

November 14, 2018

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## Financial Results for the Six Months Ended September 30, 2018

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The Dai-ichi Life Insurance Company, Limited (the "Company"; President: Seiji Inagaki) announces its financial results for the six months ended September 30, 2018.

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

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Please note that this is an unofficial translation of the original disclosure in Japanese.

## 1. Business Highlights

### (1) Annualized Net Premiums

#### Policies in Force

(billions of yen)

	As of March 31, 2018	As of September 30, 2018	% of March 31, 2018 total
	Individual insurance	1,613.0	1,601.1
Individual annuities	532.7	534.8	100.4
Total	2,145.8	2,136.0	99.5
Medical and survival benefits	647.9	659.2	101.7

#### New Policies

(billions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018	% of September 30, 2017 total
	Individual insurance	47.3	38.1
Individual annuities	7.1	7.9	110.5
Total	54.5	46.0	84.5
Medical and survival benefits	36.3	27.8	76.5

- Note: 1. Annualized net premium is calculated by using multipliers for various premium payment terms to the premium per payment. In single premium contracts, the amount is calculated by dividing the premium by the duration of the policy.  
2. Annualized net premium for medical and survival benefits includes (a) premium related to medical benefits such as hospitalization and surgery benefits, (b) premium related to survival benefits such as specific illness and nursing benefits, and (c) premium related to premium waiver benefits, in which disability cause is excluded but causes such as specific illness and nursing care are included.  
3. New policies include net increase by conversion.

### (2) Sum Insured of Policies in Force and New Policies

#### Policies in Force

	As of March 31, 2018		As of September 30, 2018			
	Number of policies (thousands)	Amount (billions of yen)	Number of policies		Amount	
			(thousands)	% of March 31, 2018 total	(billions of yen)	% of March 31, 2018 total
Individual insurance	11,768	102,446.7	13,455	114.3	99,143.7	96.8
Individual annuities	1,978	11,366.7	2,015	101.8	11,352.3	99.9
Individual insurance and annuities	13,746	113,813.4	15,470	112.5	110,496.1	97.1
Group insurance	-	47,388.2	-	-	47,857.1	101.0
Group annuities	-	6,175.7	-	-	6,202.1	100.4

- Note: 1. Policy amount in force of individual annuities is equal to (a) the funds to be held at the time annuity payments are to commence for an annuity for which payment has not yet commenced, and (b) the amount of policy reserve for an annuity for which payments have commenced.  
2. Policy amount in force of group annuities is equal to the amount of outstanding corresponding policy reserve.  
3. For products covered by multiple insurance agreements after April 2018, the number of policies for each product is shown as one.  
4. For products from April 2018 onwards, when multiple insurance agreements are accounted for as one policy, the total number of policies in force for individual insurance and individual annuities as of September 30, 2018 is 13,723 thousand.

#### New Policies

	Number of policies		Amount			
	(thousands)	% of September 30, 2017 total	(billions of yen)	New Business	Net increase by conversion	% of September 30, 2017 total
Six months ended September 30, 2017						
Individual insurance	482		1,007.4	1,936.4	(929.0)	
Individual annuities	32		164.3	169.3	(4.9)	
Individual insurance and annuities	515		1,171.8	2,105.8	(934.0)	
Group insurance	-		325.3	325.3	-	
Group annuities	-		0.0	0.0	-	
Six months ended September 30, 2018						
Individual insurance	2,214	459.2	622.7	1,457.2	(834.5)	61.8
Individual annuities	68	209.6	226.1	228.2	(2.0)	137.6
Individual insurance and annuities	2,283	443.3	848.9	1,685.5	(836.6)	72.4
Group insurance	-	-	241.9	241.9	-	74.4
Group annuities	-	-	0.0	0.0	-	93.2

- Note: 1. Number of new policies is the sum of new business and policies after conversion.  
2. Amount of new policies for individual annuities, both new business and net increase by conversion, is equal to the funds to be held at the time annuity payments are to commence.  
3. Amount of new policies for group annuities is equal to the initial premium payment.  
4. For products covered by multiple insurance agreements after April 2018, the number of policies for each product is shown as one.  
5. For products from April 2018 onwards, when multiple insurance agreements are accounted for as one policy, the total number of new policies for individual insurance and individual annuities as of September 30, 2018 is 530 thousand.

## 2. Unaudited Balance Sheet

(millions of yen)

	As of March 31, 2018 (summarized)	As of September 30, 2018
<b>(ASSETS)</b>		
Cash and deposits	474,030	482,193
Call loans	164,600	332,800
Monetary claims bought	191,108	194,851
Money held in trust	59,348	90,642
Securities	30,961,195	31,265,115
[ Government bonds ]	[ 14,011,465 ]	[ 13,802,457 ]
[ Local government bonds ]	[ 119,575 ]	[ 131,548 ]
[ Corporate bonds ]	[ 1,949,088 ]	[ 2,020,595 ]
[ Stocks ]	[ 3,883,612 ]	[ 3,891,395 ]
[ Foreign securities ]	[ 10,290,811 ]	[ 10,754,418 ]
Loans	2,562,316	2,434,621
Policy loans	358,340	351,260
Ordinary loans	2,203,976	2,083,360
Tangible fixed assets	1,116,133	1,101,742
Intangible fixed assets	99,255	103,204
Reinsurance receivable	2,500	2,461
Other assets	601,617	547,381
Customers' liabilities for acceptances and guarantees	108,514	54,694
Reserve for possible loan losses	(994)	(638)
Reserve for possible investment losses	(436)	(354)
<b>Total assets</b>	<b>36,339,190</b>	<b>36,608,715</b>
<b>(LIABILITIES)</b>		
Policy reserves and others	30,953,878	30,970,940
Reserves for outstanding claims	148,009	136,281
Policy reserves	30,407,218	30,445,176
Reserve for policyholder dividends	398,650	389,482
Reinsurance payable	613	488
Subordinated bonds	476,277	476,277
Other liabilities	1,054,754	1,441,977
Corporate income tax payable	65,670	27,930
Lease liabilities	4,091	2,722
Asset retirement obligations	2,665	2,686
Other liabilities	982,326	1,408,638
Reserve for employees' retirement benefits	392,948	399,733
Reserve for retirement benefits of directors, executive officers and corporate auditors	1,384	1,308
Reserve for possible reimbursement of prescribed claims	900	779
Reserve for price fluctuations	181,453	189,953
Deferred tax liabilities	203,767	198,314
Deferred tax liabilities for land revaluation	76,438	76,197
Acceptances and guarantees	108,514	54,694
<b>Total liabilities</b>	<b>33,450,931</b>	<b>33,810,665</b>
<b>(NET ASSETS)</b>		
Capital stock	60,000	60,000
Capital surplus	470,000	420,000
Legal capital surplus	60,000	60,000
Other capital surplus	410,000	360,000
Retained earnings	166,041	124,870
Other retained earnings	166,041	124,870
Reserve for tax basis adjustments of real estate	1,746	2,157
Retained earnings brought forward	164,295	122,713
Total shareholders' equity	696,041	604,871
Net unrealized gains (losses) on securities, net of tax	2,213,897	2,233,790
Deferred hedge gains (losses)	(9,256)	(27,572)
Reserve for land revaluation	(12,423)	(13,039)
Total of valuation and translation adjustments	2,192,217	2,193,179
<b>Total net assets</b>	<b>2,888,259</b>	<b>2,798,050</b>
<b>Total liabilities and net assets</b>	<b>36,339,190</b>	<b>36,608,715</b>

### 3. Unaudited Statement of Earnings

(millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
<b>ORDINARY REVENUES</b>	1,815,851	1,827,776
Premium and other income	1,105,936	1,120,169
[ Premium income ]	[ 1,105,553 ]	[ 1,119,673 ]
Investment income	577,191	602,220
[ Interest and dividends ]	[ 420,427 ]	[ 410,248 ]
[ Gains on money held in trust ]	[ 5,616 ]	[ 1,342 ]
[ Gains on sale of securities ]	[ 91,760 ]	[ 133,832 ]
[ Gains on investments in separate accounts ]	[ 49,217 ]	[ 48,153 ]
Other ordinary revenues	132,723	105,386
[ Reversal of reserves for outstanding claims ]	[ 23,068 ]	[ 11,727 ]
<b>ORDINARY EXPENSES</b>	1,657,710	1,648,612
Benefits and claims	1,078,215	1,079,234
[ Claims ]	[ 351,050 ]	[ 322,046 ]
[ Annuities ]	[ 225,811 ]	[ 233,358 ]
[ Benefits ]	[ 182,626 ]	[ 195,024 ]
[ Surrender values ]	[ 242,475 ]	[ 249,593 ]
[ Other refunds ]	[ 75,494 ]	[ 78,240 ]
Provision for policy reserves and others	86,585	42,101
Provision for policy reserves	82,416	37,958
Provision for interest on policyholder dividends	4,168	4,143
Investment expenses	145,686	186,588
[ Interest expenses ]	[ 7,095 ]	[ 6,490 ]
[ Losses on sale of securities ]	[ 51,688 ]	[ 75,364 ]
[ Losses on valuation of securities ]	[ 649 ]	[ 2,476 ]
[ Derivative transaction losses ]	[ 26,379 ]	[ 39,668 ]
Operating expenses	204,445	194,458
Other ordinary expenses	142,778	146,229
<b>ORDINARY PROFIT</b>	158,140	179,163
<b>EXTRAORDINARY GAINS</b>	170	2,105
Gains on disposal of fixed assets	170	2,105
<b>EXTRAORDINARY LOSSES</b>	9,442	11,554
Losses on disposal of fixed assets	595	2,486
Impairment losses on fixed assets	846	568
Provision for reserve for price fluctuations	8,000	8,500
Provision for reserve for policyholder dividends	45,995	40,330
Income before income taxes	102,873	129,384
Corporate income taxes-current	38,769	41,614
Corporate income taxes-deferred	(8,494)	(6,305)
Total of corporate income taxes	30,274	35,309
Net income	72,598	94,075

#### 4. Unaudited Statement of Changes in Net Assets

Six months ended September 30, 2017

(millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings		Total retained earnings	
					Reserve for tax basis adjustments of real estate	Retained earnings brought forward		
Balance at the beginning of the year	60,000	60,000	410,000	470,000	1,257	29,972	31,230	561,230
Changes for the period								
Dividends						(29,972)	(29,972)	(29,972)
Net income						72,598	72,598	72,598
Transfer to reserve for tax basis adjustments of real estate					155	(155)	-	-
Transfer from reserve for land revaluation						278	278	278
Net changes of items other than shareholders' equity								
Total changes for the period	-	-	-	-	155	42,748	42,904	42,904
Balance at the end of the period	60,000	60,000	410,000	470,000	1,413	72,721	74,134	604,134

(millions of yen)

	Valuation and translation adjustments				Total net assets
	Net unrealized gains (losses) on securities, net of tax	Deferred hedge gains (losses)	Reserve for land revaluation	Total of valuation and translation adjustments	
Balance at the beginning of the year	1,963,267	(25,327)	(17,541)	1,920,398	2,481,628
Changes for the period					
Dividends					(29,972)
Net income					72,598
Transfer to reserve for tax basis adjustments of real estate					-
Transfer from reserve for land revaluation					278
Net changes of items other than shareholders' equity	322,550	(4,233)	(276)	318,040	318,040
Total changes for the period	322,550	(4,233)	(276)	318,040	360,945
Balance at the end of the period	2,285,818	(29,561)	(17,817)	2,238,439	2,842,573

Six months ended September 30, 2018

(millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings		Total retained earnings	
					Reserve for tax basis adjustments of real estate	Retained earnings brought forward		
Balance at the beginning of the year	60,000	60,000	410,000	470,000	1,746	164,295	166,041	696,041
Changes for the period								
Dividends			(49,999)	(49,999)		(135,862)	(135,862)	(185,862)
Net income						94,075	94,075	94,075
Transfer to reserve for tax basis adjustments of real estate					411	(411)	-	-
Transfer from reserve for land revaluation						615	615	615
Net changes of items other than shareholders' equity								
Total changes for the period	-	-	(49,999)	(49,999)	411	(41,581)	(41,170)	(91,170)
Balance at the end of the period	60,000	60,000	360,000	420,000	2,157	122,713	124,870	604,871

(millions of yen)

	Valuation and translation adjustments				Total net assets
	Net unrealized gains (losses) on securities, net of tax	Deferred hedge gains (losses)	Reserve for land revaluation	Total of valuation and translation adjustments	
Balance at the beginning of the year	2,213,897	(9,256)	(12,423)	2,192,217	2,888,259
Changes for the period					
Dividends					(185,862)
Net income					94,075
Transfer to reserve for tax basis adjustments of real estate					-
Transfer from reserve for land revaluation					615
Net changes of items other than shareholders' equity	19,893	(18,315)	(615)	961	961
Total changes for the period	19,893	(18,315)	(615)	961	(90,208)
Balance at the end of the period	2,233,790	(27,572)	(13,039)	2,193,179	2,798,050

## I. NOTES TO THE UNAUDITED BALANCE SHEET AS OF SEPTEMBER 30, 2018

### 1. Valuation Methods of Securities

Securities held by the Company including cash and deposits and monetary claims bought which are equivalent to marketable securities, and marketable securities managed as trust assets in money held in trust, are carried as explained below:

The amortization of premiums and accretion of discounts is calculated by the straight-line method.

(1) Trading Securities

Trading securities are carried at fair value with cost determined by the moving average method.

(2) Held-to-maturity Bonds

Held-to-maturity bonds are stated at amortized cost determined by the moving average method.

(3) 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))

Policy-reserve-matching bonds are stated at amortized cost determined by the moving average method.

(4) Stocks of Subsidiaries and Affiliated Companies

Stocks of subsidiaries and affiliated companies are stated at cost determined by the moving average method.

(5) Available-for-sale Securities

a) Available-for-sale Securities with Fair Value

Available-for-sale securities which have market value are valued at fair value as of September 30, 2018 (for domestic stocks, the average value during September), with cost determined by the moving average method.

b) Available-for-sale Securities Whose Fair Values Are Extremely Difficult to Recognize

i) Government/Corporate Bonds (including foreign bonds), Whose Premium or Discount Represents the Interest Adjustment

Government/corporate bonds (including foreign bonds), whose premium or discount represents the interest adjustment are valued at the amortized cost determined by the moving average method.

ii) Others

All other securities are valued at cost determined by the moving average method.

Net unrealized gains or losses on these available-for-sale securities are presented as a separate component of net assets and not in the statement of earnings.

### 2. Risk Management Policy of Policy-reserve-matching Bonds

The Company categorizes its insurance products into sub-groups by the attributes of each product and, in order to manage risks properly, formulates its policy on investments and resource allocation based on the balance of the sub-groups. Moreover, it periodically checks that the duration gap between policy-reserve-matching bonds and policy reserves stays within a certain range.

The sub-groups of insurance products are:

- a) individual life insurance and annuities,
- b) non-participating single premium whole life insurance (without duty of medical disclosure),
- c) financial insurance and annuities, and
- d) group annuities with the exception of certain types

### 3. Valuation Method of Derivative Transactions

Derivative transactions are reported at fair value.

#### **4. Revaluation of Land**

Based on the “Act on Revaluation of Land” (Act No.34, March 31, 1998), land for business use was revalued. The difference between the fair value and book value resulting from the revaluation, net of related deferred taxes, is recorded as a reserve for land revaluation as a separate component of net assets and the related deferred tax liability is recorded as deferred tax liabilities for land revaluation.

(1) Date of revaluation: March 31, 2001

(2) Method stipulated in Article 3, Paragraph 3 of the Act on Revaluation of Land;

The fair value was determined based on the appraisal value publicly announced for tax assessment purposes with certain reasonable adjustments in accordance with Articles 2-1 and 2-4 of the Order for Enforcement of the Act on Revaluation of Land (Publicly Issue Cabinet Order No.119, March 31, 1998).

#### **5. Depreciation of Depreciable Assets**

(1) Depreciation of Tangible Fixed Assets Excluding Leased Assets

Depreciation of tangible fixed assets excluding leased assets is calculated by the declining balance method (the depreciation of buildings (other than facilities attached to buildings and structures that were acquired on or before March 31, 2016) is calculated by the straight-line method) and is computed by proportionally allocating the estimated depreciation for the fiscal year.

Estimated useful lives of major assets are as follows:

Buildings	two to sixty years
Other tangible fixed assets	two to twenty years

Tangible fixed assets other than land, buildings and leased assets that were acquired for ¥100,000 or more but less than ¥200,000 are depreciated at equal amounts over three years.

With respect to tangible fixed assets that were acquired on or before March 31, 2007 and that were fully depreciated to their original depreciable limit, effective the fiscal year ended March 31, 2008, the remaining values are depreciated at equal amounts over five years from the following fiscal year of the year in which they reached the original depreciable limit.

(2) Amortization of Intangible Fixed Assets Excluding Leased Assets

The Company uses the straight-line method for amortization of intangible fixed assets excluding leased assets. Software for internal use is amortized by the straight-line method based on the estimated useful lives of five years.

(3) Depreciation of Leased Assets

Depreciation for leased assets with regard to finance leases whose ownership does not transfer to the lessees is computed under the straight-line method assuming zero salvage value and using the lease period as the useful life.

#### **6. Translation of Assets and Liabilities Denominated in Foreign Currencies into Yen**

The Company translates foreign currency-denominated assets and liabilities into yen at the prevailing exchange rates as of September 30, 2018.

#### **7. Reserve for Possible Loan Losses**

The reserve for possible loan losses is calculated based on the internal rules for self-assessment, write-offs, and reserves on assets.

For loans to and claims on obligors that have already experienced bankruptcy, reorganization, or other formal legal failure (hereinafter, “bankrupt obligors”) and loans to and claims on obligors that have suffered substantial business failure (hereinafter, “substantially bankrupt obligors”), the reserve is calculated by deducting the estimated recoverable amount of the collateral or guarantees from the book value of the loans and claims after the direct write-off described below.

For loans to and claims on obligors that have not yet suffered business failure but are considered highly likely to fail, the reserve is calculated taking into account a) the recoverable amount covered by the collateral or guarantees and b) an overall assessment of the obligor’s ability to repay.

For other loans and claims, the reserve is calculated by multiplying the actual rate or other appropriate rate of losses from bad debts during a certain period in the past by the amount of the loans and claims.

For all loans and claims, the relevant department in the Company performs an asset quality assessment based on the internal rules for self-assessment, and an independent audit department audits the result of the assessment. The above reserves are established based on the result of this assessment.



For loans and claims to bankrupt and substantially bankrupt obligors, the unrecoverable amount is calculated by deducting the amount deemed recoverable from collateral or guarantees from the amount of the loans and claims and is directly written off from the amount of the loans and claims. The amount written off during the six months ended September 30, 2018 was ¥5 million.

#### **8. Reserve for Employees' Retirement Benefits**

For the reserve for employees' retirement benefits, the amount is provided based on the projected benefit obligations and pension assets as of September 30, 2018.

Accounting treatment of retirement benefit obligations and retirement benefit expenses are as follows:

##### **(1) Allocation of Estimated Retirement Benefits**

In calculating the projected benefit obligations, the benefit formula basis is adopted to allocate estimated retirement benefit for the fiscal year ending March 31, 2019.

##### **(2) Amortization of Actuarial Differences**

Actuarial differences are amortized under the straight-line method over a certain period (seven years) within the employees' average remaining service period, starting from the following year.

#### **9. Reserve for Possible Investment Losses**

In order to provide for future investment losses, a reserve for possible investment losses of the Company is established for securities whose fair values are extremely difficult to recognize. It is calculated based on the internal rules for self-assessment, write-offs, and reserves on assets.

#### **10. Reserve for Retirement Benefits of Directors, Executive Officers and Corporate Auditors**

For the reserve for retirement benefits of directors, executive officers and corporate auditors, an estimated amount for future payment pursuant to the internal policies is provided.

#### **11. Reserve for Possible Reimbursement of Prescribed Claims**

To prepare for the reimbursement of claims for which prescription periods had expired, an estimated amount for reserve for possible reimbursement of prescribed claims based on past reimbursement experience is provided.

#### **12. Reserve for Price Fluctuations**

A reserve for price fluctuations is calculated based on the book value of stocks and other securities as of September 30, 2018 in accordance with the provisions of Article 115 of the Insurance Business Act.

#### **13. Methods for Hedge Accounting**

##### **(1) Methods for Hedge Accounting**

Hedging transactions are accounted for in accordance with the "Accounting Standards for Financial Instruments" (Accounting Standards Board of Japan (ASBJ) Statement No. 10). Primarily, i) special hedge accounting and the deferral hedge method for interest rate swaps are used for cash flow hedges of certain loans, government and corporate bonds, loans payable and bonds payable; ii) the currency allotment method and the deferral hedge method using foreign currency swaps and foreign currency forward contracts are used for cash flow hedges against exchange rate fluctuations in certain foreign currency-denominated bonds, loans, loans payable and bonds payable and certain foreign currency-denominated term deposits and stocks (forecasted transaction); iii) the fair value hedge method using currency options and foreign currency forward contracts is used for hedges against exchange rate fluctuations in the value of certain foreign currency-denominated bonds; iv) the deferral hedge method for over-the-counter options on bonds is used for hedges against interest rate fluctuations in certain foreign currency-denominated bonds; v) the deferral hedge method and fair value hedge method using equity options and equity forward contracts are used for hedges against price fluctuations in the value of certain domestic stocks and foreign currency-denominated stocks (forecasted transaction), and vi) the deferral hedge method using interest rate swaps is used for hedges against interest rate fluctuations in certain insurance liabilities, under the "Accounting and Auditing Treatment of Application of Accounting Standard for Financial Instruments to Insurance Operators" (Industry Audit Committee Report No. 26 issued by the JICPA).

## (2) Hedging Instruments and Hedged Items

<u>Hedging instruments</u>	<u>Hedged items</u>
Interest rate swaps .....	Loans, government and corporate bonds, loans payable, bonds payable, insurance liabilities
Foreign currency swaps .....	Foreign currency-denominated bonds, foreign currency-denominated loans, foreign currency-denominated loans payable, foreign currency-denominated bonds payable
Foreign currency forward contracts .....	Foreign currency-denominated bonds, foreign currency-denominated term deposits, foreign currency-denominated stocks (forecasted transaction)
Currency options .....	Foreign currency-denominated bonds
Over-the-counter options on bonds.....	Foreign currency-denominated bonds
Equity options .....	Domestic stocks, foreign currency-denominated stocks (forecasted transaction)
Equity forward contracts .....	Domestic stocks

## (3) Hedging Policies

The Company conducts hedging transactions with regard to certain market risk and foreign currency risk of underlying assets to be hedged, in accordance with the internal investment policy and procedure guidelines.

## (4) Assessment of Hedge Effectiveness

Hedge effectiveness is assessed primarily by a comparison of fluctuations in cash flows or fair value of hedged items to those of the hedging instruments.

## **14. Calculation of National and Local Consumption Tax**

The Company accounts for national and local consumption tax by the tax-exclusion method. Deferred consumption tax included in non-recoverable consumption tax on certain assets is capitalized as other assets and amortized equally over five years in accordance with the Ordinance for Enforcement of the Corporation Tax Act, and such taxes other than deferred consumption tax are recognized as an expense when incurred.

## **15. Policy Reserve**

Policy reserves of the Company are established in accordance with Article 116 of the Insurance Business Act. Insurance premium reserves are calculated as stated in (1) and (2) below. Policy reserves include additional policy reserves for some whole life insurance policies in accordance with Article 69, Paragraph 5 of the Ordinance for Enforcement of the Insurance Business Act.

- (1) Reserves for policies subject to the standard policy reserve rules are calculated based on the methods stipulated by the Commissioner of Financial Services Agency (Notification of the Minister of Finance No.48, 1996).
- (2) Reserves for other policies are established based on the net level premium method.

## **16. Fair Value of Financial Instruments**

The carrying amount on the balance sheet, fair value and differences between carrying amount and fair value as of September 30, 2018 were as follows. The following tables do not include financial instruments whose fair value is extremely difficult to recognize. (Please refer to (Note 2))

As of September 30, 2018	Carrying amount	Fair value	Gains (Losses)
(Unit: million yen)			
(1) Cash and deposits .....	482,193	482,193	-
(2) Call loans .....	332,800	332,800	-
(3) Monetary claims bought .....	194,851	194,851	-
(4) Money held in trust .....	90,642	90,642	-
(5) Securities			
a. Trading securities .....	924,780	924,780	-
b. Held-to-maturity bonds .....	46,467	49,868	3,401
c. Policy-reserve-matching bonds .....	11,971,011	14,305,142	2,334,131
d. Stock of subsidiaries and affiliate companies ..	-	-	-
e. Available-for-sale securities .....	17,903,494	17,903,494	-
(6) Loans .....	2,434,621		
Reserve for possible loan losses (*1) .....	(165)		
	2,434,455	2,540,998	106,543
<b>Total assets .....</b>	<b>34,380,695</b>	<b>36,824,771</b>	<b>2,444,076</b>
(1) Bonds payable.....	476,277	470,292	(5,984)
(2) Payables under repurchase agreements.....	648,645	648,645	-
(3) Long-term borrowings .....	283,000	288,248	5,248
<b>Total liabilities .....</b>	<b>1,407,922</b>	<b>1,407,187</b>	<b>(735)</b>
Derivative transactions (* 2)			
a. Hedge accounting not applied .....	[3,639]	[3,639]	-
b. Hedge accounting applied .....	[172,966]	[174,777]	(1,810)
<b>Total derivative transactions .....</b>	<b>[176,605]</b>	<b>[178,416]</b>	<b>(1,810)</b>

(\*1) Excluding general reserves for possible loan losses and reserves for possible loan losses related to loans.

(\*2) Credits/debts from derivative transactions are presented on a net basis. Figures in [ ] are net debts.

(Note 1) Notes to Methods for Calculating Fair Value of Financial Instruments, Securities and Derivative Transactions

● Assets

(1) Cash and deposits

Since deposits are close to maturity or have no maturity and their fair value is close to the carrying amounts, fair value is based on the carrying amount.

(2) Call loans

Since all call loans are close to the due date and their fair value is close to their carrying amounts, fair value of call loans is based on their carrying amount.

(3) Monetary claims bought

The fair value of monetary claims bought is based on the reasonably calculated prices.

(4) Money held in trust

The fair value of stocks is based on the price on stock exchanges and that of bonds is based on the price on bond markets or price presented by counterparty financial institutions. The fair value of mutual funds is based on unit price.

(5) Securities

The fair value of stocks is based on the price on stock exchanges and that of bonds is based on the price on bond markets or price presented by counterparty financial institutions. The fair value of mutual funds is based on unit price. As for ownership stakes in partnerships, the amount equivalent to partnership interest in fair value of the partnership assets is recorded as fair value of the stake in the partnership.

(6) Loans

The fair value of loans is calculated by discounting future cash flows of the subject loan, using interest rates corresponding to the internal credit rating and remaining period which are assumed to be applied to new loans to the subject borrower.

Additionally, for risk-monitored loans, reserve for possible loan losses is calculated based on the present value of estimated future cash flows or the amount deemed recoverable from collateral and guarantees and the fair value is close to the carrying amount on the balance sheet minus reserve for possible loan losses as of September 30, 2018. Therefore, that amount (the carrying amount on the balance sheet minus reserve for possible loan losses) is recorded as fair value of risk-monitored loans.

Also, loans without a due date because of their characteristics that their exposure is limited to the amount of their collaterals are deemed to have fair value close to book value, taking into account estimated repayment period and interest rates. Therefore, their book value is recorded as the fair value.

- Liabilities

- (1) Bonds payable

- The fair value of bonds is based on the price on the bond market.

- (2) Payables under repurchase agreements

- Since the terms of all payables under repurchase agreements are short and the fair value of them is close to their carrying amounts, the fair value is based on carrying amount.

- (3) Long-term borrowings

- The fair value of long-term borrowings is calculated by discounting future cash flows, using interest rates corresponding to internal credit rating and remaining periods which are assumed to be applied to new borrowings.

- Derivative Transactions

The breakdown of derivative transactions is a) currency-related transactions; b) interest-related transactions; c) stock-related transactions; and d) bond-related transactions. The fair value of the instruments is based on the prices on derivatives markets and the prices quoted from financial institutions, etc.

(Note 2) Financial instruments whose fair value is extremely difficult to recognize were as follows and are not included in the fair value of (5) Securities in (Note 1)

<u>As of September 30, 2018</u>	<u>Carrying amount</u>
	(Unit: million yen)
1. Unlisted domestic stocks (*) .....	42,770
2. Unlisted foreign stocks (*).....	23,961
3. Other foreign securities (*) .....	255,000
4. Other securities (*) .....	97,630
Total	419,362

(\*) These securities cannot be assigned a market value because of the unavailability of tradable markets, and they are excluded from the disclosure of fair value

## **17. Real Estate for Rent**

The information on real estate for rent has been omitted as there was no significant change in carrying amount and fair value of real estate for rent as of September 30, 2018 compared to those at the end of the previous fiscal year.

## **18. Securities Lending**

Securities lent under lending agreements are included in the balance sheet. The total balance of securities lent as of September 30, 2018 was ¥2,397,813 million.

## 19. Problem Loans

As of September 30, 2018, the total amounts of credits to bankrupt borrowers, delinquent loans, loans past due for three months or more, and restructured loans were as follows:

	(Unit: million yen)
Credits to bankrupt borrowers (*1).....	125
Delinquent loans (*2).....	3,178
Loans past due for three months or more (*3).....	-
Restructured loans (*4).....	4
<u>Total .....</u>	<u>3,307</u>

- (\*1) Credits to bankrupt borrowers represent non-accrual loans, excluding the balances already written off, which meet the conditions prescribed in Article 96, Paragraph 1, Item 3, (a) to (e) or Item 4 of the Order for Enforcement of the Corporation Tax Act (Cabinet Order 97, 1965). Interest accruals of such loans are suspended since the principal of or interest on such loans is unlikely to be collected.
- (\*2) Delinquent loans are credits that are delinquent other than credits to bankrupt borrowers and loans for which interest payments have been suspended to assist and support the borrowers in the restructuring of their businesses.
- (\*3) Loans past due for three months or more are loans for which interest or principal payments are delinquent for three months or more under the terms of the loans excluding those classified as credits to bankrupt borrowers or delinquent loans.
- (\*4) Restructured loans are loans for which certain concessions favorable to borrowers, such as interest reductions or exemptions, postponement of principal or interest payments, release from repayment or other agreements have been negotiated for the purpose of assisting and supporting the borrowers in the restructuring of their businesses. This category excludes loans classified as credits to bankrupt borrowers, delinquent loans, and loans past due for three months or more.

As a result of the direct write-off of loans described in Note 7, the decreases in credits to bankrupt borrowers and delinquent loans were as follows:

Credits to bankrupt borrowers	¥3 million
Delinquent loans	¥2 million

## 20. Assets and Liabilities Held in Separate Accounts

The total amount of assets held in separate accounts defined in Article 118, Paragraph 1 of the Insurance Business Act as of September 30, 2018 was ¥1,247,282 million. Separate account liabilities were the same amount as the separate account assets.

## 21. Contingent Liabilities

Guarantee for debt obligations of a third company were as follows:

	(Unit: million yen)
Dai-ichi Life Holdings, Inc. ....	400,000

## 22. Changes in Reserve for Policyholder Dividends

Changes in reserve for policyholder dividends were as follows:

	(Unit: million yen)
Balance at the beginning of the fiscal year.....	398,650
Dividends paid .....	(53,641)
Interest accrual .....	4,143
Provision for reserve for policyholder dividends.....	40,330
<u>Balance as of September 30, 2018.....</u>	<u>389,482</u>

### **23. Stock of Subsidiaries and Affiliated Companies**

The amount of stocks of subsidiaries and affiliated companies of the Company held as of September 30, 2018 was ¥74,560million.

### **24. Organization Change Surplus**

As of September 30, 2018, the amount of organizational change surplus stipulated in Article 91 of the Insurance Business Act was ¥117,776 million.

### **25. Assets Pledged as Collateral / Secured Liabilities**

The amounts of assets pledged as collateral were as follows:

	(Unit: million yen)
Securities .....	743,538
Lands .....	261
Cash and deposits .....	86
Buildings .....	40
<u>Assets pledged as collateral ...</u>	<u>743,927</u>

The amounts of secured liabilities were as follows:

	(Unit: million yen)
Payables under repurchase agreements.....	648,645
Guarantee deposit .....	21
<u>Secured liabilities</u>	<u>648,667</u>

"Securities" mentioned above included ¥579,260 million of Securities which were sold under repurchase agreements, as of September 30, 2018.

### **26. Reinsurance**

The amount of reserves for outstanding claims for reinsured parts defined in Article 71, Paragraph 1 of the Ordinance for Enforcement of the Insurance Business Act, which is referred to in Article 73, Paragraph 3 of the Ordinance (hereinafter "reserves for outstanding claims reinsured"), was ¥19 million. The amount of policy reserves provided for reinsured parts defined in Article 71, Paragraph 1 of the Ordinance (hereinafter "policy reserves reinsured") was ¥8 million.

### **27. Securities Borrowing**

Of securities borrowed under borrowing agreements, the market value of the securities which can be sold or pledged as collateral but were not sold nor pledged as of September 30, 2018 was ¥31,006 million, among which none of the securities were pledged as collateral.

### **28. Commitment Line**

As of September 30, 2018, there were unused commitment line agreements under which the Company was the lender of ¥61,766 million.

### **29. Subordinated Debt**

As of September 30, 2018, other liabilities included subordinated debt of ¥283,000 million, whose repayment is subordinated to other obligations.

### **30. Subordinated Bonds**

As of September 30, 2018, bonds payable included foreign currency-denominated subordinated bonds of ¥476,277 million, whose repayment is subordinated to other obligations.

### **31. Obligations to the Life Insurance Policyholders Protection Corporation of Japan**

The estimated future obligations to the Life Insurance Policyholders Protection Corporation of Japan under Article 259 of the Insurance Business Act as of September 30, 2018 were ¥45,066 million. These obligations will be recognized as operating expenses in the period in which they are paid.

## II. NOTES TO THE UNAUDITED STATEMENT OF EARNINGS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2018

### 1. Gains/Losses on Sale of Securities, Losses on Valuation of Securities

Gains on sale of securities included gains on sale of domestic bonds, domestic stocks, foreign securities and other securities of ¥70,320 million, ¥22,286 million, ¥41,060 million and ¥164 million respectively.

Losses on sale of securities included losses on sales of domestic bonds, domestic stocks, foreign securities and other securities of ¥91 million, ¥4,002 million ¥71,163 million and ¥107 million respectively.

Losses on valuation of securities included losses on valuation of domestic stocks and foreign securities of ¥1,777 million and ¥699 million, respectively.

### 2. Reinsurance

In calculating the reversal of reserves for outstanding claims, a provision for reserves for outstanding claims reinsured of ¥17 million was added. In calculating the provision for policy reserves, a provision for reserves for policy reserves reinsured of ¥8 million was subtracted.

### 3. Interest and Dividends

The breakdown of interest and dividends for the six months ended September 30, 2018 were as follows:

	(Unit: million yen)
Interest from bank deposits .....	3,328
Interest and dividends from securities ...	341,666
Interest from loans .....	24,292
Rental income .....	36,371
Other interest and dividends .....	4,589
<u>Total .....</u>	<u>410,248</u>

### 4. Net Income per Share

Net income per share for the six months ended September 30, 2018 was ¥15,679,268.68. Diluted net income per share for the same period is not presented because there were no existing diluted shares.

### 5. Impairment Losses on Fixed Assets

Details of impairment losses on fixed assets for the six months ended September 30, 2018 were as follows:

#### (1) Method of Grouping Assets

Real estate and other assets used for insurance business purposes are recognized as one asset group. Each property for rent and property not in use, which is not used for insurance business purposes, is deemed to be an independent asset group.

#### (2) Background for Recognition of Impairment Losses

As a result of significant declines in profitability or market value of some asset groups, the Company wrote down the book value of these assets to the recoverable value, and reported such write-off as impairment losses in extraordinary losses.

#### (3) Breakdown of Impairment Losses

Impairment losses by asset group for the six months ended September 30, 2018 were as follows:

Asset Group	Place	Number	Impairment Losses		
			Land	Buildings	Total
(Unit: million yen)					
Real estate not in use	Imabari City, Ehime and others	9	410	157	568

#### (4) Calculation of Recoverable Value

Value in use or net sale value is used as the recoverable value of real estate for rent, and net sale value is used as the recoverable value of real estate not in use. A discount rate of 2.28% was applied for discounting future cash flows in the calculation of value in use. Estimated disposal value, appraisal value

based on real estate appraisal standards, or appraisal value based on publicly assessed land value for tax purposes was used as the net sale value.

### III. NOTES TO THE UNAUDITED STATEMENT OF CHANGES IN NET ASSETS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2018

#### 1. Type and Number of Shares Outstanding

	At the beginning of the fiscal year	Increase during the six months ended September 30, 2018	Decrease during the six months ended September 30, 2018	As of September 30, 2018
Common Stock	6,000	-	-	6,000

#### 2. Dividends on Common Stock

Date of resolution	June 20, 2018 (at the Annual General Meeting of Shareholders)
Type of shares	Common stock
Total dividends	¥135,862 million
Dividends per share	¥22,643,700
Record date	March 31, 2018
Effective date	June 21, 2018
Dividend resource	Retained earnings

Date of resolution	June 20, 2018 (at the Annual General Meeting of Shareholders)
Type of shares	Common stock
Total dividends	¥49,999 million
Dividends per share	¥8,333,300
Record date	March 31, 2018
Effective date	June 21, 2018
Dividend resource	Capital surplus



## 5. Breakdown of Ordinary Profit (Fundamental Profit)

	(millions of yen)	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Fundamental revenues	1,718,522	1,693,738
Premium and other income	1,105,936	1,120,169
Investment income	479,814	467,060
[Interest and dividends]	420,427	410,248
Other ordinary revenues	132,723	106,505
Other fundamental revenues (a)	47	3
Fundamental expenses	1,504,766	1,456,858
Benefits and claims	1,078,215	1,079,234
Provision for policy reserves and others	44,092	4,143
Investment expenses	35,161	32,776
Operating expenses	204,445	194,458
Other ordinary expenses	142,778	146,229
Other fundamental expenses (b)	72	16
Fundamental profit <sup>(Note 1)</sup>	<b>A</b> 213,756	236,880
Capital gains	97,449	135,191
Gains on money held in trust	5,616	1,342
Gains on investments in trading securities	-	-
Gains on sale of securities	91,760	133,832
Derivative transaction gains	-	-
Foreign exchange gains	-	-
Others (c)	72	16
Capital losses	110,255	153,800
Losses on money held in trust	-	-
Losses on investments in trading securities	-	-
Losses on sale of securities	51,688	75,364
Losses on valuation of securities	649	2,476
Derivative transaction losses	26,379	39,668
Foreign exchange losses	31,490	36,287
Others (d)	47	3
Net capital gains (losses) <sup>(Note 1)</sup>	<b>B</b> (12,805)	(18,609)
Fundamental profit plus net capital gains (losses)	<b>A + B</b> 200,950	218,271
Other one-time gains	-	(15)
Reinsurance income	-	-
Reversal of contingency reserve	-	-
Reversal of specific reserve for possible loan losses	-	(15)
Others	-	-
Other one-time losses	42,809	39,092
Ceding reinsurance commissions	-	-
Provision for contingency reserve	2,200	-
Provision for specific reserve for possible loan losses	(9)	-
Provision for specific reserve for loans to refinancing countries	-	-
Write-down of loans	6	4
Others <sup>(Note 2)</sup>	40,612	39,087
Other one-time profits (losses)	<b>C</b> (42,809)	(39,107)
Ordinary profit	<b>A + B + C</b> 158,140	179,163

(Reference) Breakdown of other fundamental revenues, etc.

	(millions of yen)	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Other fundamental revenues (a)	47	3
The effect of provision for (reversal of) policy reserve associated with market value adjustments of fixed life insurance	-	-
The effect of change in the exchange rates related to foreign currency denominated insurance contracts	47	3
Other fundamental expenses (b)	72	16
The effect of provision for (reversal of) policy reserve associated with market value adjustments of fixed life insurance	72	16
The effect of change in the exchange rates related to foreign currency denominated insurance contracts	-	-
The impact on fundamental profit <b>(a) - (b)</b>	(24)	(12)
Other capital gains (c)	72	16
The effect of provision for (reversal of) policy reserve associated with market value adjustments of fixed life insurance	72	16
The effect of change in the exchange rates related to foreign currency denominated insurance contracts	-	-
Other capital losses (d)	47	3
The effect of provision for (reversal of) policy reserve associated with market value adjustments of fixed life insurance	-	-
The effect of change in the exchange rates related to foreign currency denominated insurance contracts	47	3
The impact on net capital gains (losses) <b>(c) - (d)</b>	24	12

Note 1: Beginning from disclosures for fiscal year 2017, the disclosure method of the breakdown of ordinary profit relating to the effect of provision for (reversal of) policy reserve associated with market value adjustments of fixed life insurance and the effect of change in the exchange rates related to foreign currency denominated insurance contracts have been modified.

Note 2: "Others" in "Other one-time losses" represents the sum of the amount of provision for reserve for possible investment losses (For the six months ended September 30, 2017: 319 million yen, For the six months ended September 30, 2018: 10 million yen) and the amount of the additional policy reserves provided (For the six months ended September 30, 2017: 40,292 million yen, For the six months ended September 30, 2018: 39,077 million yen) in accordance with Article 69, Paragraph 5 of the Enforcement Regulations of the Insurance Business Act.

## **6. Investment of General Account Assets for the Six Months Ended September 30, 2018**

### **(1) Investment Environment**

- During the six months ended September 30, 2018, the Japanese economy continued to expand because of robust personal consumption against the backdrop of an improvement in the employment and income environment, and increase in capital investment due to high levels of corporate earnings.
- In the U.S., the economy remained strong. In addition to the effects of tax reductions and increase in expenditures, consumer spending continued to grow as the employment and income environment improved, while capital investment maintained high growth.
- The European economy remained stable, driven by growth in personal consumption against the backdrop of favorable employment and income environment.
- Given the economic environment described above, the investment environment was as follows:

#### [Domestic interest rates]

- The yield on 10-year JGBs was in the range of 0.0% to 0.10% due to the Bank of Japan's quantitative and qualitative monetary easing policy, which operates long-term and short-term interest rates. However, JGB yields has been rising to over 0.10% due to the Bank's decision to strengthen its monetary policy framework.

Yield on ten-year government bonds:	April 1, 2018	0.040%
	September 30, 2018	0.120%

#### [Domestic Stocks]

- The Nikkei 225 Stock Average was strong due to expectations for improvement in corporate performance against the backdrop of the global economic recovery and Trump's tax reductions and increase in expenditures, although market volatility increased due to rising interest rates against the backdrop of expectations of accelerating monetary tightening in the U.S. and concerns over a trade war.

Nikkei 225 Stock Average:	April 1, 2018	21,454
	September 30, 2018	24,120
TOPIX:	April 1, 2018	1,716
	September 30, 2018	1,817

#### [Foreign Currency]

- The dollar-yen exchange rate appreciated due to the expectation that the Federal Reserve Board's steady rate hike would continue in light of expectations of an improvement in the U.S. inflation rate, although market volatility increased due to concerns over a trade war.
- The euro-yen exchange rate remained stable reflecting the decision to reduce the quantitative easing measures taken by the European Central Bank (ECB) in response to an upturn in the European inflation rate despite concerns over the political situation in Italy.

yen /U.S. dollar:	April 1, 2018	¥106.24
	September 30, 2018	¥113.57
yen/euro:	April 1, 2018	¥130.52
	September 30, 2018	¥132.14

## (2) Investment Results

### [Asset Composition]

- The Company has continued to invest mainly in fixed-income assets, such as government and corporate bonds, in accordance with our medium-to long-term asset management policy. In response to the continued low interest rate environment, the Company continued to control risks using interest rate swaps and other instruments, while we refrained from accumulating policy-reserve-matching bonds, particularly super long-term government bonds.
- The Company has flexibly changed the allocation of its risk assets (such as domestic stocks and foreign securities mainly focused on improving the profitability and diversification of portfolios) by taking market trends into account.

The table below summarizes the investment results of the Company's general account by asset class:

Assets	Investment results
Domestic bonds	<u>Decrease</u> The overall balance of domestic bonds, mainly JGBs, decreased as a result of continuous limitation on accumulating policy- reserve- matching bonds which primarily consist of super long-term government bonds. Instead, the Company strived to improve investment yields by investing in credit risk products and securitized products.
Loans	<u>Decrease</u> The overall balance of loans decreased due mainly to contractual maturities. The Company also provided loans to secure adequate risk-adjusted credit spreads, while also paying attention to the credit spread trends in the bond market.
Domestic stocks	<u>Decrease</u> The overall balance of domestic stocks on a market value basis decreased as a result of selling of a certain amount of stock for risk control purposes, while stock prices rose. The Company also invested in sectors/companies which are expected to grow in the mid-to-long term, taking into account the analyses of in-house analysts.
Foreign bonds	<u>Increase</u> The overall balance of foreign bonds increased as a result of the accumulation of the balance from the viewpoint of improving the profitability of the portfolio and diversifying investment. The Company also worked to control risk by diversifying bond types and currencies to improve investment efficiency.
Foreign stocks	<u>Decrease</u> The overall balance of foreign stocks decreased as a result of selling of a certain amount of stocks in accordance to stock price levels, while stock prices rose. The Company also continued to focus on diversification by investment style and geographical composition of its foreign stock portfolio, utilizing both in-house and third-party asset managers.
Real estate	<u>Decrease</u> The balance of real estate decreased due to depreciation and other factors. In order to promote diversification for holding properties, the Company pursued investment in new residential and commercial properties and a replacement of holding assets based on operation status, region and elapsed years.

Note: Underlined changes in assets above are described on a balance sheet amount basis.

[Investment Income and Expenses]

- Investment income increased by ¥26.0 billion to ¥554.0 billion due mainly to a increase in gains on sale of securities.
- Investment expenses increased by ¥40.9 billion to ¥186.5 billion due mainly to an increase in losses on sale of securities, and expenses on derivative instruments.
- As a result, net investment income decreased by ¥14.8 billion to ¥367.4 billion.

**(3) Investment Environment Outlook for the Second Half of Fiscal 2018**

- For the second half of fiscal 2018, the Company expects that the Japanese economy will continue on a broadening trend, as exports are likely to continue on an uptrend amid strong overseas economies, especially in the United States, and capital investment is expected to continue to increase as a result of strong corporate earnings. In addition, the quantitative and qualitative monetary easing measures with long and short interest rate operation of the BOJ, which seek to maintain a low interest rate environment, are expected to support the economy.
- On the other hand, in light of the risk of worsening trade wars and the heightened risk of political events and geopolitical events in each country, it is also necessary to consider the possibility of a significant increase in the volatility of financial markets.

[Domestic interest rates]

The Company assumes that domestic interest rates will remain low, as the BOJ is expected to maintain its quantitative and qualitative monetary easing measures with long and short interest rate operation, because it would be less likely for the inflation rate to achieve the 2% target for a while.

[Domestic stocks]

- The Company forecasts that improvement of corporate performance by global economic growth and the depreciation of the yen will support a rise in stock prices. The Company will pay attention to the increasing political risks and geopolitical risks in each country.

[Foreign currency]

- The Company anticipates depreciation of the yen against the U.S. dollar, as the Fed is expected to steadily raise interest rates, while the BOJ is expected to maintain its monetary easing measures for the long term. Also, the Company will closely monitor factors which raise uncertainty about foreign exchange rates, such as the monetary policy direction and geopolitical risk and others.
- For euro-yen exchange rates, the Company anticipates a depreciation of the yen, as ECB started tapering of quantitative easing based on the rise in the inflation rate in Europe.

#### (4) Investment Policies for the Second Half of Fiscal 2018

The Company will continue to set fixed income investments, including government and corporate bonds, as the core of its asset portfolio, consistent with its mid- to long-term investment policies. In addition, taking into account market trends, the Company will continue to provide loans and investments in new areas, while flexibly allocating assets, to diversify and improve the overall returns of its investment portfolio.

The table below summarizes the expected investments of the Company's general account by asset class:

Assets	Investment policies
Domestic bonds	<u>Decrease</u> The Company will continue investing in domestic bonds as a core asset under its ALM strategy. Taking the current low interest rate environment into account, the Company will continue to refrain from purchasing Japanese government bonds. The Company will strive to expand its investments in infrastructure and project finance-related investments. When interest rates rise, the Company will accelerate its investments in bonds with longer durations (i.e. long-term bonds and super-long-term bonds) to further enhance its ALM.
Loans	<u>Decrease</u> While actively providing new loans to fulfill capital needs in growth areas, the overall loan balance of the Company is expected to decrease mainly due to contractual maturities. The Company intends to provide new loans by setting appropriate credit spreads, with attention to borrowers' profiles and credit spread levels in the corporate bond market.
Domestic stocks	<u>Decrease</u> The balance is expected to decline as a result of the sale for the purpose of risk control. However, we intend to proactively reallocate stocks and industries in consideration of competitiveness, growth potential, and undervalued stock prices, and to flexibly control the balance depending on the stock price level.
Foreign bonds	<u>Depending on the interest rate and exchange rate level</u> As for foreign currency-denominated bonds without currency hedges, the Company will flexibly change the allocation of this asset class based on exchange rate trends, while carefully monitoring the effect of diversification among risk assets. As for foreign currency-denominated bonds with currency hedges, the Company will also adjust the balance flexibly while carefully monitoring domestic and foreign interest rate differentials and flexibly change its overall balance.
Foreign stocks	<u>Depending on the level of foreign stock prices</u> The Company will increase the alternative assets to diversify the portfolio's risk, while we intend to flexibly control the balance of all foreign equities depending on the stock price level. We will also seek to improve and stabilize the profitability of our portfolio by diversifying investment styles and geographically diversifying.

## 7. Investment Results of General Account

### (1) Asset Composition

(millions of yen)

	As of March 31, 2018		As of September 30, 2018	
	Carrying amount	%	Carrying amount	%
Cash, deposits, and call loans	621,591	1.8	797,558	2.2
Securities repurchased under resale agreements	-	-	-	-
Deposit paid for securities borrowing transactions	-	-	-	-
Monetary claims bought	191,108	0.5	194,851	0.5
Trading account securities	-	-	-	-
Money held in trust	59,348	0.2	90,642	0.3
Securities	30,096,677	85.0	30,340,335	85.2
Domestic bonds	15,913,439	44.9	15,796,613	44.3
Domestic stocks	3,696,766	10.4	3,694,650	10.4
Foreign securities	9,942,625	28.1	10,372,209	29.1
Foreign bonds	8,520,524	24.1	9,075,556	25.5
Foreign stocks and other securities	1,422,100	4.0	1,296,652	3.6
Other securities	543,845	1.5	476,863	1.3
Loans	2,562,316	7.2	2,434,621	6.8
Policy loans	358,340	1.0	351,260	1.0
Ordinary loans	2,203,976	6.2	2,083,360	5.8
Real estate	1,109,277	3.1	1,096,326	3.1
Real estate for rent	781,677	2.2	769,772	2.2
Deferred tax assets	-	-	-	-
Others	775,363	2.2	666,505	1.9
Reserve for possible loan losses	(994)	(0.0)	(638)	(0.0)
Total	35,414,688	100.0	35,620,201	100.0
Foreign currency-denominated assets	8,938,137	25.2	9,437,791	26.5

Note: "Real estate" represents total amount of land, buildings and construction in progress.

## (2) Investment Income

(millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Interest and dividends	420,427	410,248
Interest from bank deposits	3,007	3,328
Interest and dividends from securities	349,525	341,666
Interest from loans	27,361	24,292
Rental income	35,165	36,371
Other interest and dividends	5,368	4,589
Gains on trading account securities	-	-
Gains on money held in trust	5,616	1,342
Gains on investments in trading securities	-	-
Gains on sale of securities	91,760	133,832
Gains on sale of domestic bonds	58,671	70,320
Gains on sale of domestic stocks	7,730	22,286
Gains on sale of foreign securities	25,358	41,060
Others	-	164
Gains on redemption of securities	9,644	7,853
Derivative transaction gains	-	-
Foreign exchange gains	-	-
Reversal of reserve for possible loan losses	-	356
Reversal of reserve for possible investment losses	-	-
Other investment income	525	432
<b>Total</b>	<b>527,974</b>	<b>554,066</b>

## (3) Investment Expense

(millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Interest expenses	7,095	6,490
Losses on trading account securities	-	-
Losses on money held in trust	-	-
Losses on investments in trading securities	-	-
Losses on sale of securities	51,688	75,364
Losses on sale of domestic bonds	3,434	91
Losses on sale of domestic stocks	4,619	4,002
Losses on sale of foreign securities	43,635	71,163
Others	-	107
Losses on valuation of securities	649	2,476
Losses on valuation of domestic bonds	-	-
Losses on valuation of domestic stocks	51	1,777
Losses on valuation of foreign securities	598	699
Others	-	-
Losses on redemption of securities	1,114	751
Derivative transaction losses	26,379	39,668
Foreign exchange losses	31,490	36,287
Provision for reserve for possible loan losses	541	-
Provision for reserve for possible investment losses	319	10
Write-down of loans	6	4
Depreciation of real estate for rent and others	6,666	6,532
Other investment expenses	19,734	19,002
<b>Total</b>	<b>145,686</b>	<b>186,588</b>

## (4) Valuation gains and losses on trading securities

(millions of yen)

	As of March 31, 2018		As of September 30, 2018	
	Carrying amount on the balance sheet	Valuation gains (losses) included in the statement of earnings	Carrying amount on the balance sheet	Valuation gains (losses) included in the statement of earnings
Trading securities	59,348	1,232	90,642	192
Trading account securities	-	-	-	-
Money held in trust	59,348	1,232	90,642	192

## (5) Fair value information on securities (securities with fair value except for trading securities)

(millions of yen)

	Book value	Fair value	Gains (losses)	Gains (losses)		
				Gains	Losses	
As of March 31, 2018						
Held-to-maturity bonds	46,316	50,160	3,844	3,844	-	
Domestic bonds	46,316	50,160	3,844	3,844	-	
Foreign bonds	-	-	-	-	-	
Policy-reserve-matching bonds	12,000,296	14,752,205	2,751,908	2,761,454	9,545	
Domestic bonds	11,911,976	14,660,488	2,748,511	2,758,057	9,545	
Foreign bonds	88,319	91,716	3,397	3,397	-	
Stocks of subsidiaries and affiliates	-	-	-	-	-	
Available-for-sale securities	14,658,957	17,733,170	3,074,213	3,231,613	157,399	
Domestic bonds	3,477,889	3,955,146	477,257	484,527	7,270	
Domestic stocks	1,638,322	3,654,259	2,015,937	2,045,830	29,892	
Foreign securities	8,879,653	9,434,163	554,510	670,671	116,161	
Foreign bonds	8,021,597	8,432,205	410,607	509,570	98,962	
Foreign stocks and other securities	858,055	1,001,958	143,903	161,101	17,198	
Other securities	428,217	448,495	20,277	24,185	3,908	
Monetary claims bought	184,874	191,108	6,234	6,397	163	
Certificates of deposit	50,000	49,995	(4)	-	4	
Total	26,705,569	32,535,536	5,829,967	5,996,912	166,945	
Domestic bonds	15,436,182	18,665,796	3,229,613	3,246,429	16,815	
Domestic stocks	1,638,322	3,654,259	2,015,937	2,045,830	29,892	
Foreign securities	8,967,972	9,525,880	557,907	674,068	116,161	
Foreign bonds	8,109,917	8,523,921	414,004	512,967	98,962	
Foreign stocks and other securities	858,055	1,001,958	143,903	161,101	17,198	
Other securities	428,217	448,495	20,277	24,185	3,908	
Monetary claims bought	184,874	191,108	6,234	6,397	163	
Certificates of deposit	50,000	49,995	(4)	-	4	
As of September 30, 2018						
Held-to-maturity bonds	46,467	49,868	3,401	3,401	-	
Domestic bonds	46,467	49,868	3,401	3,401	-	
Foreign bonds	-	-	-	-	-	
Policy-reserve-matching bonds	11,971,011	14,305,142	2,334,131	2,373,755	39,624	
Domestic bonds	11,890,002	14,222,024	2,332,022	2,371,646	39,624	
Foreign bonds	81,008	83,117	2,109	2,109	-	
Stocks of subsidiaries and affiliates	-	-	-	-	-	
Available-for-sale securities	15,076,847	18,178,340	3,101,492	3,211,496	110,003	
Domestic bonds	3,433,943	3,860,143	426,200	433,976	7,776	
Domestic stocks	1,590,626	3,651,879	2,061,252	2,083,973	22,720	
Foreign securities	9,429,117	10,012,238	583,121	660,876	77,754	
Foreign bonds	8,591,493	8,994,547	403,053	469,300	66,247	
Foreign stocks and other securities	837,623	1,017,691	180,068	191,575	11,507	
Other securities	353,606	379,232	25,625	26,918	1,292	
Monetary claims bought	189,553	194,851	5,297	5,751	454	
Certificates of deposit	80,000	79,994	(5)	-	5	
Total	27,094,325	32,533,351	5,439,025	5,588,653	149,628	
Domestic bonds	15,370,413	18,132,036	2,761,623	2,809,024	47,401	
Domestic stocks	1,590,626	3,651,879	2,061,252	2,083,973	22,720	
Foreign securities	9,510,126	10,095,356	585,230	662,985	77,754	
Foreign bonds	8,672,502	9,077,665	405,162	471,409	66,247	
Foreign stocks and other securities	837,623	1,017,691	180,068	191,575	11,507	
Other securities	353,606	379,232	25,625	26,918	1,292	
Monetary claims bought	189,553	194,851	5,297	5,751	454	
Certificates of deposit	80,000	79,994	(5)	-	5	

Note: The table above includes assets which are considered appropriate to handle as securities as defined in the Financial Instruments and Exchange Act.



\* Carrying amount of securities whose fair value is deemed extremely difficult to recognize is as follows:

(millions of yen)

	As of March 31, 2018	As of September 30, 2018
Held-to-maturity bonds	-	-
Unlisted foreign bonds	-	-
Others	-	-
Policy-reserve-matching bonds	-	-
Stocks of subsidiaries and affiliated companies	74,923	74,560
Unlisted domestic stocks (except over-the-counter stocks)	12,787	12,975
Unlisted foreign stocks (except over-the-counter stocks)	-	-
Others	62,136	61,584
Available-for-sale securities	485,843	347,251
Unlisted domestic stocks (except over-the-counter stocks)	29,719	29,794
Unlisted foreign stocks (except over-the-counter stocks)	422,909	281,409
Unlisted foreign bonds	-	-
Others	33,214	36,046
<b>Total</b>	<b>560,766</b>	<b>421,811</b>

Note: 1. The table above includes assets which are considered appropriate to handle as securities as defined in the Financial Instruments and Exchange Act.  
2. The amounts of foreign exchange valuation gains (losses) on foreign securities whose fair value is deemed extremely difficult to recognize and which are listed in the table above are as follows:  
loss of 2,768 million yen as of March 31, 2018 and loss of 2,448 million yen as of September 30, 2018.

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

(millions of yen)

	Carrying amount on the balance sheet	Fair value	Gains (losses)	Gains (losses)	
				Gains	Losses
As of March 31, 2018	59,348	59,348	1,362	9,293	7,930
As of September 30, 2018	90,642	90,642	618	10,536	9,917

Note: Fair value in the table above is based on the valuation conducted by the fiduciary on a reasonable basis.  
"Gains (losses)" include gains (losses) from derivative transactions within the trusts.

## 8. Disclosed Claims Based on Categories of Obligors

(millions of yen)

	As of March 31, 2018	As of September 30, 2018
Claims against bankrupt and quasi-bankrupt obligors	115	125
Claims with collection risk	2,537	3,178
Claims for special attention	4	4
Subtotal	2,657	3,307
[Percentage]	[ 0.06%]	[ 0.07%]
Claims against normal obligors	4,262,082	4,945,630
<b>Total</b>	<b>4,264,739</b>	<b>4,948,938</b>

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

## 9. Solvency Margin Ratio

(millions of yen)

	As of March 31, 2018	As of September 30, 2018
Total solvency margin <b>(A)</b>	6,328,252	6,598,046
Common stock, etc. <sup>*1</sup>	506,935	594,667
Reserve for price fluctuations	181,453	189,953
Contingency reserve	598,493	598,493
General reserve for possible loan losses	483	111
(Net unrealized gains (losses) on securities (before tax) and deferred hedge gains (losses) (before tax)) × 90% <sup>*2</sup>	2,770,215	2,782,931
Net unrealized gains (losses) on real estate × 85% <sup>*2</sup>	155,521	179,588
Policy reserves in excess of surrender values	2,133,716	2,162,362
Qualifying subordinated debt	759,277	759,277
Excluded portion of policy reserves in excess of surrender values and qualifying subordinated debt	(816,184)	(745,089)
Excluded items	(4,000)	(4,000)
Others	42,340	79,749
Total risk $\sqrt{(R_1 + R_8)^2 + (R_2 + R_3 + R_7)^2} + R_4$ <b>(B)</b>	1,435,172	1,429,663
Insurance risk $R_1$	66,458	64,779
3rd sector insurance risk $R_8$	185,798	182,300
Assumed investment yield risk $R_2$	213,601	209,270
Guaranteed minimum benefit risk $R_7$ <sup>*3</sup>	3,019	3,022
Investment risk $R_3$	1,163,041	1,162,905
Business risk $R_4$	32,638	32,445
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	881.8%	923.0%

\*1: Expected disbursements from capital outside the Company and valuation and translation adjustments are excluded.

\*2: Multiplied by 100% if losses.

\*3: Calculated by standard method.

Note: The above figures are calculated based on Articles 86, 87 of the Enforcement Regulations of Insurance Business Act, and Announcement No. 50, Ministry of Finance, 1996.

## (Reference) Consolidated Solvency Margin Ratio

(millions of yen)

	As of March 31, 2018	As of September 30, 2018
Total solvency margin <b>(A)</b>	6,251,712	6,521,117
Common stock, etc. <sup>*1</sup>	511,592	598,726
Reserve for price fluctuations	181,453	189,953
Contingency reserve	598,493	598,493
Catastrophe loss reserve	-	-
General reserve for possible loan losses	483	114
(Net unrealized gains (losses) on securities (before tax) and deferred hedge gains (losses) (before tax) ) × 90% <sup>*2</sup>	2,770,215	2,782,931
Net unrealized gains (losses) on real estate × 85% <sup>*2</sup>	155,521	179,588
Sum of unrecognized actuarial differences and unrecognized past service cost	(9,600)	(10,354)
Policy reserves in excess of surrender values	2,133,716	2,162,362
Qualifying subordinated debt	759,277	759,277
Excluded portion of policy reserves in excess of surrender values and qualifying subordinated debt	(816,184)	(745,089)
Excluded items	(75,597)	(74,636)
Others	42,340	79,749
Total risk $\sqrt{(\sqrt{R_1^2 + R_5^2 + R_8 + R_9})^2 + (R_2 + R_3 + R_7)^2} + R_4 + R_6$ <b>(B)</b>	1,413,924	1,408,516
Insurance risk $R_1$	66,458	64,779
General insurance risk $R_5$	-	-
Catastrophe risk $R_6$	-	-
3rd sector insurance risk $R_8$	185,798	182,300
Small amount and short-term insurance risk $R_9$	-	-
Assumed investment yield risk $R_2$	213,601	209,270
Guaranteed minimum benefit risk $R_7$ <sup>*3</sup>	3,019	3,022
Investment risk $R_3$	1,141,866	1,141,841
Business risk $R_4$	32,214	32,024
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	884.3%	925.9%

\*1: Expected disbursements from capital outside the Company and accumulated other comprehensive income, etc. are excluded.

\*2: Multiplied by 100% if losses.

\*3: Calculated by standard method.

Notes: The above figures are calculated based on Article 86-2 and 88 of the Enforcement Regulations of Insurance Business Act, and Notification of the Financial Services Agency No. 23, 2011.

## **10. Status of Separate Account**

### (1) Separate Account Assets by Product

(millions of yen)

	As of March 31, 2018	As of September 30, 2018
Individual variable insurance	57,728	60,226
Individual variable annuities	38,001	37,878
Group annuities	1,090,099	1,149,178
Separate account total	1,185,829	1,247,282

### (2) Sum Insured of Policies in Force of Individual Variable Insurance and Annuities (Separate Account)

#### A. Individual variable insurance

(millions of yen except number of policies)

	As of March 31, 2018		As of September 30, 2018	
	Number of policies	Amount	Number of policies	Amount
Individual variable insurance (term life)	84	418	77	382
Individual variable insurance (whole life)	41,913	258,414	41,533	256,168
Total	41,997	258,833	41,610	256,551

Note: Policies in force include term life riders.

#### B. Individual variable annuities

(millions of yen except number of policies)

	As of March 31, 2018		As of September 30, 2018	
	Number of policies	Amount	Number of policies	Amount
Individual variable annuities	10,886	50,903	10,169	44,571

Note: Sum insured of policies in force includes that of annuities for which payments have commenced.

## **11. Consolidated Financial Summary**

Not applicable