)
Proceeds from sales of tangible fixed assets	411	61
Payments for purchase of intangible fixed assets	(4,206)	(2,273)
Net cash provided by (used in) investing activities	(66,598)	(77,346)
Cash flows from financing activities:		
Proceeds from issuance of subordinated bonds	30,000	–
Payment of interest on foundation funds	(100)	(100)
Dividends paid to non-controlling interests	(13)	(7)
Payments for lease obligations	(140)	(1,435)
Net cash provided by (used in) financing activities	29,745	(1,544)
Effect of exchange rate changes on cash and cash equivalents	(609)	(83)
Net increase (decrease) in cash and cash equivalents	(1,515)	(52,200)
Cash and cash equivalents at the beginning of the period	328,236	332,599
Cash and cash equivalents at the end of the period	326,720	280,398

(6) Consolidated Statements of Changes in Net Assets

[For the six months ended September 30, 2017]

(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 the current period	10,000	106,000	112	133,217	249,329
Changes in the current period					
Additions to reserve for dividends to policyholders				(34,592)	(34,592)
Payment of interest on foundation funds				(100)	(100)
Net surplus attributable to the parent company for the current period				38,265	38,265
Reversal of revaluation reserve for land, net of tax				(85)	(85)
Net changes, excluding foundation funds, surplus and others					
Total changes in the current period	—	—	—	3,487	3,487
Balance at the end of the current period	10,000	106,000	112	136,705	252,817

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Net unrealized gains (losses) on available-for-sale securities, net of tax	Revaluation reserve for land, net of tax	Foreign currency translation adjustments	Accumulated remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of the current period	342,470	4,107	(433)	(9,240)	336,904	8,603	594,837
Changes in the current period							
Additions to reserve for dividends to policyholders							(34,592)
Payment of interest on foundation funds							(100)
Net surplus attributable to the parent company for the current period							38,265
Reversal of revaluation reserve for land, net of tax							(85)
Net changes, excluding foundation funds, surplus and others	59,765	85	(8)	816	60,660	14	60,675
Total changes in the current period	59,765	85	(8)	816	60,660	14	64,162
Balance at the end of the current period	402,236	4,193	(441)	(8,423)	397,564	8,618	659,000

[For the six months ended September 30, 2018]

(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 the current period	10,000	106,000	112	139,621	255,733
Changes in the current period					
Additions to reserve for dividends to policyholders				(38,630)	(38,630)
Payment of interest on foundation funds				(100)	(100)
Net surplus attributable to the parent company for the current period				34,075	34,075
Reversal of revaluation reserve for land, net of tax				24	24
Net changes, excluding foundation funds, surplus and others					
Total changes in the current period	–	–	–	(4,631)	(4,631)
Balance at the end of the current period	10,000	106,000	112	134,989	251,102

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Net unrealized gains (losses) on available-for-sale securities, net of tax	Revaluation reserve for land, net of tax	Foreign currency translation adjustments	Accumulated remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of the current period	344,585	4,173	(377)	(6,055)	342,326	8,690	606,750
Changes in the current period							
Additions to reserve for dividends to policyholders							(38,630)
Payment of interest on foundation funds							(100)
Net surplus attributable to the parent company for the current period							34,075
Reversal of revaluation reserve for land, net of tax							24
Net changes, excluding foundation funds, surplus and others	34,622	(24)	(90)	606	35,113	(155)	34,958
Total changes in the current period	34,622	(24)	(90)	606	35,113	(155)	30,327
Balance at the end of the current period	379,208	4,149	(467)	(5,449)	377,440	8,534	637,077

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 Fukuoku Mutual Life Insurance Company (the “Company”) and its consolidated subsidiaries in accordance with the provisions set forth in the Insurance Business Act 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 rounded down. As a result, the totals do not add up.

2. Principles of Consolidation

(1) Scope of Consolidation

Consolidated subsidiaries as of September 30, 2018 are listed below:

Fukuoku Capital Management, Inc.

Fukokushinrai Life Insurance Co., Ltd.

Fukuoku Information Systems Co., Ltd.

Fukuoku Life International (U.K.) Ltd.

Fukuoku Life International (America) Inc.

Fukuoku Life Investments Singapore Pte. Ltd.

Major unconsolidated subsidiary is Fukuoku Business Service Company Limited.

Five 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 are sufficiently insignificant to reasonable judgement on their impact on the financial position and results of operation of the Company's group.

(2) Application of Equity method

Unconsolidated subsidiaries (such as Fukuoku Business Service Company Limited, etc.) are insignificant in their impact on net surplus attributable to the parent company and consolidated surplus, and also immaterial as a whole, therefore, application of equity method is not applied.

There are no affiliates for the six months ended September 30, 2018.

(3) Interim closing dates of consolidated subsidiaries

Among the subsidiaries to be consolidated, fiscal year-end 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 consolidated closing date, necessary adjustments for consolidation are made.

II. Notes to the Consolidated Balance Sheets

1. (1) 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 the Insurance Industry” (Industry Audit Committee Report No.21 issued by the Japanese Institute of Certified Public Accountants on November 16, 2000).
- iv) Investments in unconsolidated subsidiaries and affiliates which are not accounted for under the equity method are stated at cost, cost being determined by the moving average method.
- v) Available-for-sale securities with fair market value are stated at fair market value based on the market prices at the end of the current period. 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 market value 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) Derivative instruments are stated at fair market value.

(3) The Company revalued the land used in the operations based on the Act for Revaluation of Land (Act 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 land revaluation.

- Date of revaluation: March 31, 2002
- Method of revaluation as prescribed for in Article 3 Paragraph 3 of the said Act:
Calculation is based on the appraisal value for property tax set forth in Article 2 item 3 of the Enforcement Ordinance of the Act 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 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 before March 31, 2016) 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 with no residual value.

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

(5) Assets and liabilities denominated in foreign currencies, except for investments in unconsolidated subsidiaries and affiliates, are translated into Japanese yen at the effective exchange rate prevailing at the balance sheet date. Investments in unconsolidated subsidiaries and affiliates are translated into Japanese yen at the exchange rate on the date of acquisition.

(6) Allowance for possible loan losses for the Company is provided in accordance with the 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 is 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 are written-off directly from the borrowers’ balances as the estimated uncollectible amounts. The amount written-off as of September 30, 2018 was ¥1 million.

(7) Net defined benefit liability, which is provided for employees’ retirement benefits, is calculated by deducting the amount of pension assets from the amount of retirement benefit obligations incurred as of the balance sheet date based on the projected retirement benefits as of the current fiscal year end.

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 gains and losses..... | 10 years |
| • Amortization period of prior service cost..... | 10 years |

(8) Reserve for price fluctuation is calculated in accordance with Article 115 of the Insurance Business Act.

(9) 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.

(10) Hedge accounting is based on "Accounting Standards for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008). The Company applies a fair value hedge accounting as a hedge against the risk of foreign exchange fluctuation in relation to bonds denominated in foreign currencies and against the risk of price fluctuation in relation to domestic stocks, and a designated hedge accounting ("Furiate shori") for foreign currency swaps as a hedge against the risk of foreign exchange fluctuation in relation to bonds denominated in foreign currencies issued by the Company.

For assessing 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 mainly applied.

(11) 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 Act, 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.

(12) Policy reserve is based on Article 116 of the Insurance Business Act, and the premium reserve is calculated by the following method:

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

Based on the provision of Article 69, paragraph 5, of the Enforcement Regulation of the Insurance Business Act, the Company includes additional funded policy reserves as follows.

Among individual annuity insurance policies with an assumed interest rate of 5.00% or higher, for policies that have begun paying annuities (excluding wife's annuity insurance additional rider), the Company reduced the assumed interest rate to 1.00% and funded additional policy reserves. As of September 30, 2018, the balance of these policy reserves was ¥73,347 million.

The Company also funded additional policy reserves for certain individual annuity insurance policies, whole life insurance policies that include distribution of surplus every five years and highly advanced medical riders. As of September 30, 2018, the balance of these policy reserves was ¥5,628 million.

(13) Intangible fixed assets are amortized as follows:

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

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

2. The carrying amounts, fair values and their related differences of major financial assets and liabilities in the general account as of September 30, 2018 were as follows:

	(Millions of yen)		
	Carrying amount	Fair value	Difference
Cash and deposits:			
Cash and deposits not treated as securities.....	¥ 147,760	¥ 147,760	¥ –
Total cash and deposits.....	147,760	147,760	–
Call loans	132,000	132,000	–
Monetary claims bought:			
Claims treated as loans.....	320	338	17
Total monetary claims bought.....	320	338	17
Money held in trust:			
Trading securities.....	30,971	30,971	–
Total money held in trust.....	30,971	30,971	–
Securities:			
Trading securities.....	120,741	120,741	–
Held-to-maturity debt securities.....	1,241,076	1,453,106	212,030
Policy-reserve-matching bonds.....	1,980,133	2,189,402	209,269
Available-for-sale securities.....	3,912,559	3,912,559	–
Total securities.....	7,254,511	7,675,810	421,299
Loans:			
Policy loans.....	60,437	60,436	(0)
Ordinary loans.....	510,162	529,042	18,879
Total loans.....	570,599	589,478	18,879
Assets total.....	8,136,162	8,576,359	440,197
Subordinated bonds ¹	191,935	199,104	7,169
Liabilities total.....	191,935	199,104	7,169
Derivative instruments ² :			
Hedge accounting not applied.....	(4,097)	(4,097)	–
Hedge accounting applied.....	(13,488)	(13,488)	–
Total derivative instruments.....	¥ (17,586)	¥ (17,586)	¥ –

Notes: 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, March 10, 2008)) 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, March 10, 2008) and securities managed as trust assets in money held in trust:

The fair values of marketable securities are measured at the quoted market prices at the balance sheet date. The fair values of other securities without the quoted market prices are based on the prices reasonably calculated such as the prices offered by the information vendors or counterparty financial institutions.

Investments in unconsolidated subsidiaries and affiliates, unlisted stocks and investments in partnerships whereby partnership assets consist of unlisted stocks whose fair values are deemed extremely difficult to obtain, are excluded from above securities. The carrying amounts of investments in unconsolidated subsidiaries and affiliates, unlisted stocks and investments in partnerships were ¥454 million, ¥5,696 million, and ¥23,492 million as of September 30, 2018, 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 deadlines have not been set up due to the characteristics that the loans are 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 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 possible loan losses from the book values before direct write-offs.

(4) Subordinated bonds:

Subordinated bonds issued by the Company are stated at fair market values.

(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 forward contracts, options and swaps traded over the counter are based on the quoted prices offered by counterparty financial institutions.
- iii) The fair values of foreign currency forward contracts are determined based on the spot exchange rate and forward contract rate.

3. 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.

4. The amount of securities lent under lending agreements was ¥259,698 million as of September 30, 2018.

5. The total amounts of credits to bankrupt borrowers, delinquent loans, delinquent loans past 3 months or more and restructured loans, which were included in loans, was ¥1,053 million as of September 30, 2018;

- i) The balance of credits to bankrupt borrowers was ¥175 million as of September 30, 2018.
- ii) The balance of delinquent loans was ¥877 million as of September 30, 2018.
- iii) There was no balance of delinquent loans past 3 months or more and restructured loans as of September 30, 2018.

The direct write-offs related to loans decreased credits to bankrupt borrowers described above by ¥1 million as of September 30, 2018.

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 Act. Moreover, accrued 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 which accrued 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 payments or repayments 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 exemption, rescheduling of due date for repayments of principal or interest payment, waiver of claim or other terms, have been negotiated for the purpose of assisting and supporting the borrowers in the restructuring of their business. This category excludes loans classified as credits to bankrupt borrowers, delinquent loans and delinquent loans past 3 months or more.

6. Accumulated depreciation of tangible fixed assets were ¥164,846 million as of September 30, 2018.

7. Total assets in separate accounts provided for in Article 118 of the Insurance Business Act were ¥85,782 million as of September 30, 2018. The amounts of separate account liabilities were the same as separate account assets.

8. Changes in reserve for dividends to policyholders for the six months ended September 30, 2018 were as follows:

	(Millions of yen)
Balance at the beginning of the current period.....	¥ 53,395
Transfer from surplus in the previous fiscal year.....	38,630
Dividend payments to policyholders during the current period.....	(16,172)
Increase in interest.....	6
Balance at the end of the current period.....	<u>¥ 75,859</u>

9. Changes in reserve for dividends to policyholders (Fukokushinrai Life Insurance Co., Ltd.) for the six months ended September 30, 2018 were as follows:

	(Millions of yen)
Balance at the beginning of the current period.....	¥ 539
Dividend payments to policyholders during the current period.....	(252)
Increase in interest.....	0
Provision of reserve for dividends to policyholders.....	187
Balance at the end of the current period.....	<u>¥ 474</u>

10. The amount of stocks of unconsolidated subsidiaries was ¥454 million as of September 30, 2018.
11. Assets pledged as collateral as of September 30, 2018 were ¥21,003 million of securities and ¥759 million of bank deposits. Secured debts as of September 30, 2018, were ¥5,287 million.
12. Reserve for outstanding claims for the reinsurance contracts provided in accordance with Article 71 Paragraph 1 of the Enforcement Regulation of the Insurance Business Act (hereinafter called “reserve for outstanding claims for ceded reinsurance”) was ¥40 million as of September 30, 2018.
- Policy reserve for the reinsurance contracts provided in accordance with Article 71 Paragraph 1 of the Enforcement Regulation of the Insurance Business Act (hereinafter called “policy reserve for ceded reinsurance”) was ¥50 million as of September 30, 2018.
13. There were unused commitment line agreements under which the Company is the lender of ¥4,363 million as of September 30, 2018.
14. Repayments of subordinated bonds are subordinated to other obligations.
15. The future contribution to the Life Insurance Policyholders Protection Corporation of Japan under Article 259 of the Insurance Business Act was estimated at ¥10,530 million as of September 30, 2018.
- The contribution is recognized as operating expenses when contributed.

III. Notes to the Consolidated Statements of Operations

1. For the six months ended September 30, 2018, in calculating the provision of reserve for outstanding claims, a provision of reserves for outstanding claims reinsured of ¥29 million was deducted. In calculating the provision of policy reserves, a reversal of reserves for policy reserves reinsured of ¥2 million was added.

IV. Notes to the Consolidated Statements of Cash Flows

1. Cash and cash equivalents as of September 30, 2018 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 in the consolidated statements of cash flows to the consolidated balance sheet accounts as of September 30, 2018 were as follows:

	(Millions of yen)
Cash and deposits.....	¥ 149,483
Call loans.....	132,000
Monetary claims bought.....	320
Time deposits maturing over 3 months of the date of acquisition.....	(100)
Foreign currency deposits maturing over 3 months of the date of acquisition.....	(984)
Monetary claims bought maturing over 3 months of the date of acquisition.....	(320)
Cash and cash equivalents.....	<u>¥ 280,398</u>

(7) Status of Insurance Claims Paying Ability of the Company and Insurance Subsidiaries

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Total solvency margin (A)	1,556,422	1,630,790
Foundation funds and surplus	223,166	237,928
Reserve for price fluctuation	105,521	107,429
Contingency reserve	189,211	189,707
Catastrophe loss reserve	—	—
General allowance for possible loan losses	1,502	1,458
(Net unrealized gains (losses) on securities (before tax) and deferred hedge gains (losses) (before tax)) × 90%	429,908	472,938
Net unrealized gains on real estate × 85%	122,692	125,844
Sum of unrecognized actuarial differences and unrecognized prior service cost	(8,410)	(7,568)
Excess amount of policy reserve based on full-time Zillmer method	255,285	259,321
Qualifying subordinated debt	191,935	191,935
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	45,609	51,795
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)	276,097	288,513
Insurance risk R_1	23,756	23,614
General insurance risk R_5	—	—
Catastrophe risk R_6	—	—
3rd sector insurance risk R_8	9,798	9,835
Small amount and short-term insurance risk R_9	—	—
Assumed investment yield risk R_2	32,542	32,219
Minimum guarantee risk R_7	—	—
Investment risk R_3	235,431	248,031
Business risk R_4	6,030	6,274
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	1,127.4%	1,130.4%

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

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