
Financial Results for the Six Months Ended September 30, 2019

Nippon Life Insurance Company (the “Company,” President: Hiroshi Shimizu) announces financial results for the six months ended September 30, 2019.

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Attached: Supplementary Materials for the Six Months Ended September 30, 2019

1. Business Highlights

(1) Annualized Premium

- Policies in Force

- (100 Million Yen, %)

	As of September 30, 2019		As of March 31, 2019
		As a percentage of March 31, 2019	
Individual insurance	27,153	99.2	27,383
Individual annuities	10,299	102.0	10,096
Total	37,453	99.9	37,479
Medical coverages, living benefits, and others	6,488	101.6	6,383

- New Policies

- (100 Million Yen, %)

	Six months ended September 30, 2019		Six months ended September 30, 2018
		As a percentage of six months ended September 30, 2018	
Individual insurance	765	79.9	957
Individual annuities	387	135.2	286
Total	1,152	92.7	1,243
Medical coverages, living benefits, and others	294	124.8	235

Notes: 1. The amount of annualized premium is calculated by multiplying a single premium payment by a factor according to the premium payment method (for single premium policies, the annualized amount is the total premium divided by the insured period).

2. The amount of medical coverages, living benefits, and others represents annualized premium related to medical benefits (hospitalization benefits and surgical benefits), living benefits (specified illness benefits and nursing care benefits), and waiver of premium benefits (excluding disability benefits alone, but including specified illness and nursing care benefits).

3. Annualized new policy premium includes net increases due to conversions.

(2) Amount of Policies in Force and New Policies

• Policies in Force

	As of September 30, 2019				As of March 31, 2019	
	Number of policies		Amount of policies		Number of policies (thousands)	Amount of policies (100 million yen)
	(thousands)	As a percentage of March 31, 2019 (%)	(100 million yen)	As a percentage of March 31, 2019 (%)		
Individual insurance	28,521	102.2	1,336,330	98.7	27,907	1,353,326
Individual annuities	4,010	101.2	243,731	101.8	3,964	239,372
Group insurance	—	—	980,462	101.0	—	971,022
Group annuities	—	—	133,397	101.2	—	131,770

Notes: 1. The amount of individual annuities is the total of (a) annuity resources at the start of annuity payments for policies prior to the start of annuity payments and (b) policy reserves for policies after the start of annuity payments.
2. The amount of group annuities is the amount of the policy reserves.

• New Policies

	Six months ended September 30, 2019						Six months ended September 30, 2018			
	Number of policies		Amount of policies				Number of policies (thousands)	Amount of policies		
	(thousands)	As a percentage of six months ended September 30, 2018 (%)	(100 million yen)	As a percentage of six months ended September 30, 2018 (%)	New policies	Net increase by conversion		(100 million yen)	New policies	Net increase (decrease) by conversion
Individual insurance	2,361	98.3	29,659	90.3	29,277	382	2,402	32,853	32,275	577
Individual annuities	121	115.0	8,849	134.0	8,741	108	105	6,606	6,578	27
Group insurance	—	—	1,232	24.4	1,232		—	5,048	5,048	
Group annuities	—	—	2	71.3	2		—	3	3	

Notes: 1. New policies include enrollment using the coverage enhancement system, and conversion indicates enrollment using the coverage revision system and partial coverage revision system.
2. The number of policies includes policies that were converted into new policies.
3. The amount of new policies and net increase in policies by conversion for individual annuities represents annuity resources at the start of annuity payments.
4. The amount of new policies for group annuities represents the first-time premium.

2. Overview of General Accounts Asset Management for the Six Months Ended September 30, 2019

(1) Investment Environment

In the six months ended September 30, 2019, the Japanese economy remained on a gradual growth path, mainly underpinned by firm domestic demand. Meanwhile, there were some signs of weakness in foreign demand due to the factors, such as trade friction between the United States (U.S.) and China.

- The Nikkei Stock Average started the fiscal year at ¥21,205. Subsequently, the index declined to ¥20,261 based on concerns about a possible economic slowdown, against the backdrop of factors, such as the U.S.-China trade friction. Supported by an accommodative monetary policy environment and other conditions; however, the index finished at ¥21,755 on September 30, 2019.
- The yield rate on 10-year government bonds started the fiscal year at minus 0.10%. Thereafter, interest rates declined around the world as the central banks of various countries strengthened their accommodative monetary policy stance based on concerns about a possible economic slowdown, against the backdrop of factors, such as the U.S.-China trade friction. In this environment, the yield rate declined to minus 0.23% at the end of September 2019.
- The yen-U.S. dollar exchange rate started the fiscal year at the ¥110 level. Thereafter, the Federal Reserve System, the central bank of the U.S., decided to shift course and lower the policy interest rate. This decision had the effect of narrowing the spread between Japanese and the U.S. interest rates. As a result, the yen appreciated to ¥107.92 against the U.S. dollar at the end of September 2019.

The yen-euro exchange rate started the fiscal year at the ¥124 level. Subsequently, amid increased uncertainty about the withdrawal of the UK from the European Union, and rising concerns about a slowdown in the European economy, the European Central Bank reduced its policy interest rate. As a result, the yen appreciated to ¥118.02 against the euro at the end of September 2019.

(2) Investment Policy

Based on the Company's Asset Liability Management philosophy of comprehensively controlling assets and liabilities, the Company has built a portfolio geared towards medium- to long-term investment and formulated an investment plan considering the outlook of the investment environment.

Specifically, to provide the stable rate of return that the Company promised to policyholders in the long term, the Company has positioned yen-denominated assets that can be expected to provide stable income, such as bonds and loans, as the Company's core assets. Also, while focusing on its profitability and dividend situation from a medium- to long-term viewpoint and taking into account business stability, the Company has invested in stocks and foreign securities within the scope of acceptable risk. From the perspective of diversifying profit-making opportunities, while continuously paying enough attention to asset allocation and

risks, the Company is steadily pursuing investments that can yield surplus income, such as corporate bonds and securitized products, and investment areas, such as private equities and hedge funds.

(3) Status of Investment Income/Expense

Investment income was ¥806.0 billion, a decrease from ¥859.2 billion in the six months ended September 30, 2018. The main factor behind this decrease was a decline in gain on sales of domestic stocks.

Investment expenses amounted to ¥169.0 billion, a decrease from ¥176.5 billion in the six months ended September 30, 2018. The main factors behind this decrease were decline in loss on sale of foreign stocks and loss on derivative financial instruments, net.

As a result, the Company's net investment income decreased by ¥45.7 billion, compared with the same period of the previous fiscal year, to ¥636.9 billion.

3. Investment Management Performance (General Account)

(1) Asset Composition

(100 Million Yen, %)

	As of September 30, 2019		As of March 31, 2019	
	Amount	%	Amount	%
Cash, deposits, and call loans	11,330	1.6	10,793	1.6
Receivables under resale agreements	—	—	—	—
Receivables under securities borrowing transactions	—	—	—	—
Monetary receivables purchased	2,134	0.3	2,440	0.4
Proprietary trading securities	—	—	—	—
Assets held in trust	107	0.0	131	0.0
Investments in securities:	570,423	82.8	555,143	83.1
Domestic bonds	237,208	34.4	235,275	35.2
Domestic stocks	88,857	12.9	89,554	13.4
Foreign securities:	209,909	30.5	198,595	29.7
Foreign bonds	145,290	21.1	138,710	20.8
Foreign stocks and other securities	64,619	9.4	59,884	9.0
Other securities	34,448	5.0	31,717	4.7
Loans:	74,555	10.8	74,387	11.1
Policy loans	5,669	0.8	5,827	0.9
Industrial and consumer loans	68,885	10.0	68,559	10.3
Real estate:	16,490	2.4	16,496	2.5
Investment properties	10,541	1.5	10,484	1.6
Deferred tax assets	—	—	—	—
Other assets	13,840	2.0	8,919	1.3
Allowance for doubtful accounts	(31)	(0.0)	(44)	(0.0)
Total assets (general account):	688,850	100.0	668,267	100.0
Foreign currency-denominated assets	200,337	29.1	187,195	28.0

Notes: 1. The assets above include cash received as collateral under securities lending transactions. Cash collateral received through these transactions is also recorded in liabilities as cash received as collateral under securities lending transactions (¥10.8 billion and ¥32.6 billion as of September 30, 2019, and March 31, 2019, respectively).

2. Real estate amount is the sum of land, buildings, and construction in progress.

(2) Increases/Decreases in Assets

(100 Million Yen)

	Six months ended September 30, 2019	Six months ended September 30, 2018
Cash, deposits, and call loans	536	(366)
Receivables under resale agreements	—	—
Receivables under securities borrowing transactions	—	—
Monetary receivables purchased	(306)	(207)
Proprietary trading securities	—	—
Assets held in trust	(23)	(56)
Investments in securities:	15,280	16,700
Domestic bonds	1,932	6,442
Domestic stocks	(697)	2,591
Foreign securities:	11,314	5,850
Foreign bonds	6,579	1,435
Foreign stocks and other securities	4,734	4,415
Other securities	2,730	1,815
Loans:	168	144
Policy loans	(158)	(175)
Industrial and consumer loans	326	320
Real estate:	(5)	45
Investment properties	56	(23)
Deferred tax assets	—	—
Other assets	4,921	(1,491)
Allowance for doubtful accounts	12	1
Total assets (general account):	20,583	14,770
Foreign currency-denominated assets	13,141	7,090

Notes: 1. Increases/decreases in cash received as collateral under securities lending transactions are as follows: ¥(21.7) billion and ¥553.4 billion for the six months ended September 30, 2019 and 2018, respectively.
2. Real estate amount is the sum of land, buildings, and construction in progress.

(3) Investment Income

(100 Million Yen)

	Six months ended September 30, 2019	Six months ended September 30, 2018
Interest, dividends, and other income:	7,172	7,237
Interest on deposits and savings	31	17
Interest on securities and dividends	6,021	6,121
Interest on loans	616	611
Real estate rental income	440	403
Other income	61	83
Gain on proprietary trading securities	—	—
Gain from assets held in trust, net	—	—
Gain on trading securities	—	—
Gain on sales of securities:	865	1,234
Gain on sales of domestic bonds, including national government bonds	317	141
Gain on sales of domestic stocks and other securities	74	743
Gain on sales of foreign securities	467	350
Other gains	5	—
Gain on redemptions of securities	15	8
Gain on derivative financial instruments, net	—	—
Foreign exchange gains, net	—	109
Reversal of allowance for doubtful accounts	2	—
Reversal of allowance for investment loss	—	—
Other investment income	4	2
Total	8,060	8,592

(4) Investment Expenses

(100 Million Yen)

	Six months ended September 30, 2019	Six months ended September 30, 2018
Interest expenses	161	143
Loss on proprietary trading securities	—	—
Loss from assets held in trust, net	32	93
Loss on trading securities	—	—
Loss on sales of securities:	151	661
Loss on sales of domestic bonds, including national government bonds	0	7
Loss on sales of domestic stocks and other securities	23	32
Loss on sales of foreign securities	127	621
Other losses	0	0
Loss on valuation of securities:	496	43
Loss on valuation of domestic bonds, including national government bonds	—	—
Loss on valuation of domestic stocks and other securities	217	4
Loss on valuation of foreign securities	279	39
Other losses	—	—
Loss on redemptions of securities	37	48
Loss on derivative financial instruments, net	341	530
Foreign exchange losses, net	224	—
Provision for allowance for doubtful accounts	—	17
Provision for allowance for investment loss	25	25
Write-offs of loans	—	—
Depreciation of real estate for rental use and other assets	86	77
Other investment expenses	132	123
Total	1,690	1,765

(5) Net Valuation Gains/Losses on Trading Securities

(100 Million Yen)

	As of September 30, 2019		As of March 31, 2019	
	Balance sheet amount	Valuation gains (losses) included in profit and loss	Balance sheet amount	Valuation gains (losses) included in profit and loss
Trading securities	93	18	110	(15)

- Notes: 1. The balance sheet amounts of assets held in trust included in trading securities and valuation gains (losses) included in profit and loss include net gains/losses on derivative transactions.
2. Figures above do not include cash, deposits, and call loans held within assets held in trust that are included in trading securities.

(6) Fair Value Information of Securities (With Fair Value, Other Than Trading Securities)

(100 Million Yen)

		As of September 30, 2019					As of March 31, 2019				
		Book value	Fair value	Net gains/losses	Gains	Losses	Book value	Fair value	Net gains/losses	Gains	Losses
	Policy-reserve-matching bonds*	208,396	252,249	43,853	43,919	(66)	206,963	247,738	40,774	40,777	(2)
	Held-to-maturity debt securities	—	—	—	—	—	—	—	—	—	—
	Investments in subsidiaries and affiliates	1,328	2,232	904	904	—	640	1,368	728	728	—
	Available-for-sale securities:	275,032	349,236	74,203	77,559	(3,355)	269,616	337,085	67,469	70,368	(2,898)
	Domestic bonds	29,260	31,904	2,643	2,660	(17)	28,953	31,307	2,353	2,364	(10)
	Domestic stocks	42,761	83,509	40,747	43,456	(2,709)	42,682	84,459	41,777	43,862	(2,084)
	Foreign securities:	170,159	197,660	27,501	28,119	(617)	166,482	187,236	20,753	21,533	(780)
	Foreign bonds	124,334	144,116	19,782	20,115	(332)	123,905	137,743	13,837	14,350	(512)
	Foreign stocks and other securities	45,825	53,544	7,719	8,004	(284)	42,576	49,492	6,916	7,183	(267)
	Other securities	30,245	33,549	3,304	3,316	(11)	28,270	30,854	2,584	2,606	(22)
	Monetary receivables purchased	277	284	6	6	(0)	434	434	0	1	(0)
	Negotiable certificates of deposit	2,328	2,327	(0)	0	(0)	2,793	2,792	(0)	0	(0)
Total		484,757	603,718	118,961	122,383	(3,422)	477,219	586,192	108,972	111,874	(2,901)
	Domestic bonds	234,564	280,903	46,339	46,417	(77)	232,921	275,912	42,990	43,001	(10)
	Domestic stocks	42,761	83,509	40,747	43,456	(2,709)	42,682	84,459	41,777	43,862	(2,084)
	Foreign securities:	172,721	201,177	28,456	29,079	(623)	168,103	189,618	21,515	22,297	(782)
	Foreign bonds	125,577	145,411	19,833	20,172	(338)	124,895	138,767	13,871	14,386	(514)
	Foreign stocks and other securities	47,143	55,766	8,622	8,907	(284)	43,207	50,851	7,643	7,911	(267)
	Other securities	30,254	33,559	3,305	3,317	(11)	28,279	30,864	2,585	2,607	(22)
	Monetary receivables purchased	2,127	2,240	112	113	(0)	2,439	2,544	104	106	(1)
	Negotiable certificates of deposit	2,328	2,327	(0)	0	(0)	2,793	2,792	(0)	0	(0)

Note: The table above includes securities that are deemed appropriate as securities under the Financial Instruments and Exchange Act in Japan.

* Policy-reserve-matching bonds are measured at amortized cost using the moving average method. The cost of securities is amortized on a straight-line basis. Securities that are held for the purpose of matching the duration of outstanding liabilities within the subgroups (classified by insurance type, maturity period, and investment policy) of insurance products, such as individual insurance and annuities, workers' asset-formation insurance and annuities, and group insurance and annuities are classified as policy-reserve-matching bonds in accordance with the Industry Audit Committee Report No. 21, "Temporary Treatment of Accounting and Auditing Concerning Policy-Reserve-Matching Bonds in the Insurance Industry," issued by the Japanese Institute of Certified Public Accountants (JICPA).

[Book Value of Securities Whose Fair Value is Extremely Difficult to be Determined]

(100 Million Yen)

	As of September 30, 2019	As of March 31, 2019
Policy-reserve-matching bonds	—	—
Held-to-maturity debt securities:	—	—
Unlisted foreign bonds	—	—
Others	—	—
Investments in subsidiaries and affiliates	10,529	10,251
Available-for-sale securities:	5,525	5,398
Unlisted domestic stocks (excluding over-the-counter stocks)	571	532
Unlisted foreign stocks (excluding over-the-counter stocks)	750	1,200
Unlisted foreign bonds	—	—
Others	4,204	3,665
Total	16,054	15,650

Note: Of securities whose fair value is extremely difficult to be determined, the net gains (losses) on currency exchange valuation of assets denominated in foreign currencies were as follows:
¥(32.1) billion and ¥3.6 billion as of September 30, 2019, and March 31, 2019, respectively.

(7) Fair Value Information of Assets Held in Trust

(100 Million Yen)

	As of September 30, 2019					As of March 31, 2019				
	Balance sheet amount	Fair value	Net gains/losses			Balance sheet amount	Fair value	Net gains/losses		
			Gains	Losses				Gains	Losses	
Assets held in trust	107	107	—	—	—	131	131	—	—	—

Notes: 1. Fair value is based on a price reasonably calculated by the trustee of the assets held in trust.
2. The balance sheet amounts include net gains/losses on derivative transactions within assets held in trust.

- Assets Held in Trust for Trading Purposes

(100 Million Yen)

	As of September 30, 2019		As of March 31, 2019	
	Balance sheet amount	Valuation gains (losses) included in profit and loss	Balance sheet amount	Valuation gains (losses) included in profit and loss
Assets held in trust for trading purposes	107	18	131	(15)

Note: The balance sheet amounts and valuation gains (losses) recorded in profit and loss include net gains/losses on derivative transactions.

- Assets Held in Trust Classified as Policy-Reserve-Matching, Held-to-Maturity, and Available-for-Sale
There were no ending balances as of September 30, 2019, and March 31, 2019.

4. Nonconsolidated Balance Sheets

(Million Yen)

	As of September 30, 2019	As of March 31, 2019
Assets:		
Cash and deposits	1,070,209	977,580
Call loans	462,992	429,912
Monetary receivables purchased	213,431	244,043
Assets held in trust	10,798	13,157
Investments in securities:	57,840,760	56,383,725
National government bonds	21,213,769	21,140,721
Local government bonds	747,783	790,372
Corporate bonds	2,092,714	1,969,571
Domestic stocks	9,021,534	9,110,036
Foreign securities	21,241,433	20,121,556
Loans:	7,455,541	7,438,736
Policy loans	566,972	582,774
Industrial and consumer loans	6,888,569	6,855,961
Tangible fixed assets	1,676,032	1,680,589
Intangible fixed assets	191,254	192,502
Reinsurance receivables	178	587
Other assets	1,188,411	688,042
Customers' liability for acceptances and guarantees	74,656	69,893
Allowance for doubtful accounts	(3,198)	(4,463)
Allowance for investment loss	(32,150)	(29,597)
Total assets	70,148,916	68,084,710
Liabilities:		
Policy reserves and other reserves:	57,079,335	56,347,264
Reserve for outstanding claims	206,698	238,428
Policy reserves	55,749,343	55,088,621
Reserve for dividends to policyholders	1,123,292	1,020,213
Reinsurance payables	189	624
Corporate bonds	1,028,889	1,028,889
Other liabilities:	2,441,362	1,694,384
Income taxes payable	43,150	40,348
Lease obligations	8,272	9,341
Asset retirement obligations	4,857	4,850
Other liabilities	2,385,081	1,639,844
Accrued bonuses for directors, and audit and supervisory board members	38	106
Accrued retirement benefits	371,393	365,897
Accrued retirement benefits for directors, and audit and supervisory board members	4,044	4,225
Reserve for program points	9,654	9,203
Reserve for price fluctuations in investments in securities	1,435,604	1,381,653
Deferred tax liabilities	631,884	496,857
Deferred tax liabilities for land revaluation	103,497	103,748
Acceptances and guarantees	74,656	69,893
Total liabilities	63,180,550	61,502,747

4. Nonconsolidated Balance Sheets (Continued)

(Million Yen)

	As of September 30, 2019	As of March 31, 2019
Net assets:		
Foundation funds	100,000	100,000
Reserve for redemption of foundation funds	1,300,000	1,250,000
Reserve for revaluation	651	651
Surplus:	274,590	434,526
Legal reserve for deficiencies	18,394	17,578
Other surplus reserves:	256,196	416,948
Equalized reserve for dividends to policyholders	—	10,000
Contingency funds	71,917	71,917
Reserve for social public welfare assistance	351	351
Reserve for reduction entry of real estate	63,729	49,836
Reserve for reduction entry of real estate to be purchased	14,790	28,603
Other reserves	170	170
Unappropriated surplus	105,236	256,070
Total foundation funds and others	1,675,241	1,785,178
Net unrealized gains on available-for-sale securities	5,349,840	4,882,692
Deferred losses on derivatives under hedge accounting	(2,638)	(31,216)
Land revaluation losses	(54,076)	(54,690)
Total valuations, conversions, and others	5,293,125	4,796,785
Total net assets	6,968,366	6,581,963
Total liabilities and net assets	70,148,916	68,084,710

Note: Unappropriated surplus on the condensed balance sheet as of March 31, 2019, represents the current-year unappropriated surplus.

Notes to the Nonconsolidated Balance Sheet as of September 30, 2019

1. (1) Securities (including items, such as deposits and monetary receivables purchased which are treated as securities based on the “Accounting Standard for Financial Instruments” (ASBJ* Statement No. 10) and securities within assets held in trust) are valued as follows:
 - 1) Trading securities are stated at fair value at the balance sheet date. The moving average method is used for calculating cost of securities sold.
 - 2) Held-to-maturity debt securities are measured at amortized cost using the moving average method. The cost of securities is amortized on a straight-line basis.
 - 3) Policy-reserve-matching bonds are measured at amortized cost using the moving average method. The cost of bonds is amortized on a straight-line basis in accordance with the Industry Audit Committee Report No. 21, “Temporary Treatment of Accounting and Auditing Concerning Policy-Reserve-Matching Bonds in the Insurance Industry,” issued by the JICPA.
 - 4) Investments in subsidiaries and affiliates (stocks issued by subsidiaries prescribed in Article 2, Paragraph 12 of the Insurance Business Act or subsidiaries prescribed in Article 13-5-2, Paragraph 3 of the Order for Enforcement of the Insurance Business Act and stocks issued by affiliates prescribed in Article 13-5-2, Paragraph 4 of the Order for Enforcement of the Insurance Business Act) are stated at cost using the moving average method.
 - 5) Available-for-sale securities
 - a. Regarding securities with fair value, stocks (including foreign stocks) are measured at the average fair value based on quoted market prices during the period of one month before the balance sheet date (cost of securities sold is calculated using the moving average method). Other securities with fair value are measured at the fair value at the balance sheet date (cost of securities sold is calculated using the moving average method).
 - b. Of securities of which their fair value is extremely difficult to be determined, bonds (including foreign bonds) for which the difference between the purchase price and face value is due to an interest rate adjustment are measured at amortized cost using the moving average method. The cost of those bonds is amortized on a straight-line basis. Other securities without readily determinable fair values are stated at cost using the moving average method.

* ASBJ: The Accounting Standards Board of Japan

- (2) Unrealized gains/losses of available-for-sale securities are recorded as a separate component of net assets.
2. Securities that are held for the purpose of matching the duration of outstanding liabilities within the subgroups classified by insurance type, payment method, maturity period, currency, and investment policy are classified as policy-reserve-matching bonds in accordance with the Industry Audit Committee Report No. 21, “Temporary Treatment of Accounting and Auditing Concerning Policy-Reserve-Matching Bonds in the Insurance Industry,” issued by the JICPA.
The Company has specified the following types of insurance policies and set those as subcategories:
 - (1) All insurance policies for products other than single payment products and group annuities
 - (2) All insurance policies for single payment products (denominated in yen) other than variable assumed rate-type insurance
 - (3) All insurance policies for group annuities other than guaranteed fixed-term rate products
 - (4) All single payment products (denominated in U.S. dollars) other than the foregoing
 - (5) All single payment products (denominated in Australian dollars) other than the foregoing
 - (6) All single payment products (denominated in euros) other than the foregoing
 3. Derivative financial instruments and derivative financial instruments within assets held in trust are stated at fair value based on quoted market prices.
 4. (1) Tangible fixed assets are depreciated based on the following methods:
 - a. Tangible fixed assets (except for lease assets)
 - (i) Buildings
Straight-line method
 - (ii) Assets other than the above
Declining-balance method
Certain other tangible fixed assets with an acquisition cost of less than ¥200,000 are depreciated over three years on a straight-line basis
 - b. Lease assets
 - (i) Lease assets related to financial leases that transfer ownership of the leased property to the lessee
The same depreciation method applied to fixed assets owned by the Company
 - (ii) Lease assets related to financial leases that do not transfer ownership of the leased property to the lessee
Straight-line method over the lease term
 - (2) Software, which is included in intangible fixed assets, is amortized using the straight-line method.

5. Assets and liabilities denominated in foreign currencies are translated into Japanese yen in accordance with the “Accounting Standards for Foreign Currency Transactions” (Business Accounting Council).

Foreign currency-denominated available-for-sale securities with exchange rates which have significantly fluctuated and where those recoveries are not expected are converted to Japanese yen using either the rate at the balance sheet date or the one-month average rate prior to the balance sheet date, whichever indicates a weaker yen. The translation difference is recorded as a loss on valuation of securities.

6. (1) An allowance for doubtful accounts is recognized in accordance with the Company’s internal Asset Valuation Regulation and Write-off/Provision Rule as follows:

- 1) An allowance for loans to borrowers who are legally or substantially bankrupt, such as being bankrupt or being in the process of civil rehabilitation proceedings, is recognized based on the amount of credit remaining after directly deducting amounts expected to be collected through the disposal of collateral or the execution of guarantees from the balance of loans (as mentioned at (3) below).
- 2) An allowance for loans to borrowers who are not currently legally bankrupt but have a high possibility of bankruptcy is recognized at the amounts deemed necessary considering the borrowers’ overall solvency and the amounts remaining after deduction of amounts expected to be collected through the disposal of collateral or the execution of guarantees.
- 3) An allowance for loans to borrowers other than the above is provided based on the borrowers’ balance multiplied by the historical average percentage of bad debt for a certain period.

(2) All credits are assessed by responsible sections in accordance with the Company’s internal Asset Valuation Regulation. The assessments are verified by the independent Asset Auditing Department. The results of the assessments are reflected in the calculation of the allowance for doubtful accounts.

(3) The estimated uncollectible amount calculated by subtracting the amount of collateral value or the amount collectible by the execution of guarantees from the balance of loans is directly deducted from the balance of loans (including loans with credits secured and/or guaranteed) made to legally or substantially bankrupt borrowers. The estimated uncollectible amount was ¥2,639 million (including ¥81 million of credits secured and/or guaranteed) as of September 30, 2019.

7. To provide for losses on investments, an allowance for investment loss is recognized for the securities of which the fair value is extremely difficult to be determined, but expected to have loss in future and measured at the amount of the estimated losses that could arise in the future in accordance with the Company’s internal Asset Valuation Regulation and Write-off/Provision Rule.

8. Accrued bonuses for directors, and audit and supervisory board members are recognized based on amounts estimated to be paid.
9. (1) Accrued retirement benefits are recognized based on the estimated amount of projected benefit obligations in excess of the fair value of pension plan assets as of March 31, 2020, for future severance payments to employee that have been accrued as of the balance sheet date.

(2) The accounting methods used for retirement benefit obligations and benefit costs are as follows:
 - 1) Attribution method for estimated retirement benefits: Benefit formula basis
 - 2) Period of amortizing actuarial gains/losses: Five years
 - 3) Period of amortizing prior service costs: Five years
10. Accrued retirement benefits for directors, and audit and supervisory board members are recognized based on estimated payment amounts under internal rules.
11. A reserve for program points is recognized based on the amount projected to be incurred for expenses from the use of points granted to policyholders.
12. A reserve for price fluctuations in investments in securities is recognized based on Article 115 of the Insurance Business Act.
13. Hedge accounting is applied based on the following methods:
 - 1) The Company mainly applies the following hedge accounting methods:
 - The exceptional accounting treatment (“*Tokurei-shori*”) is applied to interest rate swaps to hedge the cash flow volatility of certain loans denominated in Japanese yen and foreign currencies;
 - Deferred hedge accounting is applied to interest rate swaps to hedge the interest rate fluctuation exposures on certain insurance policies, based on the Industry Audit Committee Report No. 26, “Accounting and Auditing Treatments Related to Application of Accounting for Financial Instruments in the Insurance Industry” issued by the JICPA;
 - Deferred hedge accounting and designated hedge accounting (“*Furiate-shori*”) are applied to currency swaps to hedge the cash flow volatility caused by foreign exchange rate fluctuations on certain foreign currency-denominated bonds, loans, and subordinated corporate bonds issued by the Company;

- Fair value hedge accounting is applied to foreign exchange forward contracts to hedge the price fluctuation exposures related to foreign exchange rate fluctuations on certain foreign currency-denominated bonds and other instruments; and
- Fair value hedge accounting is applied to equity forward contracts to hedge the price fluctuation exposures on certain domestic stocks.

2) Hedging instruments and hedged items

<u>Hedging instruments</u>	<u>Hedged items</u>
Interest rate swaps	Loans, foreign currency-denominated loans, and insurance policies
Currency swaps	Foreign currency-denominated bonds, foreign currency-denominated loans, and foreign currency-denominated subordinated corporate bonds
Foreign exchange forward contracts	Foreign currency-denominated bonds and other instruments
Equity forward contracts	Domestic stocks

- 3) Effectiveness of hedging activities is mainly evaluated by a ratio analysis of fair value movement comparisons of the hedging instruments and hedged items in accordance with the Company's internal risk management policies.

14. All transactions are accounted for exclusive of consumption taxes and local consumption taxes; however, consumption taxes paid on certain asset transactions, which are not deductible from consumption taxes withheld and are stipulated to be deferred under the Consumption Tax Act, are deferred as prepaid expenses and amortized over a five-year period on a straight-line basis. Consumption taxes other than deferred consumption taxes are expensed as incurred.
15. Effective from the six months ended September 30, 2019, the consolidated taxation system has been applied with the Company as the parent company for consolidated taxation purposes.
16. Policy reserves are reserves set forth in accordance with Article 116 of the Insurance Business Act. Insurance premiums reserves are recognized based on the following methodology. In accordance with Article 69, Paragraph 5 of the Ordinance for Enforcement of the Insurance Business Act, policy reserves include those that are reserved for certain individual annuity policies.
- 1) Reserves for policies subject to the standard policy reserve are computed in accordance with the method prescribed by the Commissioner of the Financial Services Agency (Ordinance No. 48 issued by the Ministry of Finance in 1996).

- 2) Reserves for other policies are computed based on the net level premium method.

Effective from the fiscal year ended March 31, 2019, the Company has provided additional policy reserves over a five-year period to cover a possible deficiency in the reserve for certain individual annuity policyholders. As a result, policy reserves increased by ¥62,299 million, while ordinary profit and surplus before income taxes decreased by ¥62,299 million, compared with amounts that would have been recorded if the additional policy reserve amounts had not been reserved in the six months ended September 30, 2019.

17. The corporate tax, inhabitant tax, and income tax adjustments for the six months ended September 30, 2019, are calculated based on the assumption of accumulations and reversals of the reserve for reduction entry of real estate and the reserve for dividends to policyholders due to the appropriation of surplus in the current fiscal year.

18. (1) Balance sheet amounts and fair values of major financial instruments, and their differences are as follows:

(Million Yen)

	Balance sheet amount (*1)	Fair value (*2)	Difference
Cash and deposits (negotiable certificates of deposit):	232,799	232,799	—
Available-for-sale securities	232,799	232,799	—
Monetary receivables purchased:	213,431	224,009	10,578
Policy-reserve-matching bonds	184,994	195,572	10,578
Available-for-sale securities	28,436	28,436	—
Assets held in trust:	10,798	10,798	—
Trading securities	10,798	10,798	—
Investments in securities:	56,241,345	60,713,430	4,472,084
Trading securities	798,400	798,400	—
Policy-reserve-matching bonds	20,647,697	25,029,370	4,381,673
Investments in subsidiaries and affiliates	132,806	223,217	90,410
Available-for-sale securities	34,662,440	34,662,440	—
Loans (*3):	7,453,484	7,718,958	265,473
Policy loans	566,815	566,815	—
Industrial and consumer loans	6,886,669	7,152,143	265,473
Derivative financial instruments (*4):	71,479	71,479	—
Hedge accounting not applied	75,171	75,171	—
Hedge accounting applied	(3,691)	(3,691)	—
Corporate bonds (*3 and *5)	(1,028,889)	(1,075,528)	(46,639)
Payables under repurchase agreements (*5)	(1,044,828)	(1,044,828)	—
Loans payable (*5)	(330,753)	(334,276)	(3,523)

(*1) For transactions for which an allowance for doubtful accounts was recorded, the amounts are presented net of the allowance.

(*2) For securities for which impairment losses were recognized in the six months ended September 30, 2019, the fair value is the balance sheet amount net of the impairment losses recognized.

(*3) The fair values of derivative financial instruments that are interest rate swaps to which exceptional accounting treatment (“*Tokurei-shori*”) is applied or currency swaps to which designated hedge accounting (“*Furiate-shori*”) is applied are included in the fair values of loans and corporate bonds because they are accounted for as an integral part of the loans and corporate bonds that are the hedged items.

(*4) Receivables and payables generated by derivative financial instruments are offset and presented in net amounts. Net payables are presented in parentheses.

(*5) Corporate bonds, payables under repurchase agreements, and loans payable are recorded in liabilities and presented in parentheses.

(2) Fair value measurement methods for major financial instruments are as follows:

1) Securities, deposits, and monetary receivables purchased that are treated as securities based on the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10)

a. Items with a market price

Fair value is measured based on the closing market price at the balance sheet date. However, the fair values of available-for-sale domestic and foreign equity securities are based on the average market price over a one-month period prior to the balance sheet date.

b. Items without a market price

Fair value is measured by discounting future cash flows to present value or valuations obtained from external parties.

2) Loans

a. Policy loans

Fair value is measured at the book value of policy loans as the fair value is deemed to approximate book value due to expected repayment periods, interest rate requirements, and other conditions. These loans have no repayment date based on characteristics, such as the loan amount being limited to the extent of the surrender benefit.

b. Industrial and consumer loans

Fair value of variable interest rate loans is deemed to approximate their book value because market interest rates are reflected in future cash flows over the short term. Thus, book value is used as fair value for variable interest rate loans. Fair value of fixed interest rate loans is measured mainly by discounting future cash flows to present value.

Fair value of loans to legally or substantially bankrupt borrowers or borrowers who are not currently legally bankrupt but have a high probability of bankruptcy are measured by deducting the estimated uncollectible amount from the book value prior to direct write-offs.

- 3) Derivative financial instruments
- a. Fair value of futures and other market transactions is measured by the liquidation value or closing market price at the balance sheet date.
 - b. Fair value of equity options is measured mainly based on liquidation value or closing market price at the balance sheet date or valuations obtained from external parties.
 - c. Fair value of interest rate swaps, interest rate swaptions, foreign exchange contracts, currency options, currency swaps, and forward contracts is measured mainly based on valuations obtained from external parties.

4) Assets held in trust

Fair value is based on a reasonably calculated price by the trustee of the assets held in trust in accordance with the calculation methods set forth in 1) and 3) above.

5) Corporate bonds

Corporate bonds are stated at fair value at the balance sheet date.

6) Payable under repurchase agreements

Fair value is measured at the book value of payables under repurchase agreements due to their short-term settlement terms.

7) Loans payable

Fair value of variable interest rate loans payable is deemed to approximate their book value because market interest rates are reflected in future cash flows over the short term. Thus, book value is used as fair value for variable interest rate loans payable. Fair value of fixed interest rate loans payable is measured, in principle, by discounting future cash flows to present value; however, loans payable financed by means of public offerings employing securitization schemes are measured at the fair value of the corporate bonds issued to back the loans payable.

- (3) Unlisted equity securities, investments in partnerships whereby partnership assets consist of unlisted equity securities, and other items of which the fair value is extremely difficult to be determined are not included in investments in securities in table (1). Balance sheet amounts by holding purpose were ¥1,052,914 million for stocks of subsidiaries and affiliates, and ¥546,500 million for available-for-sale securities as of September 30, 2019.

(4) Matters regarding securities and others by holding purpose are as follows:

1) Trading securities

Derivative financial instruments within assets held in trust and investments in securities for separate accounts are classified as trading securities. Valuation losses of those instruments included in profit and loss were ¥5,473 million for the six months ended September 30, 2019.

2) Held-to-maturity debt securities

There were no balances as of September 30, 2019.

3) Policy-reserve-matching bonds

Balance sheet amounts and fair values, and their differences by type are as follows:

(Million Yen)

	Type	Balance sheet amount	Fair value	Difference
Fair value exceeds the balance sheet amount	Monetary receivables purchased	179,472	190,109	10,637
	Domestic bonds	20,210,817	24,586,457	4,375,640
	Foreign securities	114,245	126,379	12,133
	Subtotal	20,504,535	24,902,946	4,398,411
Fair value does not exceed the balance sheet amount	Monetary receivables purchased	5,521	5,462	(59)
	Domestic bonds	319,504	313,418	(6,086)
	Foreign securities	3,129	3,115	(13)
	Subtotal	328,155	321,996	(6,159)
Total		20,832,691	25,224,943	4,392,251

4) Available-for-sale securities

Acquisition cost or amortized cost, and balance sheet amounts, and their differences by type are as follows:

(Million Yen)

	Type	Acquisition cost or amortized cost	Balance sheet amount	Difference
Balance sheet amount exceeds acquisition cost or amortized cost	Cash and deposits (negotiable certificates of deposit)	132,800	132,800	0
	Monetary receivables purchased	15,660	16,332	672
	Domestic bonds	2,845,124	3,111,220	266,095
	Domestic stocks	3,238,823	7,584,499	4,345,676
	Foreign securities	15,491,895	18,303,827	2,811,932
	Other securities	2,946,851	3,278,458	331,607
	Subtotal	24,671,154	32,427,139	7,755,984
Balance sheet amount does not exceed acquisition cost or amortized cost	Cash and deposits (negotiable certificates of deposit)	100,000	99,999	(0)
	Monetary receivables purchased	12,104	12,103	(1)
	Domestic bonds	80,971	79,267	(1,703)
	Domestic stocks	1,037,376	766,455	(270,921)
	Foreign securities	1,524,028	1,462,239	(61,788)
	Other securities	77,650	76,471	(1,178)
	Subtotal	2,832,131	2,496,538	(335,593)
Total		27,503,286	34,923,677	7,420,391

* Securities totaling ¥546,500 million, whose fair value is extremely difficult to determine, are not included in the table above.

Impairment losses of ¥21,664 million were recognized for securities with a fair value during the six months ended September 30, 2019.

Regarding stocks (including foreign stocks) with fair values, impairment losses are recognized for stocks whose fair value has declined significantly from the acquisition cost based on the average fair value of the month preceding September 30, 2019, in principle. However, in the case of a security that meets certain criteria, such as a security for which the fair value has declined significantly and the decline in the fair value in the month preceding September 30, 2019, is significant, impairment losses are recognized based on the fair value as of September 30, 2019.

The criteria by which the fair value of a stock is deemed to have declined significantly are as follows:

- a. A security for which the average fair value in the month preceding September 30, 2019, is 50% or less of the acquisition cost.

b. A security that meets both of the following criteria:

- i). The average fair value in the month preceding September 30, 2019, exceeds 50% but equal to or less than 70% of the acquisition cost.
- ii). The historical market price, the business conditions of the issuing company, and other aspects are subject to certain requirements.

19. As of September 30, 2019, there were no significant changes in the balance sheet amounts and fair values of investment and rental properties from the end of the previous fiscal year.

20. (1) The total amount of loans to bankrupt borrowers, delinquent loans, loans that are delinquent for over three months, and restructured loans, which were included in loans, was ¥31,011 million as of September 30, 2019. The details of those balances were as follows:

- 1) The balances of loans to bankrupt borrowers and delinquent loans were ¥1,176 million and ¥28,077 million, respectively, as of September 30, 2019.

Loans to bankrupt borrowers are loans for which interest is not accrued as income, except for a portion of loans written off, and to which any event specified in Article 96, Paragraph 1, Item 3 (a) to (e) or Item 4 of the Order for Enforcement of the Corporation Tax Act has occurred. Interest is not accrued as income for such loans since the recovery of principal or interest on the loans is unlikely due to the fact that principal repayments or interest payments are overdue for a significant period of time or for other reasons.

Delinquent loans are loans for which interest is not accrued other than the loans to bankrupt borrowers and those with interest payments extended with the objective of restructuring or supporting the borrowers.

- 2) There were no loans delinquent for over three months as of September 30, 2019.

Loans that are delinquent for over three months are loans with principal or interest unpaid for over three months beginning one day after the due date based on the loan agreement other than the loans to bankrupt borrowers and delinquent loans.

- 3) The balance of restructured loans was ¥1,757 million as of September 30, 2019.

Restructured loans are loans that provide certain concessions favorable to borrowers with the intent of supporting the borrowers' restructuring, such as by reducing or exempting interest, postponing principal or interest payments, releasing credits, or providing other benefits to the borrowers other than the loans to bankrupt borrowers, delinquent loans, and loans delinquent for over three months.

- (2) Direct write-offs of loans decreased the balances of loans to bankrupt borrowers and delinquent loans by ¥1,982 million and ¥657 million, respectively, as of September 30, 2019.
21. The amount of accumulated depreciation of tangible fixed assets was ¥1,127,052 million as of September 30, 2019.
22. Separate account assets as provided in accordance with Article 118, Paragraph 1 of the Insurance Business Act were ¥1,263,849 million as of September 30, 2019, and a corresponding liability is recorded in the same amount.
23. Changes in the reserve for dividends to policyholders for the six months ended September 30, 2019, were as follows:

	Million Yen
	Six months ended September 30, 2019
a. Balance at the beginning of the current fiscal year	¥1,020,213
b. Transfer to reserve from surplus for the previous fiscal year	¥211,818
c. Dividends paid to policyholders during the current six-month period	¥119,677
d. Increase in interest	¥10,937
e. Balance at the end of the current six-month period (a+b-c+d)	¥1,123,292

24. Corporate bonds within liabilities are subordinated corporate bonds with special provisions that subordinate the fulfillment of obligations on the bonds to all other debt obligations.

The Company's corporate bond issuance dates and callable dates for currency swaps under designated hedge accounting are as follows:

Issue date	Callable date
October 2012	Each interest payment date on or after October 2022
October 2014	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
January 2016	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
September 2017	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter

25. Other liabilities include subordinated loans payable of ¥310,000 million with special provisions that the fulfillment of obligations on the loans payable is subordinate to all other debt obligations.

The Company has decided to take out the following yen-denominated subordinated loan on November 21, 2019.

Principal amount	¥80 billion
Interest rate	Fixed rate of 0.85% per annum before November 21, 2029, and a fixed rate with step-up thereafter (reset every five years)
Repayment date	The third bank business day preceding November 21, 2049 (The loan is callable on the third bank business day preceding November 21, 2029, and the third bank business day preceding each fifth anniversary date thereafter, until the loan is fully redeemed at the discretion of the Company, subject to prior approval by the regulatory authorities.)
Use of funds	General working capital

26. Assets pledged as collateral in the form of investments in securities, land, and buildings as of September 30, 2019, were ¥1,819,738 million, ¥252 million, and ¥44 million, respectively. The total amount of liabilities covered by the assets pledged was ¥1,055,710 million as of September 30, 2019.

These amounts included ¥975,202 million of sale of securities under repurchase agreements, ¥1,044,828 million of payables under repurchase agreements, ¥10,026 million of investments in securities deposited, and ¥10,878 million of cash received as collateral under securities lending transactions secured by cash as of September 30, 2019.

27. The Company has offered foundation funds (kikin) of ¥50,000 million as provided in Article 60 of the Insurance Business Act during the six months ended September 30, 2019.

28. The Company redeemed ¥50,000 million of foundation funds and credited the same amount to reserve for redemption of foundation funds as prescribed in Article 56 of the Insurance Business Act as of September 30, 2019.
29. The total amount of stocks and investments in subsidiaries and affiliates was ¥1,185,721 million as of September 30, 2019.
30. The amount of securities lent under lending agreements was ¥3,300,356 million as of September 30, 2019.
31. Assets that the Company has a free disposal right to sell or re-pledge are marketable securities borrowed under lending agreements. These assets were held without being sold or re-pledged and totaled ¥349,607 million at fair value as of September 30, 2019.
32. The unused amount of commitments related to loans and similar loans agreements was ¥377,119 million as of September 30, 2019.
33. Of the maximum borrowing amount from the Life Insurance Policyholders Protection Corporation of Japan, which is provided for in Article 37-4 of the Order for Enforcement of the Insurance Business Act, the amount applied to the Company was estimated to be ¥75,368 million as of September 30, 2019. The amount contributed to the corporation above was recorded as operating expenses.
34. Revaluation of land used in the operations is performed based on the Act on Revaluation of Land. The tax effect of the amount related to the valuation difference between the book value and the revalued amount for land revaluation is recognized as a deferred tax liability within the liability section. The valuation differences are recognized as land revaluation losses within the net assets section.

Revaluation date	March 31, 2002
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Revaluation methodology	The amount is calculated by using the listed value of the land and road rate as prescribed by Article 2, Items 1 and 4 of the Order for Enforcement of the Act on Revaluation of Land.
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35. The amount of policy reserves provided for the portion of reinsurance (the “policy reserves for ceded reinsurance”) as defined in Article 71, Paragraph 1 of the Ordinance for Enforcement of the Insurance Business Act was ¥227 million as of September 30, 2019.

5. Nonconsolidated Statements of Income

(Million Yen)

	Six months ended September 30, 2019	Six months ended September 30, 2018
Ordinary income:	3,209,611	3,152,524
Revenues from insurance and reinsurance:	2,302,623	2,185,364
Insurance premiums	2,302,434	2,185,129
Investment income:	817,911	892,155
Interest, dividends, and other income	717,262	723,744
Gain on sales of securities	86,550	123,489
Gain on separate accounts, net	11,841	32,896
Other ordinary income	89,076	75,004
Ordinary expenses:	3,046,953	2,910,372
Benefits and other payments:	1,787,126	1,711,074
Death and other claims	501,134	511,741
Annuity payments	376,768	371,928
Health and other benefits	361,639	335,151
Surrender benefits	442,027	419,753
Other refunds	105,182	72,157
Provision for policy reserves:	671,659	611,947
Provision for policy reserves	660,721	600,816
Provision for interest on reserve for dividends to policyholders	10,937	11,130
Investment expenses:	169,094	176,512
Interest expenses	16,162	14,311
Loss from assets held in trust, net	3,260	9,340
Loss on sales of securities	15,154	66,171
Loss on valuation of securities	49,682	4,374
Loss on derivative financial instruments, net	34,172	53,023
Operating expenses	301,273	298,462
Other ordinary expenses	117,800	112,375
Ordinary profit	162,657	242,152
Extraordinary gains:	1,366	325
Gain on disposals of fixed assets	1,366	325
Extraordinary losses:	59,927	115,332
Loss on disposals of fixed assets	1,520	1,141
Impairment losses	1,455	1,426
Provision for reserve for price fluctuations in investments in securities	53,951	109,914
Contributions for assisting social public welfare	3,000	2,850
Surplus before income taxes	104,097	127,146
Income taxes - current	71,787	52,113
Income taxes - deferred	(70,540)	(46,136)
Total income taxes	1,246	5,976
Net surplus	102,850	121,169

Notes to the Nonconsolidated Statement of Income for the Six Months Ended September 30, 2019

1. Gain on sales of securities includes gains on sales of domestic bonds, including national government bonds, domestic stocks, and foreign securities of ¥31,709 million, ¥8,082 million, and ¥46,758 million, respectively, for the six months ended September 30, 2019.
2. Loss on sales of securities includes losses on sales of domestic stocks and foreign securities of ¥2,362 million and ¥12,792 million, respectively, for the six months ended September 30, 2019.
3. Loss on valuation of securities includes losses on valuation of domestic stocks and foreign securities of ¥21,723 million and ¥27,959 million, respectively, for the six months ended September 30, 2019.
4. Provision for policy reserves for ceded reinsurance that was added to the calculation of provision for policy reserves was ¥51 million for the six months ended September 30, 2019.
5. Breakdown of interest, dividends, and other income for the six months ended September 30, 2019, is as follows:

	Million Yen
	Six months ended September 30, 2019
Interest on deposits and savings	¥3,172
Interest on securities and dividends	¥602,181
Interest on loans	¥61,654
Real estate rental income	¥44,096
Other income	¥6,157
Total	¥717,262

6. Impairment losses are as follows:

- 1) Method for grouping the assets

Real estate for rental use and other assets and idle properties are classified as one asset group per property. Assets utilized for insurance business operations are classified into one asset group for each operation.

- 2) Recognition of impairment losses

When a significant decrease in profitability or fair value of a certain asset group is noted, the book value is reduced to the recoverable amount, recognizing an impairment loss under extraordinary losses.

- 3) Breakdown of asset groups for which impairment losses were recognized for the six months ended September 30, 2019, is as follows:

Purpose of use	Million Yen			Total
	Land	Leasehold interests in land	Buildings	
Idle properties	¥843	¥168	¥443	¥1,455
Total	¥843	¥168	¥443	¥1,455

- 4) Measurement of recoverable amount

The recoverable amount is based on either the value in use or net selling price of the asset depending on the type of asset.

In principle, the value in use is determined as the discounted future cash flows using a discount rate of 3.0%. Net selling price is determined based on appraisals performed in accordance with the “Real Estate Appraisal Standards” or standard land prices.

6. Nonconsolidated Statements of Changes in Net Assets

For the six months ended September 30, 2019

(Million Yen)

	Foundation funds and others												
	Foundation funds	Reserve for redemption of foundation funds	Reserve for revaluation	Legal reserve for deficiencies	Surplus								Total foundation funds and others
					Other surplus reserves							Total surplus	
					Equalized reserve for dividends to policyholders	Contingency funds	Reserve for social public welfare assistance	Reserve for reduction entry of real estate	Reserve for reduction entry of real estate to be purchased	Other reserves	Unappropriated surplus		
Beginning balance	100,000	1,250,000	651	17,578	10,000	71,917	351	49,836	28,603	170	256,070	434,526	1,785,178
Increase/decrease:													
Issuance of foundation funds	50,000										—	—	50,000
Additions to reserve for dividends to policyholders											(211,818)	(211,818)	(211,818)
Additions to legal reserve for deficiencies				816							(816)	—	—
Additions to reserve for redemption of foundation funds		50,000									(50,000)	(50,000)	—
Interest on foundation funds											(355)	(355)	(355)
Net surplus											102,850	102,850	102,850
Redemption of foundation funds	(50,000)												(50,000)
Reversal of equalized reserve for dividends to policyholders					(10,000)						10,000	—	—
Additions to reserve for social public welfare assistance							3,000				(3,000)	—	—
Reversal of reserve for social public welfare assistance							(3,000)				3,000	—	—
Additions to reserve for reduction entry of real estate								15,163			(15,163)	—	—
Reversal of reserve for reduction entry of real estate								(1,270)			1,270	—	—
Additions to reserve for reduction entry of real estate to be purchased									663		(663)	—	—
Reversal of reserve for reduction entry of real estate to be purchased									(14,476)		14,476	—	—
Reversal of land revaluation losses											(613)	(613)	(613)
Net change, excluding foundation funds and others													
Net change	—	50,000	—	816	(10,000)	—	—	13,893	(13,812)	—	(150,833)	(159,936)	(109,936)
Ending balance	100,000	1,300,000	651	18,394	—	71,917	351	63,729	14,790	170	105,236	274,590	1,675,241

6. Nonconsolidated Statements of Changes in Net Assets (Continued)

For the six months ended September 30, 2019

(Million Yen)

	Valuations, conversions, and others				Total net assets
	Net unrealized gains on available-for-sale securities	Deferred losses on derivatives under hedge accounting	Land revaluation losses	Total valuations, conversions, and others	
Beginning balance	4,882,692	(31,216)	(54,690)	4,796,785	6,581,963
Increase/decrease:					
Issuance of foundation funds					50,000
Additions to reserve for dividends to policyholders					(211,818)
Additions to legal reserve for deficiencies					—
Additions to reserve for redemption of foundation funds					—
Interest on foundation funds					(355)
Net surplus					102,850
Redemption of foundation funds					(50,000)
Reversal of equalized reserve for dividends to policyholders					—
Additions to reserve for social public welfare assistance					—
Reversal of reserve for social public welfare assistance					—
Additions to reserve for reduction entry of real estate					—
Reversal of reserve for reduction entry of real estate					—
Additions to reserve for reduction entry of real estate to be purchased					—
Reversal of reserve for reduction entry of real estate to be purchased					—
Reversal of land revaluation losses					(613)
Net change, excluding foundation funds and others	467,147	28,578	613	496,339	496,339
Net change	467,147	28,578	613	496,339	386,403
Ending balance	5,349,840	(2,638)	(54,076)	5,293,125	6,968,366

6. Nonconsolidated Statements of Changes in Net Assets (Continued)

For the six months ended September 30, 2018

(Million Yen)

	Foundation funds and others												
	Foundation funds	Reserve for redemption of foundation funds	Reserve for revaluation	Surplus									Total foundation funds and others
				Legal reserve for deficiencies	Other surplus reserves							Total surplus	
					Equalized reserve for dividends to policyholders	Contingency funds	Reserve for social public welfare assistance	Reserve for reduction entry of real estate	Reserve for reduction entry of real estate to be purchased	Other reserves	Unappropriated surplus		
Beginning balance	150,000	1,200,000	651	16,804	40,000	71,917	351	49,708	23,422	170	248,227	450,600	1,801,251
Increase/decrease:													
Additions to reserve for dividends to policyholders											(218,353)	(218,353)	(218,353)
Additions to legal reserve for deficiencies				774							(774)	—	—
Additions to reserve for redemption of foundation funds		50,000									(50,000)	(50,000)	—
Interest on foundation funds											(790)	(790)	(790)
Net surplus											121,169	121,169	121,169
Redemption of foundation funds	(50,000)												(50,000)
Reversal of equalized reserve for dividends to policyholders					(30,000)						30,000	—	—
Additions to reserve for social public welfare assistance							3,000				(3,000)	—	—
Reversal of reserve for social public welfare assistance							(2,850)				2,850	—	—
Additions to reserve for reduction entry of real estate								3,802			(3,802)	—	—
Reversal of reserve for reduction entry of real estate								(3,674)			3,674	—	—
Additions to reserve for reduction entry of real estate to be purchased									11,204		(11,204)	—	—
Reversal of reserve for reduction entry of real estate to be purchased									(6,023)		6,023	—	—
Reversal of land revaluation losses											831	831	831
Net change, excluding foundation funds and others													
Net change	(50,000)	50,000	—	774	(30,000)	—	150	128	5,180	—	(123,375)	(147,142)	(147,142)
Ending balance	100,000	1,250,000	651	17,578	10,000	71,917	501	49,836	28,603	170	124,851	303,457	1,654,109

6. Nonconsolidated Statements of Changes in Net Assets (Continued)

For the six months ended September 30, 2018

(Million Yen)

	Valuations, conversions, and others				Total net assets
	Net unrealized gains on available-for-sale securities	Deferred losses on derivatives under hedge accounting	Land revaluation losses	Total valuations, conversions, and others	
Beginning balance	4,882,103	(59,099)	(60,989)	4,762,014	6,563,265
Increase/decrease:					
Additions to reserve for dividends to policyholders					(218,353)
Additions to legal reserve for deficiencies					—
Additions to reserve for redemption of foundation funds					—
Interest on foundation funds					(790)
Net surplus					121,169
Redemption of foundation funds					(50,000)
Reversal of equalized reserve for dividends to policyholders					—
Additions to reserve for social public welfare assistance					—
Reversal of reserve for social public welfare assistance					—
Additions to reserve for reduction entry of real estate					—
Reversal of reserve for reduction entry of real estate					—
Additions to reserve for reduction entry of real estate to be purchased					—
Reversal of reserve for reduction entry of real estate to be purchased					—
Reversal of land revaluation losses					831
Net change, excluding foundation funds and others	67,351	(34,626)	(831)	31,892	31,892
Net change	67,351	(34,626)	(831)	31,892	(115,249)
Ending balance	4,949,454	(93,726)	(61,821)	4,793,907	6,448,016

7. Details of Ordinary Profit (Core Operating Profit)

(Million Yen)

	Six months ended September 30, 2019	Six months ended September 30, 2018
Core operating profit (A)	331,531	362,634
Capital gains:	153,114	135,512
Gain on proprietary trading securities	—	—
Gain from assets held in trust, net	—	—
Gain on trading securities	—	—
Gain on sales of securities	86,550	123,489
Gain on derivative financial instruments, net	—	—
Foreign exchange gains, net	—	10,968
Other capital gains	66,564	1,054
Capital losses:	204,698	151,355
Loss on proprietary trading securities	—	—
Loss from assets held in trust, net	3,260	9,340
Loss on trading securities	—	—
Loss on sales of securities	15,154	66,171
Loss on valuation of securities	49,682	4,374
Loss on derivative financial instruments, net	34,172	53,023
Foreign exchange losses, net	22,439	—
Other capital losses	79,988	18,445
Net capital losses (B)	(51,583)	(15,843)
Core operating profit, including net capital losses (A+B)	279,947	346,791
Nonrecurring gains:	1,076	—
Reinsurance revenue	—	—
Reversal of contingency reserve	—	—
Reversal of specific allowance for doubtful accounts	1,076	—
Other nonrecurring gains	—	—
Nonrecurring losses:	118,366	104,638
Reinsurance premiums	—	—
Provision for contingency reserve	53,514	100,119
Provision for specific allowance for doubtful accounts	—	1,966
Provision for allowance for specific overseas loans	—	—
Write-offs of loans	—	—
Other nonrecurring losses	64,852	2,553
Net nonrecurring losses (C)	(117,290)	(104,638)
Ordinary profit (A+B+C)	162,657	242,152

(Reference) Breakdown of “Other” items

(Million Yen)

	Six months ended September 30, 2019	Six months ended September 30, 2018
Core operating profit	13,424	17,391
Interest income and expenses related to swap transactions for foreign currency-denominated insurance products and swap transactions for hedging purposes	8,626	6,794
Impact of market exchange rate movements related to foreign currency-denominated insurance policies	(66,564)	11,651
Impact of movements in surrender benefits related to market value adjustment	71,362	(1,054)
Other capital gains	66,564	1,054
Interest income related to swap transactions for foreign currency-denominated insurance products and swap transactions for hedging purposes	—	—
Impact of market exchange rate movements related to foreign currency-denominated insurance policies	66,564	—
Impact of movements in surrender benefits related to market value adjustment	—	1,054
Other capital losses	79,988	18,445
Interest expenses related to swap transactions for foreign currency-denominated insurance products and swap transactions for hedging purposes	8,626	6,794
Impact of market exchange rate movements related to foreign currency-denominated insurance policies	—	11,651
Impact of movements in surrender benefits related to market value adjustment	71,362	—
Other nonrecurring gains	—	—
Reversal of allowance for investment loss	—	—
Other nonrecurring losses	64,852	2,553
Provision for allowance for investment loss	2,553	2,553
Provision for policy reserves pursuant to Article 69 Paragraph 5 of the Ordinance for Enforcement of the Insurance Business Act in Japan.	62,299	—

8. Status of Nonperforming Assets According to Borrower's Classification

(Million Yen, %)

	As of September 30, 2019	As of March 31, 2019
Bankrupt and quasi-bankrupt loans	11,980	10,066
Doubtful loans	17,274	19,678
Substandard loans	1,757	1,930
Subtotal	31,012	31,675
[Percentage of total, %]	[0.29]	[0.29]
Normal loans	10,825,403	10,830,912
Total	10,856,416	10,862,587

Notes: 1. Bankrupt and quasi-bankrupt loans are nonperforming assets and similar loans that have fallen into bankruptcy due to certain reasons, including initiation of bankruptcy proceedings, start of reorganization proceedings, or submission of an application to start rehabilitation proceedings.
2. Doubtful loans are nonperforming assets with a strong likelihood that loan principal and/or interest cannot be recovered according to the loan contract because of difficulties in the financial condition and business performance of debtors who are not yet legally bankrupt.
3. Substandard loans include loans that are delinquent for over three months as well as restructured loans. Loans that are delinquent for over three months are loans with principal or interest being unpaid for over three months following the due date described in loan agreements (excluding 1. and 2. in the notes above). Restructured loans are loans that provide certain concessions favorable to the borrower with the intent of supporting the borrower's restructuring. Examples of such concessions include reducing or exempting interest, postponing principal or interest payments, releasing credits, or providing other benefits to borrowers (excluding 1. and 2. in the notes above and loans that are delinquent for over three months).
4. Normal loans are loans that do not fall under the classifications for 1. to 3. in the notes above and where the debtor has no financial or business performance problems.

Supplemental information for borrowers' classification

- Classifications and calculation methods used in this table are based on the Ordinance for Enforcement of the Insurance Business Act. The table includes guaranteed private offering loans of financial institutions, loans, securities lending, accrued interest, suspense payments, and customers' liability for acceptances and guarantees.
- For bankrupt and quasi-bankrupt loans, the estimated uncollectible amount calculated by subtracting the amount of collateral value or the amount collectible by the execution of guarantees from the balance of loans is directly deducted from the total loan amount. The estimated uncollectible amounts as of September 30, 2019, and March 31, 2019, were ¥2,639 million and ¥2,019 million, respectively.

9. Status of Risk-Monitored Loans

(Million Yen, %)

	As of September 30, 2019	As of March 31, 2019
Loans to bankrupt borrowers	1,176	1,289
Delinquent loans	28,077	28,454
Loans that are delinquent for over three months	—	—
Restructured loans	1,757	1,930
Total	31,011	31,673
[Percentage of total loans, %]	[0.42]	[0.43]

Notes: 1. For loans to bankrupt borrowers and quasi-bankrupt borrowers (including collateralized and guaranteed loans), an estimated uncollectible amount (calculated by subtracting estimated collectible amounts based on collateral and guarantees from total loans) is directly deducted from the total loan amount. Such loans to bankrupt borrowers and delinquent loans were ¥1,982 million and ¥657 million, respectively, as of September 30, 2019 and ¥1,935 million and ¥84 million, respectively, as of March 31, 2019.
2. Loans to bankrupt borrowers are loans for which interest is not accrued as income since the recovery of principal or interest on the loan is unlikely due to the fact that the principal repayments or interest payments are overdue for a significant period of time or for other reasons; and loans are extended to any of (a) borrowers that are legally bankrupt through filings for proceedings under the Corporate Reorganization Act, Civil Rehabilitation Act, Bankruptcy Act, or Company Act; (b) borrowers that have notes suspended from being traded; or (c) borrowers that have filed for legal proceedings similar to the aforementioned proceedings based on overseas laws.
3. Delinquent loans are loans for which interest is not accrued other than the loans to bankrupt borrowers and those with interest payments extended with the objective of restructuring or supporting the borrowers.
4. Loans that are delinquent for over three months are loans with principal or interest unpaid for over three months beginning one day after the due date based on the loan agreement other than the loans to bankrupt borrowers and delinquent loans.
5. Restructured loans are loans that provide certain concessions favorable to the borrower with the intent of supporting the borrower's restructuring, such as by reducing or exempting interest, postponing principal or interest payments, releasing credits, or providing other benefits to the borrowers other than the loans to bankrupt borrowers, delinquent loans, and loans that are delinquent for over three months.
6. Accrued interest for the following loans is not recorded as revenue: loans to borrowers who are bankrupt, substantially bankrupt, or potentially bankrupt based on the result of asset self-assessment.

10. Breakdown of Allowance for Doubtful Accounts

(Million Yen)

	Six months ended September 30, 2019	Year ended March 31, 2019	Difference
(1) Breakdown of allowance for doubtful accounts			
(A) General allowance for doubtful accounts	1,619	794	824
(B) Specific allowance for doubtful accounts	1,579	3,669	(2,090)
(C) Allowance for specific overseas loans	—	—	—
(2) Specific allowance for doubtful accounts			
(A) Provision	4,218	5,689	(1,470)
(B) Reversal	5,295	1,283	4,011
[excluding reversals with write-offs]			
(C) Net provision	(1,076)	4,405	(5,482)
(3) Allowance for specific overseas loans			
(A) Number of countries	—	—	—
(B) Loan amount	—	—	—
(C) Provision	—	—	—
(D) Reversal	—	—	—
(4) Write-offs	—	—	—

Reference

Status of Borrower Classification

(100 Million Yen, %)

	As of September 30, 2019		As of March 31, 2019	
		Percentage		Percentage
Loan balances	74,555	100.0	74,387	100.0
(Net of write-offs in category IV)				
Noncategorized	74,306	99.7	74,115	99.6
Category II	240	0.3	241	0.3
Category III	9	0.0	30	0.0
Category IV	—	—	—	—

Notes: 1. Specific allowances for doubtful accounts in Category III were ¥0.6 billion and ¥2.6 billion as of September 30, 2019 and March 31, 2019, respectively.
2. Total amounts of direct write-offs in Category IV were ¥2.6 billion and ¥2.0 billion for the periods ended September 30, 2019, and March 31, 2019, respectively.

11. Solvency Margin Ratio

(Million Yen)

	As of September 30, 2019	As of March 31, 2019
Solvency margin gross amount (A):	14,983,745	14,177,668
Foundation funds (<i>kikin</i>) and other reserve funds:	5,203,372	4,992,846
Foundation funds and others	1,675,241	1,573,004
Reserve for price fluctuations in investments in securities	1,435,604	1,381,653
Contingency reserve	1,830,625	1,777,111
General allowance for doubtful accounts	1,619	794
Others	260,282	260,282
Net unrealized gains on available-for-sale securities (before tax) and deferred losses on derivatives under hedge accounting (before tax) × 90%	6,590,870	5,995,119
Net unrealized gains on real estate × 85%	359,152	358,288
Excess of continued Zillmerized reserve	1,604,525	1,566,354
Qualifying subordinated debt	1,338,889	1,248,889
Excess of continued Zillmerized reserve and qualifying subordinated debt not included in margin calculations	—	—
Deduction clause	(34,712)	(13,021)
Others	(78,352)	29,191
Total amount of risk (B):		
$\sqrt{(R_1 + R_8)^2 + (R_2 + R_3 + R_7)^2 + R_4}$	3,045,633	3,038,049
Underwriting risk (R ₁)	116,712	117,577
Underwriting risk of third-sector insurance (R ₈)	80,558	81,303
Anticipated yield risk (R ₂)	361,703	364,647
Minimum guarantee risk (R ₇)	5,542	5,576
Investment risk (R ₃)	2,608,397	2,597,831
Business management risk (R ₄)	63,458	63,338
Solvency margin ratio		
$\frac{(A)}{(1/2) \times (B)} \times 100$	983.9%	933.3%

Notes: 1. The amounts and figures in the table above are calculated based on the provisions of Article 86 and Article 87 of the Ordinance for Enforcement of the Insurance Business Act and the Ministry of Finance Public Notice No. 50 of 1996.
2. The standard method is used for the calculation of the amount equivalent to minimum guarantee risk.

12. Status of Separate Accounts

(1) Balance of Separate Account Assets

(Million Yen)

	As of September 30, 2019	As of March 31, 2019
Individual variable insurance	106,684	110,135
Individual variable annuities	38,277	41,251
Group annuities	1,118,887	1,106,612
Separate account total	1,263,849	1,257,999

(2) Policies in Force

- Individual Variable Insurance

	As of September 30, 2019		As of March 31, 2019	
	Number of policies	Amount of policies (million yen)	Number of policies	Amount of policies (million yen)
Variable insurance (defined term type)	10,362	6,580	8,395	6,510
Variable insurance (whole life type)	31,653	443,430	31,966	449,867
Total	42,015	450,011	40,361	456,377

- Individual Variable Annuities

	As of September 30, 2019		As of March 31, 2019	
	Number of policies	Amount of policies (million yen)	Number of policies	Amount of policies (million yen)
Individual variable annuities	35,517	38,276	33,554	41,240

13. Status of the Company, Subsidiaries, and Affiliates

(1) Selected Financial Data for Major Operations

(100 Million Yen)

	Six months ended September 30, 2019	Six months ended September 30, 2018
Ordinary income	41,022	40,099
Ordinary profit	1,537	2,675
Net surplus attributable to the parent company	1,337	1,414
Comprehensive income	6,857	1,254

	As of September 30, 2019	As of March 31, 2019
Total assets	811,561	788,095
Solvency margin ratio	1053.7%	996.7%

(2) Scope of Consolidation and Application of the Equity Method

	As of September 30, 2019
Number of consolidated subsidiaries	18
Number of subsidiaries not consolidated but accounted for under the equity method	0
Number of affiliates accounted for under the equity method	14
Changes in significant subsidiaries and affiliates during the period Please refer to “(3) Policies for Preparing the Consolidated Financial Statements for the Six Months Ended September 30, 2019.”	

(3) Policies for Preparing the Consolidated Financial Statements for the Six Months Ended September 30, 2019

1) Consolidated subsidiaries

Number of consolidated subsidiaries: 18 entities

Major consolidated subsidiaries

Nissay Credit Guarantee Co., Ltd. (Japan)

Nissay Leasing Co., Ltd. (Japan)

Nissay Capital Co., Ltd. (Japan)

Nissay Asset Management Corporation (Japan)

Nissay Information Technology Co., Ltd. (Japan)

TAIJU LIFE INSURANCE COMPANY LIMITED

Nippon Wealth Life Insurance Company Limited

HANASAKU LIFE INSURANCE Co., Ltd.

Nippon Life Insurance Company of America (U.S.A.)

NLI Commercial Mortgage Fund, LLC (U.S.A.)

NLI Commercial Mortgage Fund II, LLC (U.S.A.)

NLI US Investments, Inc. (U.S.A.)
MLC Limited (Australia)
Reliance Nippon Life Asset Management Limited (RNAM)

HANASAKU LIFE INSURANCE Co., Ltd., which has started its operation as a life insurance company, is included in the scope of consolidation starting from the six months ended September 30, 2019, due to its increased materiality.

RNAM, which was an affiliate accounted for under the equity method in the previous fiscal year, and its four affiliated companies, were included in the scope of consolidation starting from the six months ended September 30, 2019, due to the Company's additional acquisition of RNAM shares.

Major unconsolidated subsidiaries are Nippon Life Global Investors Americas, Inc.; Nissay Trading Corporation; and Nissay Insurance Agency Co., Ltd. Unconsolidated subsidiaries have minimal balances or amounts of total assets, revenue, net income, and surplus for the six months ended September 30, 2019, which are immaterial enough to be excluded from consolidation given that they would not affect reasonable judgements to be made on the financial position and financial results of Nippon Life Group.

2) Equity method affiliates

Number of unconsolidated equity method affiliates: None

Number of affiliates accounted for under the equity method: 14 entities

Major affiliates accounted for under the equity method as of September 30, 2019, are listed as follows:

The Master Trust Bank of Japan, Ltd. (Japan)
Corporate-Pension Business Service Co., Ltd. (Japan)
Great Wall Changsheng Life Insurance Co., Ltd. (China)
Bangkok Life Assurance Public Company Limited (Thailand)
Reliance Nippon Life Insurance Company Limited (India)
Post Advisory Group, LLC (U.S.A.)
PT Sequis (Indonesia)
PT Asuransi Jiwa Sequis Life (Indonesia)
The TCW Group, Inc.

RNAM became a consolidated subsidiary due to the Company's additional acquisition of RNAM shares. Accordingly, RNAM was excluded from the scope of application of the equity method starting from the six months ended September 30, 2019. Meanwhile, one affiliate of RNAM was included in the scope of application of the equity method starting from the six months ended September 30, 2019.

Unconsolidated subsidiaries, including Nippon Life Global Investors Americas, Inc. and Nissay Trading Corporation, as well as affiliates other than those listed above, such as SL Towers Co., Ltd., are not accounted for under the equity method as respective and aggregate effects of such companies on the Company's consolidated net income and surplus for the six months ended September 30, 2019, are immaterial.

3) Reporting date for consolidated subsidiaries

The interim reporting dates for consolidated overseas subsidiaries are June 30 and September 30. In preparing the interim consolidated financial statements, consolidated overseas subsidiaries with interim reporting date of June 30 are consolidated using the interim financial statements as of and for the interim period ended June 30, and necessary adjustments are made to reflect significant transactions that occurred between June 30 and September 30, the Company's interim reporting date.

(4) Consolidated Balance Sheets

(Million Yen)

	As of September 30, 2019	As of March 31, 2019
Assets:		
Cash and deposits	1,667,950	1,541,390
Call loans	462,992	429,912
Monetary receivables purchased	366,573	401,938
Assets held in trust	10,998	13,357
Investments in securities	65,908,262	64,458,905
Loans	8,518,442	8,510,520
Tangible fixed assets	1,907,083	1,907,653
Intangible fixed assets	441,811	263,513
Reinsurance receivables	59,100	9,368
Other assets	1,735,324	1,199,998
Deferred tax assets	7,306	9,140
Customers' liability for acceptances and guarantees	75,648	71,016
Allowance for doubtful accounts	(5,372)	(7,198)
Total assets	81,156,121	78,809,517
Liabilities:		
Policy reserves and other reserves:	66,359,354	65,483,705
Reserve for outstanding claims	271,633	302,778
Policy reserves	64,905,347	64,100,386
Reserve for dividends to policyholders (mutual company)	1,123,292	1,020,213
Reserve for dividends to policyholders (limited company)	59,080	60,326
Reinsurance payables	7,657	8,424
Corporate bonds	1,175,589	1,175,589
Other liabilities	3,252,570	2,518,762
Accrued bonuses for directors, and audit and supervisory board members	38	106
Net defined benefit liability	438,022	440,556
Accrued retirement benefits for directors, and audit and supervisory board members	4,705	4,905
Reserve for program points	9,654	9,203
Reserve for price fluctuations in investments in securities	1,516,663	1,460,182
Deferred tax liabilities	741,788	555,094
Deferred tax liabilities for land revaluation	103,497	103,748
Acceptances and guarantees	75,648	71,016
Total liabilities	73,685,191	71,831,296

(4) Consolidated Balance Sheets (Continued)

(Million Yen)

	As of September 30, 2019	As of March 31, 2019
Net assets:		
Foundation funds	100,000	100,000
Reserve for redemption of foundation funds	1,300,000	1,250,000
Reserve for revaluation	651	651
Consolidated surplus	498,553	629,555
Total foundation funds and others	1,899,204	1,980,206
Net unrealized gains on available-for-sale securities	5,470,005	4,943,922
Deferred losses on derivatives under hedge accounting	(3,571)	(31,643)
Land revaluation losses	(54,076)	(54,690)
Foreign currency translation adjustments	(20,464)	(4,853)
Remeasurement of defined benefit plans	(8,476)	(13,494)
Total accumulated other comprehensive income	5,383,417	4,839,241
Share acquisition rights	515	—
Noncontrolling interests	187,792	158,772
Total net assets	7,470,930	6,978,221
Total liabilities and net assets	81,156,121	78,809,517

Notes to the Consolidated Balance Sheets as of September 30, 2019

1. (1) Securities of the Company and its certain consolidated subsidiaries (including items such as deposits and monetary receivables purchased which are treated as securities based on the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10) and securities within assets held in trust) are valued as follows:
 - 1) Trading securities are stated at fair value at the balance sheet date. The moving average method is used for calculating cost of securities sold.
 - 2) Held-to-maturity debt securities are measured at amortized cost using the moving average method. The cost of securities is amortized on a straight-line basis.
 - 3) Policy-reserve-matching bonds are measured at amortized cost using the moving average method. The cost of bonds is amortized on a straight-line basis in accordance with the Industry Audit Committee Report No. 21, “Temporary Treatment of Accounting and Auditing Concerning Policy-Reserve-Matching Bonds in the Insurance Industry,” issued by the JICPA.
 - 4) Investments in subsidiaries and affiliates that are not consolidated nor accounted for under the equity method (stocks issued by subsidiaries prescribed in Article 2, Paragraph 12 of the Insurance Business Act or subsidiaries prescribed in Article 13-5-2, Paragraph 3 of the Order for Enforcement of the Insurance Business Act and stocks issued by affiliates prescribed in Article 13-5-2, Paragraph 4 of the Order for Enforcement of the Insurance Business Act) are stated at cost using the moving average method.
 - 5) Available-for-sale securities
 - a. Regarding securities with a fair value, stocks (including foreign stocks) are measured at the average fair value based on quoted market prices during the period of one month before the balance sheet date (cost of securities sold is calculated using the moving average method). Other securities with a fair value are measured at the fair value at the balance sheet date (cost of securities sold is calculated using the moving average method).
 - b. Of securities of which fair value is extremely difficult to be determined, bonds (including foreign bonds) for which the difference between the purchase price and face value is due to an interest rate adjustment are measured at amortized cost using the moving average method. The cost of those bonds is amortized on a straight-line basis. Other securities without readily determinable fair values are stated at cost using the moving average method.

- (2) Unrealized gains/losses of available-for-sale securities are recorded as a separate component of net assets.
2. Securities that are held for the purpose of matching the duration of outstanding liabilities within the subgroups classified by insurance type, payment method, maturity period, currency, and investment policy are classified as policy-reserve-matching bonds in accordance with the Industry Audit Committee Report No. 21, “Temporary Treatment of Accounting and Auditing Concerning Policy-Reserve-Matching Bonds in the Insurance Industry,” issued by the JICPA.

The Company has specified the following types of insurance policies and set those as subcategories:

(1) The Company

- 1) All insurance policies for products other than single payment products and group annuities
- 2) All insurance policies for single payment products (denominated in yen) other than variable assumed rate-type insurance
- 3) All insurance policies for group annuities other than guaranteed fixed-term rate products
- 4) All single payment products (denominated in U.S. dollars) other than the foregoing
- 5) All single payment products (denominated in Australian dollars) other than the foregoing
- 6) All single payment products (denominated in euros) other than the foregoing

(2) TAIJU LIFE INSURANCE COMPANY LIMITED

- 1) Whole life insurance and annuity insurance (up to 40 years) (the component of future cash flows generated from whole life insurance (including whole life insurance with term rider) and annuity insurance for up to 40 years)
- 2) Insured contributory pension plans (up to 27 years) (future cash flows generated from insured contributory pension plans for the period up to 27 years)
- 3) Foreign currency-denominated single payment endowment insurance (U.S. dollar) (foreign currency-denominated, U.S. dollar, single payment endowment insurance commencing on or after January 1, 2019)
- 4) Foreign currency-denominated single payment endowment insurance (Australian dollar) (foreign currency-denominated, Australian dollar, single payment endowment insurance commencing on or after October 1, 2017)

(3) Nippon Wealth Life Insurance Company Limited

- 1) Single payment fixed annuities, single payment fixed whole life insurance, single payment life insurance with living benefits, and single payment insurance against three major diseases (excluding single payment fixed annuities commencing on or after April 1, 2006, and for which the insured was 80 years of age or older as of the date the policy was concluded).
- 2) Single payment fixed whole life insurance (fixed accumulation value type)
- 3) Whole life cancer insurance and endowment insurance
- 4) U.S. dollar-denominated single payment fixed annuities and U.S. dollar-denominated single payment fixed whole life insurance
- 5) Australian dollar-denominated single payment fixed annuities
- 6) Insurance and annuities other than the above (certain types of insurance are excluded)

3. Derivative financial instruments and derivative financial instruments within assets held in trust are stated at fair value based on quoted market prices.

4. (1) Tangible fixed assets are depreciated based on the following methods:

a. Tangible fixed assets (except for lease assets)

(i) Buildings

Straight-line method.

(ii) Assets other than the above

Primarily the declining-balance method.

Certain other tangible fixed assets with an acquisition cost of less than ¥200,000 of the Company and its certain consolidated subsidiaries are depreciated over three years on a straight-line basis.

b. Lease assets

- (i) Lease assets related to financial leases that transfer ownership of the leased property to the lessee
The same depreciation method applied to self-owned fixed assets.

(ii) Lease assets other than the above

Straight-line method over the lease term

(2) Software, which is included in intangible fixed assets, is amortized using the straight-line method.

5. Assets and liabilities denominated in foreign currencies are translated into Japanese yen in accordance with the “Accounting Standards for Foreign Currency Transactions” (Business Accounting Council).

Foreign currency-denominated available-for-sale securities of the Company with exchange rates that have significantly fluctuated and where those recoveries are not expected are converted to Japanese yen using either the rate at the balance sheet date or the one-month average rate prior to the balance sheet date, whichever indicates a weaker yen. The translation difference is recorded as a loss on valuation of securities.

Translation differences related to bonds included in translation differences of foreign currency-denominated available-for-sale securities held by certain consolidated subsidiaries are recorded as foreign exchange gains/losses in net, while translation differences related to other foreign currency-denominated available-for-sale securities are recorded as a separate component of net assets.

6. (1) An allowance for doubtful accounts for the Company is recognized in accordance with the Company’s internal Asset Valuation Regulation and Write-off/Provision Rule as follows:
- 1) An allowance for loans to borrowers who are legally or substantially bankrupt, such as being bankrupt or being in the process of civil rehabilitation proceedings, is recognized based on the amount of credit remaining after directly deducting amounts expected to be collected through the disposal of collateral or the execution of guarantees from the balance of loans (as mentioned at (4) below).
 - 2) An allowance for loans to borrowers who are not currently legally bankrupt but have a high possibility of bankruptcy is recognized at the amounts deemed necessary considering the borrowers’ overall solvency and the amounts remaining after deduction of amounts expected to be collected through the disposal of collateral or the execution of guarantees.
 - 3) An allowance for loans to borrowers other than the above is provided based on the borrowers’ balance multiplied by the historical average percentage of bad debt for a certain period.
- (2) All credits extended by the Company are assessed by responsible sections in accordance with the Company’s internal Asset Valuation Regulation. The assessments are verified by the independent Asset Auditing Department. The results of the assessments are reflected in the calculation of the allowance for doubtful accounts.
- (3) For consolidated subsidiaries, the Company and its consolidated subsidiaries record allowance for doubtful accounts deemed necessary mainly in accordance mainly with the Company’s internal Asset Valuation Regulation and Write-off/Provision Rule.

- (4) The estimated uncollectible amount calculated by subtracting the amount of collateral value or the amount collectible by the execution of guarantees from the balance of loans is directly deducted from the balance of loans (including loans with credits secured and/or guaranteed) made to legally or substantially bankrupt borrowers. The estimated uncollectible amount was ¥ 3,927 million (including ¥ 83 million of credits secured and/or guaranteed) as of September 30, 2019.
7. Accrued bonuses for directors, and audit and supervisory board members are recognized based on amounts estimated to be paid.
8. (1) Net defined benefit liability is recognized based on the estimated amount of projected benefit obligations in excess of the fair value of pension plan assets as of September 30, 2019, for future payment of employee retirement benefits that have been accrued.
- (2) Basis used for accounting for retirement benefits of the Company and its certain consolidated subsidiaries is as follows:
- 1) Attribution method for estimated retirement benefits: Benefit formula basis
 - 2) Amortizing period for actuarial gains/losses: Five years
 - 3) Amortizing period for prior service costs: Five years
9. Accrued retirement benefits for directors, and audit and supervisory board members are recognized based on estimated payment amounts under internal rules.
10. A reserve for program points is recognized based on the amount projected to be incurred for expenses from the use of points granted to policyholders.
11. A reserve for price fluctuations in investments in securities is recognized based on Article 115 of the Insurance Business Act.
12. In finance leases where the Company's consolidated subsidiary is the lessor that do not transfer ownership of the leased property to the lessee, the consolidated subsidiary recognizes sales revenue and cost of sale at the time of receiving the lease payments.

13. Hedge accounting is applied by the Company and its certain consolidated subsidiaries based on the following methods:

- 1) The Company and its consolidated subsidiaries mainly apply the following hedge accounting methods:
- The exceptional accounting treatment (“*Tokurei-shori*”) is applied to interest rate swaps to hedge the cash flow volatility of certain loans denominated in Japanese yen and foreign currencies;
 - Deferred hedge accounting is applied to interest rate swaps to hedge the interest rate fluctuation exposures on certain insurance policies, based on the Industry Audit Committee Report No. 26, “Accounting and Auditing Treatments Related to Application of Accounting for Financial Instruments in the Insurance Industry” issued by the JICPA;
 - Deferred hedge accounting and designated hedge accounting (“*Furiate-shori*”) are applied to currency swaps to hedge the cash flow volatility caused by foreign exchange rate fluctuations on certain foreign currency-denominated bonds, loans, and subordinated corporate bonds issued by the Company and its consolidated subsidiaries;
 - Fair value hedge accounting is applied to foreign exchange forward contracts to hedge the price fluctuation exposures related to foreign exchange rate fluctuations on certain foreign currency-denominated bonds and other instruments; and
 - Fair value hedge accounting is applied to equity forward contracts to hedge the price fluctuation exposures on certain domestic stocks.

2) Hedging instruments and hedged items

<u>Hedging instruments</u>	<u>Hedged items</u>
Interest rate swaps	Loans, foreign currency-denominated loans, and insurance policies
Currency swaps	Foreign currency-denominated bonds, foreign currency-denominated loans, and foreign currency-denominated subordinated corporate bonds
Foreign exchange forward contracts	Foreign currency-denominated bonds and other instruments
Equity forward contracts	Domestic stocks

- 3) Effectiveness of hedging activities is mainly evaluated by a ratio analysis of fair value movement comparisons of the hedging instruments and hedged items in accordance with the internal risk management policies of the Company and its certain consolidated subsidiaries.

14. All transactions are accounted for exclusive of consumption taxes and local consumption taxes of the Company and its certain consolidated subsidiaries; however, consumption taxes paid on certain asset transactions, which are not deductible from consumption taxes withheld and are stipulated to be deferred under the Consumption Tax Act, are deferred as prepaid expenses and amortized over a five-year period on a straight-line basis. Consumption taxes other than deferred consumption taxes are expensed as incurred in the six months ended September 30, 2019.
15. Effective from the six months ended September 30, 2019, the Company and certain subsidiaries have applied the consolidated taxation system with the Company as the parent company for consolidated taxation purposes.
16. (1) Policy reserves of the Company and its consolidated subsidiaries that are domestic life insurance companies are reserves set forth in accordance with Article 116 of the Insurance Business Act. Insurance premium reserves are recognized based on the following methodology. In accordance with Article 69, Paragraph 5 of the Ordinance for Enforcement of the Insurance Business Act, policy reserves include those that are reserved for certain individual annuity policies.
- 1) Reserves for policies subject to the standard policy reserve are calculated in accordance with the method prescribed by the Commissioner of the Financial Services Agency (Ordinance No. 48 issued by the Ministry of Finance in 1996).
 - 2) Reserves for other policies are calculated based on the net level premium method.
- In addition, the Company and its certain consolidated life insurance companies in Japan provided additional policy reserves in the six months ended September 30, 2019. As a result, policy reserves increased by ¥68,819 million, while ordinary profit and surplus before income taxes decreased by ¥68,819 million.
- a. The Company
- Effective from the fiscal year ended March 31, 2019, the Company has provided additional policy reserves over a five-year period to cover a possible deficiency in the reserve for certain individual annuity policyholders. As a result, policy reserves increased by ¥62,299 million, while ordinary profit and surplus before income taxes decreased by ¥62,299 million, compared with amounts that would have been recorded if the additional policy reserve amounts had not been reserved in the six months ended September 30, 2019.
- b. TAIJU LIFE INSURANCE COMPANY LIMITED
- TAIJU LIFE INSURANCE COMPANY LIMITED has provided additional policy reserves to cover a possible deficiency in the reserve for certain individual annuity policyholders. As a result, policy reserves increased by ¥6,520 million, while ordinary profit and surplus before income taxes decreased by ¥6,520 million, compared with amounts that would have been recorded if the additional policy reserve amounts had not been reserved in the six months ended September 30, 2019.

- (2) Policy reserves of consolidated overseas life insurance companies are recorded as the amounts calculated in accordance with the accounting standards of each country, such as Australian accounting standards.
17. The corporate tax, inhabitant tax, and income tax adjustments of the Company for the six months ended September 30, 2019, are calculated based on the assumption of accumulations and reversals of the reserve for reduction entry of real estate and the reserve for dividends to policyholders (mutual company) due to the appropriation of surplus in the current fiscal year.

18. (1) Consolidated balance sheet amounts and fair values of major financial instruments and their differences are as follows:

(Million Yen)

	Consolidated balance sheet amount (*1)	Fair value (*2)	Difference
Cash and deposits (negotiable certificates of deposit):	301,299	301,299	—
Available-for-sale securities	301,299	301,299	—
Monetary receivables purchased:	366,573	383,298	16,725
Held-to-maturity debt securities	39,181	40,256	1,074
Policy-reserve-matching bonds	257,823	273,474	15,650
Available-for-sale securities	69,568	69,568	—
Assets held in trust:	10,998	10,998	—
Trading securities	10,798	10,798	—
Available-for-sale securities	200	200	—
Investments in securities:	64,946,708	70,209,563	5,262,854
Trading securities	1,393,167	1,393,167	—
Held-to-maturity debt securities	375,586	401,095	25,509
Policy-reserve-matching bonds	24,244,005	29,301,905	5,057,900
Investments in subsidiaries and affiliates	43,772	223,217	179,445
Available-for-sale securities	38,890,176	38,890,176	—
Loans (*3):	8,515,622	8,815,393	299,770
Policy loans	620,245	620,245	—
Industrial and consumer loans	7,895,376	8,195,147	299,770
Derivative financial instruments (*4):	143,737	143,737	—
Hedge accounting not applied	142,242	142,242	—
Hedge accounting applied	1,495	1,495	—
Corporate bonds (*3 and *5)	(1,175,589)	(1,224,057)	(48,468)
Payables under repurchase agreements (*5)	(1,196,298)	(1,196,298)	—
Loans payable (*3 and *5)	(527,425)	(532,175)	(4,749)

- (*1) For transactions for which an allowance for doubtful accounts was recorded, the amounts are presented net of the allowance.
- (*2) For securities for which impairment losses were recognized in the six months ended September 30, 2019, the fair value is the consolidated balance sheet amount net of the impairment losses recognized.
- (*3) The fair values of derivative financial instruments that are interest rate swaps to which exceptional accounting treatment (“*Tokurei-shori*”) is applied or currency swaps to which designated hedge accounting (“*Furiate-shori*”) is applied are included in the fair values of loans, corporate bonds, and loans payable because they are accounted for as an integral part of the loans, corporate bonds, and loans payable that are the hedged items.
- (*4) Receivables and payables generated by derivative financial instruments are offset and presented in net amounts. Net payables in total are presented in parentheses.
- (*5) Corporate bonds, payables under repurchase agreements, and loans payable are recorded in liabilities and presented in parentheses.

(2) Fair value measurement methods for the major financial instruments of the Company and its certain consolidated subsidiaries are as follows:

1) Securities, deposits, and monetary receivables purchased that are treated as securities based on the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10)

a. Items with a market price

Fair value is measured based on the closing market price at the balance sheet date. However, the fair values of available-for-sale domestic and foreign equity securities are based on the average market price over a one-month period prior to the balance sheet date.

b. Items without a market price

Fair value is measured by discounting future cash flows to present value or valuations obtained from external parties.

2) Loans

a. Policy loans

Fair value is measured at the book value of policy loans, as the fair value is deemed to approximate book value due to expected repayment periods, interest rate requirements, and other conditions. These loans have no repayment date based on characteristics, such as the loan amount being limited to the extent of the surrender benefit.

b. Industrial and consumer loans

Fair value of variable interest rate loans is deemed to approximate their book value because market interest rates are reflected in future cash flows over the short term. Thus, book value is used as fair value for variable interest rate loans. Fair value of fixed interest rate loans is measured mainly by discounting future cash flows to present value.

Fair value of loans to legally or substantially bankrupt borrowers or borrowers who are not currently legally bankrupt, but have a high probability of bankruptcy are measured by deducting the estimated uncollectible amount from the book value prior to direct write-offs.

3) Derivative financial instruments

- a. Fair value of futures and other market transactions is measured by the liquidation value or closing market price at the balance sheet date.
- b. Fair value of equity options is measured mainly based on liquidation value or closing market price at the balance sheet date or valuations obtained from external parties.
- c. Fair value of interest rate swaps, interest rate swaptions, foreign exchange contracts, currency options, currency swaps, and forward contracts is measured mainly based on valuations obtained from external parties.

4) Assets held in trust

Fair value is based on a reasonably calculated price by the trustee of the assets held in trust in accordance with the calculation methods set forth in 1) and 3) above.

5) Corporate bonds

Corporate bonds are stated at fair value at the balance sheet date.

6) Payables under repurchase agreements

The book value is used as fair value due to their short-term settlement.

7) Loans payable

Fair value of variable interest rate loans payable is deemed to approximate their book value because market interest rates are reflected in future cash flows over the short term. Thus, book value is used as fair value for variable interest rate loans payable. Fair value of fixed interest rate loans payable is measured, in principle, by discounting future cash flows to present value; however, loans payable financed by means of public offerings employing securitization schemes are measured at the fair value of the corporate bonds issued to back the loans payable.

- (3) Unlisted equity securities, investments in partnerships whereby partnership assets consist of unlisted equity securities, and other items of which the fair value is extremely difficult to be determined are not included in investments in securities in table (1). The consolidated balance sheet amount of the foregoing was ¥ 961,553 million as of September 30, 2019.

(4) Matters regarding securities and others by holding purpose are as follows:

1) Trading securities

Derivative financial instruments within assets held in trust, investments in securities for separate accounts, and certain other securities are classified as trading securities.

Valuation gains/losses of those instruments included in profit and loss were gains of ¥ 14,530 million for the six months ended September 30, 2019.

2) Held-to-maturity debt securities

Consolidated balance sheet amounts and fair values, and their differences by type are as follows:

(Million Yen)

	Type	Consolidated balance sheet amount	Fair value	Difference
Fair value exceeds the consolidated balance sheet amount	Monetary receivables purchased	24,863	26,096	1,233
	Domestic bonds	68,206	69,808	1,601
	Foreign securities	293,762	317,704	23,941
	Subtotal	386,832	413,609	26,776
Fair value does not exceed the consolidated balance sheet amount	Monetary receivables purchased	14,318	14,159	(158)
	Domestic bonds	1,100	1,100	—
	Foreign securities	12,516	12,482	(34)
	Subtotal	27,935	27,742	(192)
Total		414,767	441,351	26,584

3) Policy-reserve-matching bonds

Consolidated balance sheet amounts and fair values, and their differences by type are as follows:

(Million Yen)

	Type	Consolidated balance sheet amount	Fair value	Difference
Fair value exceeds the consolidated balance sheet amount	Monetary receivables purchased	251,615	267,325	15,710
	Domestic bonds	22,987,188	27,944,990	4,957,802
	Foreign securities	894,544	1,001,270	106,726
	Subtotal	24,133,348	29,213,587	5,080,238
Fair value does not exceed the consolidated balance sheet amount	Monetary receivables purchased	6,208	6,148	(59)
	Domestic bonds	332,445	326,210	(6,234)
	Foreign securities	29,827	29,433	(393)
	Subtotal	368,480	361,792	(6,688)
Total		24,501,829	29,575,379	5,073,550

4) Available-for-sale securities

Acquisition cost or amortized cost, and consolidated balance sheet amounts, and their differences by type are as follows:

(Million Yen)

	Type	Acquisition cost or amortized cost	Consolidated balance sheet amount	Difference
Consolidated balance sheet amount exceeds acquisition cost or amortized cost	Cash and deposits (negotiable certificates of deposit)	132,800	132,800	0
	Monetary receivables purchased	45,132	47,162	2,030
	Domestic bonds	3,903,594	4,224,532	320,937
	Domestic stocks	3,355,658	7,725,070	4,369,411
	Foreign securities	17,103,317	19,992,055	2,888,737
	Other securities	3,068,303	3,406,898	338,595
	Subtotal	27,608,806	35,528,519	7,919,712
Consolidated balance sheet amount does not exceed acquisition cost or amortized cost	Cash and deposits (negotiable certificates of deposit)	168,500	168,499	(0)
	Monetary receivables purchased	22,497	22,405	(91)
	Assets held in trust	200	200	—
	Domestic bonds	198,833	193,566	(5,266)
	Domestic stocks	1,293,578	967,429	(326,148)
	Foreign securities	2,381,189	2,278,234	(102,954)
	Other securities	104,583	102,388	(2,194)
	Subtotal	4,169,381	3,732,725	(436,656)
Total		31,778,187	39,261,244	7,483,056

* Securities totaling ¥634,491 million, whose fair value is extremely difficult to determine, are not included in the table above.

Impairment losses of ¥22,033 million were recognized for securities with a fair value during the six months ended September 30, 2019. Regarding stocks (including foreign stocks) with fair values of the Company and certain consolidated subsidiaries, impairment losses are recognized for stocks whose fair value has declined significantly from the acquisition cost based on the average fair value of the month preceding September 30, 2019. However, in the case of a security that meets certain criteria, such as a security for which the fair value has declined significantly and the decline in the fair value in the month preceding September 30, 2019, is significant, impairment losses are recognized based on the fair value as of September 30, 2019.

The criteria by which the fair value of a stock is deemed to have declined significantly are as follows:

- a. A security for which the average fair value in the month preceding September 30, 2019, is 50% or less of the acquisition cost.
- b. The average fair value in the month preceding September 30, 2019, exceeds 50%, but equal to or less than 70% of the acquisition cost.

19. As of September 30, 2019, there were no significant changes in the consolidated balance sheet amounts and fair values of investment and rental properties from the end of the previous fiscal year.

20. (1) The total amount of loans to bankrupt borrowers, delinquent loans, loans that are delinquent for over three months, and restructured loans, which were included in loans, was ¥ 31,319 million as of September 30, 2019. The details of those balances were as follows:

- 1) The balances of loans to bankrupt borrowers and delinquent loans were ¥ 1,177 million and ¥ 28,384 million, respectively, as of September 30, 2019.

Loans to bankrupt borrowers are loans for which interest is not accrued as income, except for a portion of loans written off, and to which any event specified in Article 96, Paragraph 1, Item 3 (a) to (e) or Item 4 of the Order for Enforcement of the Corporation Tax Act has occurred. Interest is not accrued as income for such loans since the recovery of principal or interest on the loans is unlikely due to the fact that principal repayments or interest payments are overdue for a significant period of time or for other reasons.

Delinquent loans are loans for which interest is not accrued other than the loans to bankrupt borrowers and those with interest payments extended with the objective of restructuring or supporting the borrowers.

- 2) There were no loans delinquent for over three months as of September 30, 2019. Loans that are delinquent for over three months are loans with principal or interest unpaid for over three months beginning one day after the due date based on the loan agreement other than the loans classified as loans to bankrupt borrowers and delinquent loans.

- 3) The balance of restructured loans was ¥1,757 million as of September 30, 2019.

Restructured loans are loans that provide certain concessions favorable to borrowers with the intent of supporting the borrowers' restructuring, such as by reducing or exempting interest, postponing principal or interest payments, releasing credits, or providing other benefits to the borrowers other than the loans classified as loans to bankrupt borrowers, delinquent loans, and loans delinquent for over three months.

- (2) Direct write-offs of loans decreased the balances of loans to bankrupt borrowers and delinquent loans by ¥3,194 million and ¥733 million, respectively, as of September 30, 2019.

21. The amount of accumulated depreciation of tangible fixed assets was ¥1,166,952 million as of September 30, 2019.
22. Separate account assets as provided in accordance with Article 118, Paragraph 1 of the Insurance Business Act were ¥1,485,545 million as of September 30, 2019, and a corresponding liability is recorded in the same amount.
23. Changes in the reserve for dividends to policyholders (mutual company) for the six months ended September 30, 2019, were as follows:

	Million Yen
	Six months ended September 30, 2019
a. Balance at the beginning of the current fiscal year	¥1,020,213
b. Transfer to reserve from surplus for the previous fiscal year	¥211,818
c. Dividends paid to policyholders (mutual company) during the current six-month period	¥119,677
d. Increase in interest	¥10,937
e. Balance at the end of the current six-month period (a+b-c+d)	¥1,123,292

24. Changes in the reserve for dividends to policyholders (limited company) for the six months ended September 30, 2019, were as follows:

	Million Yen
	Six months ended September 30, 2019
a. Balance at the beginning of the current fiscal year	¥60,326
b. Dividends paid to policyholders (limited company) during the current six-month period	¥7,449
c. Increase in interest	¥5
d. Provision for reserve for dividends to policyholders (limited company)	¥6,197
e. Balance at the end of the current six-month period (a-b+c+d)	¥59,080

25. Corporate bonds within liabilities are subordinated corporate bonds with special provisions that subordinate the fulfillment of obligations on the bonds to all other debt obligations.

The corporate bonds are callable at the discretion of the issuer, subject to the pre-approval of the regulatory authorities and other conditions.

The Company's corporate bond issuance dates and callable dates for currency swaps under designated hedge accounting are as follows:

Issue date	Callable date
October 2012	Each interest payment date on or after October 2022
October 2014	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
January 2016	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
September 2017	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter

26. Other liabilities include subordinated loans payable of ¥426,500 million with special provisions that the fulfillment of obligations on the loans payable is subordinate to all other debt obligations.

The Company has decided to take out the following yen-denominated subordinated loan on November 21, 2019.

Principal amount	¥80 billion
Interest rate	Fixed rate of 0.85% per annum before November 21, 2029, and a fixed rate with step-up thereafter (reset every five years)
Repayment date	The third bank business day preceding November 21, 2049 (The loan is callable on the third bank business day preceding November 21, 2029, and the third bank business day preceding each fifth anniversary date thereafter, until the loan is fully redeemed at the discretion of the Company, subject to prior approval by the regulatory authorities.)
Use of funds	General working capital

27. Assets pledged as collateral in the form of cash and deposits, investments in securities, land, buildings and lease receivables as of September 30, 2019, were ¥59 million, ¥2,004,254 million, ¥252 million, ¥44 million and ¥13,346 million, respectively. The total amount of liabilities covered by the assets pledged was ¥1,220,035 million as of September 30, 2019. These amounts included ¥1,102,815 million of sale of securities under repurchase agreements, ¥1,196,298 million of payables under repurchase agreements, ¥10,026 million of investments in securities deposited, and ¥10,878 million of cash received as collateral under securities lending transactions secured by cash as of September 30, 2019.
28. Foundation funds (kikin) of ¥50,000 million were offered pursuant to Article 60 of the Insurance Business Act during the six months ended September 30, 2019.
29. The Company redeemed ¥50,000 million of foundation funds and credited the same amount to reserve for redemption of foundation funds as prescribed in Article 56 of the Insurance Business Act for the six months ended September 30, 2019.
30. The total amount of stocks and investments in nonconsolidated subsidiaries and affiliates was ¥ 370,834 million. On September 10, 2019, the Company made an investment of ¥ 2,256 million in Grand Guardian Life Insurance Company Limited (“GGLI”), acquiring approximately 35.0% of GGLI’s shares. In addition, GGLI changed its name to Grand Guardian Nippon Life Insurance Company Limited on September 11, 2019.

31. Matters concerning stock options are as follows:

- (1) Stock option-related expenses of ¥140 million and profit related to the forfeiture of unexercised stock options of ¥2 million were recorded as gains on equity method investments and presented in other ordinary income.

(2) Description of stock options

	RNAM			
	2017 First Series of Share Acquisition Rights	2017 Second Series of Share Acquisition Rights	2017 Third Series of Share Acquisition Rights	2019 First Series of Share Acquisition Rights
Title and number of grantees	Representative Director: 1 Employees: 84	Representative Director: 1 Employees: 137	Representative Director: 1 Employees: 157	Representative Director: 1 Employees: 156
Number of stock options granted by class of shares* ¹	Common shares: 4,944,246	Common shares: 4,598,135	Common shares: 11,190,706	Common shares: 18,081,008
Grant date	August 8, 2017	April 25, 2018	April 29, 2019	August 1, 2019
Vesting conditions	25% of the stock options are vested every year after being granted.* ²	25% of the stock options are vested every year after being granted.	25% of the stock options are vested every year after being granted.	25% of the stock options are vested every year after being granted.
Requisite service period	From the grant date to the date when the vesting conditions are satisfied	From the grant date to the date when the vesting conditions are satisfied	From the grant date to the date when the vesting conditions are satisfied	From the grant date to the date when the vesting conditions are satisfied
Exercise period	From August 8, 2018 to August 7, 2024	From April 25, 2019 to April 24, 2025	From April 29, 2020 to April 28, 2026	From August 1, 2020 to July 31, 2026

*1 The number of stock options granted has been converted into the number of shares.

*2 The stock options granted to the representative director will vest at once three years after the grant date.

(3) Volume and changes in stock options

a. Number of stock options

(Unit: Stocks)

	RNAS			
	2017 First Series of Share Acquisition Rights	2017 Second Series of Share Acquisition Rights	2017 Third Series of Share Acquisition Rights	2019 First Series of Share Acquisition Rights
Before vesting				
As of March 31, 2019	3,880,220	4,464,829	—	—
Granted	—	—	11,190,706	18,081,008
Forfeited	192,436	217,207	103,179	34,568
Vested	820,463	1,116,207	—	—
Outstanding	2,867,321	3,131,415	11,087,527	18,046,440
After vesting				
As of March 31, 2019	884,608	—	—	—
Vested	820,463	1,116,207	—	—
Exercised	37,460	—	—	—
Forfeited	64,145	72,402	—	—
Exercisable	1,603,466	1,043,805	—	—

* The table above shows changes at RNAM from the end of the previous fiscal year.

b. Price information

(Unit: Indian rupees)

	RNAS			
	2017 First Series of Share Acquisition Rights	2017 Second Series of Share Acquisition Rights	2017 Third Series of Share Acquisition Rights	2019 First Series of Share Acquisition Rights
Exercise price	204.25	256.10	202.50	223.32
Average stock price when exercised	227.05	—	—	—
Fair value on the grant date	10.82	45.71	38.94	43.06

(4) Valuation technique for fair value of stock options

a. Valuation technique

Black-Scholes option-pricing model

b. Principal parameters used in the option-pricing model

	RNAS			
	2017 First Series of Share Acquisition Rights	2017 Second Series of Share Acquisition Rights	2017 Third Series of Share Acquisition Rights	2019 First Series of Share Acquisition Rights
Expected volatility ^{*1}	13.92%–20.81%	14.21%–20.81%	16.66%	16.46%
Expected remaining life ^{*2}	4.0–5.5 years	4.0–5.5 years	4.0–5.5 years	4.0–5.5 years
Expected dividends rates ^{*3}	3.09%	3.25%	2.97%	3.22%
Risk-free interest rate ^{*4}	6.20%–6.34%	7.06%–7.15%	6.32%–6.55%	6.22%–6.45%

*1 Calculated based on indexes provided by the National Stock Exchange of India.

*2 The expected remaining life is calculated as a half of the sum of the shortest and longest exercise periods after stock options are granted.

*3 Expected dividend rates are based on historical dividend performance.

*4 The risk-free interest rate is based on the yields on government bond in India for bond with a remaining terms equal to the expected remaining life of the stock options.

(5) Method of estimating the number of stock options vested

The estimate basically reflects only the actual number of forfeited stock options because it is difficult to reasonably estimate the actual number of stock options that will be forfeited in the future.

32. Matters concerning business combinations through acquisitions are as follows:

1) Overview of the business combination

a. Name and business of the acquiree

Name: RNAM

Business: Asset management

b. Main reasons for executing the business combination

RNAM's trust assets under management have grown steadily, and the Company intends to support RNAM's attempt to enhance presence in the Indian asset management market, which is expected to show future growth driven by the solid economic growth.

c. Date of business combination

September 30, 2019 (deemed acquisition date)

d. Legal form of the business combination

Open offer to the public shareholders as per Indian regulations and share acquisition based on an agreement with Reliance Capital Limited (RCAP) to acquire shares of RNAM held by RCAP (the "Open Offer").

e. Name of company after business combination

RNAM

(Scheduled to be renamed, subject to approval by the relevant authorities and other conditions)

f. Percentage of voting rights acquired

Percentage of voting rights held before the Open Offer

42.875%

Percentage of voting rights acquired based on the Open Offer*

32.125%

Percentage of voting rights after the acquisition

75%

* Reflects the impact of changes in the percentage of voting rights due to the exercise of stock options for RNAM shares after the open offer.

g. Main rationale for determining the acquirer

It is clear that the Company will control the decision-making body of the acquiree by obtaining the majority of voting rights.

- 2) Period for which the acquiree's business results were included in the consolidated statement of income for the six months ended September 30, 2019

On the consolidated statement of income for the six months ended September 30, 2019, profit or loss related to the acquiree from April 1, 2019 to September 30, 2019 is recorded as gain on equity method investments and presented in other ordinary income.

- 3) Acquisition cost and breakdown

Consideration for acquisition:

Fair value of RNAM shares held right before the Open Offer

¥92,940 million

Additional cash payment for RNAM shares acquired through the Open Offer

¥68,759 million

Acquisition cost

¥161,699 million

- 4) Difference between the acquisition cost and the total cost of individual transactions before obtaining control Gain on step acquisitions

¥48,730 million

- 5) Description and the amount of main acquisition-related costs

Advisory fees and others

¥215 million

- 6) Amount of and reasons for recognizing goodwill, and amortization method and period

- a. Amount of goodwill

¥98,115 million

The figure is a provisional amount estimated based on currently available information as the allocation of the acquisition cost has not yet been completed as of the end of September 2019.

- b. Reasons

Goodwill was recognized because the equity interest in the net amount of the assets acquired and the liabilities assumed was lower than the acquisition cost.

- c. Amortization method and period

Straight-line amortization over 20 years

- 7) Amounts of the assets acquired and the liabilities assumed on the date of business combination and their main components

Total assets: ¥116,050 million

(including the amount allocated to intangible assets other than goodwill of
¥74,674 million)

Total liabilities: ¥30,755 million

(including deferred tax liabilities of ¥26,050 million)

- 8) Amount of acquisition cost allocated to intangible assets other than goodwill and amortization period

Amount of intangible assets other than goodwill: ¥74,674 million,

Amortization period: 19 years

(including contract-related assets of ¥74,674 million and amortization period of 19 years)

The figures are provisional amounts and amortization periods estimated based on currently available information, as the allocation of the acquisition cost has not yet been completed as of the end of September 2019.

- 9) Estimated amount of impact on the consolidated statements of income for the six months ended September 30, 2019 and calculation method, assuming that the business combination was completed as of the beginning of the six months ended September 30, 2019

Ordinary income was ¥10,150 million, ordinary profit was ¥204 million, and net surplus attributable to the parent company was ¥47,718.

The estimated amounts of the impact represent the difference between gain on equity method investments and gain on step acquisitions recorded by the Company for the six months ended September 30, 2019, based on RNAM's ordinary income, ordinary profit, and net surplus attributable to the parent company for the six months ended September 30, 2019. In addition, amortization and related amounts are calculated based on the assumption that goodwill recognized at the time of the business combination as well as intangible assets were recognized as of the beginning of the six months ended September 30, 2019. The estimated amounts do not represent RNAM's ordinary income, ordinary profit, and net surplus attributable to the parent company that would have been recorded if the business combination had actually been completed as of the beginning of the six months ended September 30, 2019.

This note has not received audit certification.

33. The amount of securities lent under lending agreements was ¥3,383,198 million as of September 30, 2019.

34. Assets that the Company has a free disposal right to sell or re-pledge are marketable securities borrowed under lending agreements. These assets were held without being sold or re-pledged and totaled ¥349,607 million at fair value as of September 30, 2019.
35. The unused amount of commitments related to loans and similar loan agreements was ¥310,119 million as of September 30, 2019.
36. Of the maximum borrowing amount from the Life Insurance Policyholders Protection Corporation of Japan, which is provided for in Article 37-4 of the Order for Enforcement of the Insurance Business Act, the amount applied to the Company and its certain consolidated subsidiaries was estimated to be ¥89,563 million as of September 30, 2019. The amount contributed to the corporation above was recorded as operating expenses.
37. Revaluation of land used in the operations of the Company is performed based on the Act on Revaluation of Land. The tax effect of the amount related to the valuation difference between the book value and the revalued amount for land revaluation is recognized as a deferred tax liability within the liability section. The valuation differences are recognized as land revaluation losses within the net assets section.

Revaluation date	March 31, 2002
Revaluation methodology	The amount is calculated by using the listed value of the land and road rate as prescribed by Article 2, Items 1 and 4 of the Order for Enforcement of the Act on Revaluation of Land.

38. TAIJU LIFE INSURANCE COMPANY, the Company's subsidiary, has concluded a modified coinsurance agreement (commencement date of reinsurance agreement: July 1, 2019) covering foreign currency-denominated single payment endowment insurance (U.S. dollar) and foreign currency-denominated single payment endowment insurance (Australian dollar).
- Through this modified coinsurance agreement, insurance risk has been transferred, and reinsurance premiums, including additional policy reserves associated with market price adjustments upon interest rate fluctuations, have been recorded and presented in revenues from insurance and reinsurance.
- The outstanding balance of reinsurance accounts receivable related to this modified coinsurance agreement stood at ¥50,106 million as of September 30, 2019. The outstanding balance of the policy reserve component associated with the modified coinsurance agreement stood at ¥704,676 million as of September 30, 2019.

(5) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
[Consolidated Statements of Income]

(Million Yen)

	Six months ended September 30, 2019	Six months ended September 30, 2018
Ordinary income:	4,102,239	4,009,947
Revenues from insurance and reinsurance	2,950,348	2,778,123
Investment income:	995,495	1,090,814
Interest, dividends, and other income	796,468	802,447
Gain on trading securities	28,143	8,927
Gain on sales of securities	105,155	131,020
Gain on derivative financial instruments, net	48,095	—
Foreign exchange gains, net	—	103,506
Gain from separate accounts, net	14,822	43,016
Other ordinary income	156,395	141,009
Ordinary expenses:	3,948,483	3,742,385
Benefits and other payments:	2,250,651	2,192,250
Death and other claims	619,463	647,099
Annuity payments	468,568	460,393
Health and other benefits	449,771	435,007
Surrender benefits	537,199	531,435
Other refunds	127,173	96,153
Provision for policy reserves:	829,684	735,737
Provision for policy reserves	818,741	724,600
Provision for interest on reserve for dividends to policyholders (mutual company)	10,937	11,130
Provision for interest on reserve for dividends to policyholders (limited company)	5	6
Investment expenses:	291,686	248,051
Interest expenses	18,509	16,676
Loss from assets held in trust, net	3,260	9,340
Loss on sales of securities	18,499	70,894
Loss on valuation of securities	50,121	4,386
Loss on derivative financial instruments, net	—	114,930
Foreign exchange losses, net	171,322	—
Operating expenses	405,496	402,122
Other ordinary expenses	170,964	164,223
Ordinary profit	153,756	267,562

[Consolidated Statements of Income] (Continued)

(Million Yen)

	Six months ended September 30, 2019	Six months ended September 30, 2018
Extraordinary gains:	51,767	13,498
Gain on disposals of fixed assets	3,036	3,151
Gain on bargain purchase	—	10,347
Gain on step acquisitions	48,730	—
Extraordinary losses:	63,301	118,526
Loss on disposals of fixed assets	1,754	2,013
Impairment losses	2,065	1,449
Provision for reserve for price fluctuations in investments in securities	56,480	112,213
Contributions for assisting social public welfare	3,000	2,850
Provision for reserve for dividends to policyholders (limited company)	6,197	6,394
Surplus before income taxes	136,024	156,139
Income taxes - current	73,728	60,373
Income taxes - deferred	(69,837)	(48,268)
Total income taxes	3,890	12,105
Net surplus	132,133	144,033
Net (deficit) surplus attributable to noncontrolling interests	(1,634)	2,612
Net surplus attributable to the parent company	133,768	141,421

1. Impairment losses are as follows:

1) Method for grouping the assets

Real estate for rental use and idle properties of the Company and certain consolidated subsidiaries are classified as one asset group per property. Assets utilized for insurance business operations are classified into one asset group for each operation.

2) Recognition of impairment losses

When a significant decrease in profitability or fair value of a certain asset group is noted, the book value is reduced to the recoverable amount, recognizing an impairment loss under extraordinary losses.

3) Breakdown of asset groups for which impairment losses were recognized for the six months ended September 30, 2019, is as follows:

Purpose of use	Million Yen			Total
	Land	Leasehold interests in land	Buildings and others	
Real estate for rental use	¥29	—	¥580	¥610
Idle properties	¥843	¥168	¥443	¥1,455
Total	¥872	¥168	¥1,024	¥2,065

4) Measurement of recoverable amount

The recoverable amount is based on either the value in use or net selling price of the asset.

In principle, the value in use is determined as the discounted future cash flows using a discount rate of 3.0% to 3.3%. Net selling price is determined based on appraisals performed in accordance with the “Real Estate Appraisal Standards” or standard land prices.

2. Reinsurance premiums included in revenues from insurance and reinsurance of TAIJU LIFE INSURANCE COMPANY, the Company's subsidiary, include reinsurance premiums of ¥78,753 million related to the modified coinsurance agreement for foreign currency-denominated single payment endowment insurance (U.S. dollar) and foreign currency-denominated single payment endowment insurance (Australian dollar). The breakdown of these premiums is as follows:

- | | |
|---|-----------------|
| a. Adjustment to policy reserve for ceded reinsurance (excluding b.): | ¥24,130 million |
| b. Additional policy reserves associated with market price adjustments: | ¥50,564 million |
| c. Others: | ¥4,058 million |

With the implementation of this reinsurance, ordinary profit and surplus before income taxes increased by ¥50,106 million each.

[Consolidated Statements of Comprehensive Income]

(Million Yen)

	Six months ended September 30, 2019	Six months ended September 30, 2018
Net surplus	132,133	144,033
Other comprehensive (loss) income:	553,588	(18,574)
Net unrealized gains on available-for-sale securities	533,289	49,287
Deferred gains (losses) on derivatives under hedge accounting	28,547	(35,172)
Foreign currency translation adjustments	(12,993)	(21,459)
Remeasurement of defined benefit plans	5,084	3,999
Share of other comprehensive loss of associates accounted for under the equity method	(339)	(15,229)
Comprehensive income:	685,722	125,459
Comprehensive income attributable to the parent company	677,330	128,764
Comprehensive income (loss) attributable to noncontrolling interests	8,391	(3,305)

(6) Consolidated Statements of Cash Flows

(Million Yen)

	Six months ended September 30, 2019	Six months ended September 30, 2018
I. Cash flows from operating activities:		
Surplus before income taxes	136,024	156,139
Depreciation of real estate for rental use and other assets	10,008	9,120
Depreciation	33,367	25,617
Impairment losses	2,065	1,449
Amortization of goodwill	1,238	1,337
Gain on bargain purchase	—	(10,347)
Net decrease in reserve for outstanding claims	(30,688)	(23,833)
Net increase in policy reserve	814,370	719,807
Provision for interest on reserve for dividends to policyholders (mutual company)	10,937	11,130
Provision for interest on reserve for dividends to policyholders (limited company)	5	6
Provision for reserve for dividends to policyholders (limited company)	6,197	6,394
Net (decrease) increase in allowance for doubtful accounts	(588)	2,757
Net decrease in accrued bonuses for directors, and audit and supervisory board members	(68)	(57)
Net increase in net defined benefit liability	4,357	1,554
Net decrease in accrued retirement benefits for directors, and audit and supervisory board members	(200)	(880)
Net increase in reserve for price fluctuations in investments in securities	56,480	112,213
Interest, dividends, and other income	(796,468)	(802,447)
Net gains on investments in securities	(34,332)	(51,804)
Interest expenses	18,509	16,676
Net losses (gains) on tangible fixed assets	309	(1,415)
Gains from separate accounts	(14,822)	(43,016)
Gain on step acquisitions	(48,730)	—
Others, net	(20,536)	(37,273)
Subtotal	147,437	93,129
Interest, dividends, and other income received	838,736	850,252
Interest paid	(17,513)	(14,892)
Dividends paid to policyholders (mutual company)	(98,514)	(95,924)
Dividends paid to policyholders (limited company)	(7,449)	(8,287)
Others, net	(6,375)	2,494
Income taxes paid	(68,295)	(88,021)
Net cash provided by operating activities	788,025	738,749

(6) Consolidated Statements of Cash Flows (Continued)

(Million Yen)

	Six months ended September 30, 2019	Six months ended September 30, 2018
II. Cash flows from investing activities:		
Net increase in deposits	0	28
Purchases of monetary receivables purchased	(3,328)	(4,775)
Proceeds from sales and redemptions of monetary receivables purchased	24,340	28,549
Purchases of assets held in trust	(1,000)	(3,700)
Proceeds from decrease in assets held in trust	99	0
Purchases of securities	(4,519,982)	(6,969,044)
Proceeds from sales and redemptions of securities	3,333,996	5,861,977
Disbursements for loans	(758,781)	(753,904)
Proceeds from collections of loans	665,449	769,097
Others, net	653,767	274,428
Total of asset management activities	(605,439)	(797,343)
[Sum of operating activities and asset management activities]	182,586	(58,594)
Purchases of tangible fixed assets	(25,354)	(16,674)
Proceeds from sales of tangible fixed assets	3,670	10,598
Payments for acquisition of subsidiary's shares resulting in change in the scope of consolidation	(55,886)	(49,960)
Others, net	(24,956)	(22,788)
Net cash used in investing activities	(707,965)	(876,169)
III. Cash flows from financing activities:		
Proceeds from debt borrowing	133,514	297,330
Repayments of debt	(47,284)	(88,866)
Proceeds from issuance of foundation funds	50,000	—
Redemption of foundation funds	(50,000)	(50,000)
Interest payments on foundation funds	(355)	(790)
Others, net	963	(5,364)
Net cash provided by financing activities	86,838	152,310
IV. Effect of exchange rate changes on cash and cash equivalents	(11,475)	13,531
V. Net increase in cash and cash equivalents	155,422	28,422
VI. Cash and cash equivalents at the beginning of the period	2,011,931	1,897,011
VII. Increase in cash and cash equivalents resulting from change in scope of consolidation	3,621	—
VIII. Cash and cash equivalents at the end of the period	2,170,976	1,925,434

Notes to the Consolidated Statement of Cash Flows for the Six Months Ended September 30, 2019

1. Cash and cash equivalents

Cash and cash equivalents, for the purpose of reporting consolidated cash flows, are composed of cash in hand, deposits held at call with banks, and all highly liquid short-term investments with a maturity of three months or less when purchased, which are readily convertible into cash and present insignificant risk of change in value.

2. Main components of assets and liabilities of newly consolidated subsidiaries due to acquisition of shares

Major assets and liabilities of RNAM and its four affiliated companies at the time of acquisition, as well as the acquisition cost and the net payment for the acquisition are as follows:

	Million Yen
Total assets:	¥116,050
(including the amount allocated to intangible assets other than goodwill of ¥74,674 million)	
Goodwill	¥98,115
Total liabilities:	¥(30,755)
(including deferred tax liabilities of ¥(26,050) million)	
Share acquisition rights	¥(515)
Noncontrolling interests	¥(21,194)
Acquisition cost	¥161,699
Gain on step acquisitions	¥(48,730)
Acquisition cost before obtaining control	¥(44,209)
Cash and cash equivalents of the acquiree	¥(12,873)
Net payments for the acquisition	¥55,886

(7) Consolidated Statements of Changes in Net Assets

For the six months ended September 30, 2019

(Million Yen)

	Foundation funds and others				
	Foundation funds	Reserve for redemption of foundation funds	Reserve for revaluation	Consolidated surplus	Total foundation funds and others
Beginning balance	100,000	1,250,000	651	629,555	1,980,206
Increase/decrease:					
Issuance of foundation funds	50,000				50,000
Additions to reserve for dividends to policyholders (mutual company)				(211,818)	(211,818)
Additions to reserve for redemption of foundation funds		50,000		(50,000)	—
Interest on foundation funds				(355)	(355)
Net surplus attributable to the parent company				133,768	133,768
Redemption of foundation funds	(50,000)				(50,000)
Reversal of land revaluation losses				(613)	(613)
Changes in the scope of consolidation and application of the equity method				(1,982)	(1,982)
Net change, excluding foundation funds and others					
Net change	—	50,000	—	(131,002)	(81,002)
Ending balance	100,000	1,300,000	651	498,553	1,899,204

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

For the six months ended September 30, 2019

(Million Yen)

	Accumulated other comprehensive income						Share acquisition rights	Non-controlling interests	Total net assets
	Net unrealized gains on available-for-sale securities	Deferred losses on derivatives under hedge accounting	Land Revaluation losses	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Beginning balance	4,943,922	(31,643)	(54,690)	(4,853)	(13,494)	4,839,241	—	158,772	6,978,221
Increase/decrease:									
Issuance of foundation funds									50,000
Additions to reserve for dividends to policyholders (mutual company)									(211,818)
Additions to reserve for redemption of foundation funds									—
Interest on foundation funds									(355)
Net surplus attributable to the parent company									133,768
Redemption of foundation funds									(50,000)
Reversal of land revaluation losses									(613)
Changes in the scope of consolidation and application of the equity method									(1,982)
Net change, excluding foundation funds and others	526,083	28,072	613	(15,610)	5,017	544,176	515	29,019	573,711
Net change	526,083	28,072	613	(15,610)	5,017	544,176	515	29,019	492,709
Ending balance	5,470,005	(3,571)	(54,076)	(20,464)	(8,476)	5,383,417	515	187,792	7,470,930

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

For the six months ended September 30, 2018

(Million Yen)

	Foundation funds and others				
	Foundation funds	Reserve for redemption of foundation funds	Reserve for revaluation	Consolidated surplus	Total foundation funds and others
Beginning balance	150,000	1,200,000	651	625,131	1,975,782
Increase/decrease:					
Additions to reserve for dividends to policyholders (mutual company)				(218,353)	(218,353)
Additions to reserve for redemption of foundation funds		50,000		(50,000)	—
Interest on foundation funds				(790)	(790)
Net surplus attributable to the parent company				141,421	141,421
Redemption of foundation funds	(50,000)				(50,000)
Reversal of land revaluation losses				831	831
Net change, excluding foundation funds and others					
Net change	(50,000)	50,000	—	(126,890)	(126,890)
Ending balance	100,000	1,250,000	651	498,241	1,848,892

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

For the six months ended September 30, 2018

(Million Yen)

	Accumulated other comprehensive income						Noncontrolling interests	Total net assets
	Net unrealized gains on available-for-sale securities	Deferred losses on derivatives under hedge accounting	Land revaluation losses	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Beginning balance	4,918,602	(59,092)	(60,989)	28,706	(18,632)	4,808,594	137,996	6,922,373
Increase/decrease:								
Additions to reserve for dividends to policyholders (mutual company)								(218,353)
Additions to reserve for redemption of foundation funds								—
Interest on foundation funds								(790)
Net surplus attributable to the parent company								141,421
Redemption of foundation funds								(50,000)
Reversal of land revaluation losses								831
Net change, excluding foundation funds and others	47,963	(35,097)	(831)	(29,469)	3,946	(13,488)	15,806	2,317
Net change	47,963	(35,097)	(831)	(29,469)	3,946	(13,488)	15,806	(124,572)
Ending balance	4,966,565	(94,189)	(61,821)	(762)	(14,685)	4,795,105	153,802	6,797,800

Notes to Statements of Changes in Net Assets

1. Matters concerning share acquisition rights

(Million Yen)

Classification	Breakdown of share acquisition rights	Balance as of September 30, 2019
RNAM	Share acquisition rights provided as stock options	515

(8) Consolidated Solvency Margin Ratio

(Million Yen)

	As of September 30, 2019	As of March 31, 2019
Solvency margin gross amount (A):	15,855,040	15,029,149
Foundation funds (<i>kikin</i>) and other reserve funds:	5,543,027	5,437,605
Foundation funds and others	1,881,202	1,888,331
Reserve for price fluctuations in investments in securities	1,516,663	1,460,182
Contingency reserve	1,880,766	1,825,914
Extraordinary contingency reserve	—	—
General allowance for doubtful accounts	3,237	2,213
Others	261,157	260,963
Net unrealized gains on available-for-sale securities (before tax) and deferred losses on derivatives under hedge accounting (before tax) × 90%	6,750,268	6,083,208
Net unrealized gains on real estate × 85%	376,752	374,311
Total amount of unrecognized actuarial gains/losses and unrecognized prior service cost	(11,757)	(18,717)
Excess of continued Zillmerized reserve	1,836,927	1,798,965
Qualifying subordinated debt	1,602,089	1,512,089
Excess of continued Zillmerized reserve and qualifying subordinated debt not included in margin calculations	—	—
Deduction clause	(235,477)	(260,734)
Others	(6,788)	102,421
Total amount of risk (B): $\sqrt{(\sqrt{R_1^2 + R_5^2} + R_6 + R_9)^2 + (R_2 + R_3 + R_7)^2} + R_4 + R_6$	3,009,175	3,015,880
Underwriting risk (R_1)	161,359	164,973
General underwriting risk (R_5)	—	—
Huge disaster risk (R_6)	—	—
Underwriting risk of third-sector insurance (R_8)	92,443	93,010
Underwriting risk related to small amount and short-term insurance providers (R_9)	—	—
Anticipated yield risk (R_2)	429,203	432,609
Minimum guarantee risk (R_7)	9,254	9,302
Investment risk (R_3)	2,495,997	2,498,701
Business management risk (R_4)	63,765	63,971
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	1,053.7%	996.6%

Notes: 1. The amounts and figures in the table above are calculated based on the provisions of Article 86-2 and Article 88 of the Ordinance for Enforcement of the Insurance Business Act and the Financial Services Agency Public Notice No. 23 of 2011.
2. The standard method is used for the calculation of the amount equivalent to minimum guarantee risk.

(9) Segment Information

For the six months ended September 30, 2019, the Company and its consolidated subsidiaries engaged in insurance business and insurance-related businesses (including asset management-related business and general administration-related business) in Japan and overseas. Segment information and related information are omitted because there are no other significant segments to be reported.