
Financial Results for the Three Months Ended June 30, 2020

Nippon Life Insurance Company (the “Company”; President: Hiroshi Shimizu) announces financial results for the three months ended June 30, 2020.

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1. Business Highlights

(1) Annualized Premium

• Policies in Force

(100 Million Yen, %)

	As of June 30, 2020		As of March 31, 2020
		As a percentage of March 31, 2020	
Individual insurance	26,724	99.0	27,001
Individual annuities	10,594	99.8	10,616
Total	37,318	99.2	37,618
Medical coverages, living benefits, and others	6,532	99.4	6,571

• New Policies

(100 Million Yen, %)

	Three months ended June 30, 2020		Three months ended June 30, 2019
		As a percentage of three months ended June 30, 2019	
Individual insurance	161	40.9	394
Individual annuities	44	24.8	177
Total	205	35.9	572
Medical coverages, living benefits, and others	41	26.8	155

- 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 June 30, 2020				As of March 31, 2020	
	Number of policies		Amount of policies		Number of policies (thousands)	Amount of policies (100 million yen)
	(thousands)	As a percentage of March 31, 2020 (%)	(100 million yen)	As a percentage of March 31, 2020 (%)		
Individual insurance	28,979	99.5	1,311,214	99.0	29,111	1,325,065
Individual annuities	4,070	99.6	247,251	99.6	4,088	248,128
Group insurance	—	—	987,717	100.9	—	978,894
Group annuities	—	—	134,037	100.1	—	133,871

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

	Three months ended June 30, 2020						Three months ended June 30, 2019			
	Number of policies		Amount of policies				Number of policies (thousands)	Amount of policies		
	(thousands)	As a percentage of three months ended June 30, 2019 (%)	(100 million yen)	As a percentage of three months ended June 30, 2019 (%)	New policies	Net increase (decrease) by conversion		(100 million yen)	New policies	Net increase (decrease) by conversion
Individual insurance	339	27.9	5,498	36.5	5,518	(19)	1,216	15,076	14,883	192
Individual annuities	14	25.7	1,036	25.7	1,036	0	56	4,029	3,984	44
Group insurance	—	—	1,713	166.8	1,713		—	1,027	1,027	
Group annuities	—	—	0	17.5	0		—	1	1	

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. Investment Management Performance (General Account)

(1) Asset Composition

(100 Million Yen, %)

	As of June 30, 2020		As of March 31, 2020	
	Amount	%	Amount	%
Cash, deposits, and call loans	7,732	1.1	9,965	1.5
Receivables under resale agreements	—	—	—	—
Receivables under securities borrowing transactions	—	—	—	—
Monetary receivables purchased	2,072	0.3	2,190	0.3
Proprietary trading securities	—	—	—	—
Assets held in trust	92	0.0	337	0.0
Investments in securities:	588,723	84.0	564,276	83.1
Domestic bonds	253,498	36.2	246,581	36.3
Domestic stocks	87,766	12.5	78,582	11.6
Foreign securities:	213,276	30.4	204,714	30.2
Foreign bonds	145,617	20.8	141,910	20.9
Foreign stocks and other securities	67,658	9.7	62,803	9.3
Other securities	34,182	4.9	34,398	5.1
Loans:	75,243	10.7	74,118	10.9
Policy loans	5,858	0.8	5,542	0.8
Industrial and consumer loans	69,385	9.9	68,575	10.1
Real estate:	16,591	2.4	16,587	2.4
Investment properties	10,391	1.5	10,613	1.6
Deferred tax assets	—	—	—	—
Other assets	10,601	1.5	11,238	1.7
Allowance for doubtful accounts	(33)	(0.0)	(26)	(0.0)
Total assets (general account):	701,023	100.0	678,687	100.0
Foreign currency-denominated assets	204,580	29.2	196,873	29.0

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

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

(100 Million Yen)

	As of June 30, 2020					As of March 31, 2020				
	Book value	Fair value	Net gains/losses	Net gains/losses		Book value	Fair value	Net gains/losses	Net gains/losses	
				Gains	Losses				Gains	Losses
Policy-reserve-matching bonds*	224,164	258,094	33,930	34,865	(934)	217,703	255,132	37,429	37,657	(227)
Held-to-maturity debt securities	—	—	—	—	—	—	—	—	—	—
Investments in subsidiaries and affiliates	1,342	2,380	1,038	1,038	—	1,342	1,904	562	563	(0)
Available-for-sale securities:	275,855	350,515	74,659	78,248	(3,588)	275,572	333,416	57,843	64,110	(6,267)
Domestic bonds	30,182	32,216	2,034	2,103	(68)	30,008	31,930	1,922	2,007	(85)
Domestic stocks	41,317	82,385	41,067	43,527	(2,459)	41,421	73,202	31,780	34,749	(2,968)
Foreign securities:	171,357	200,908	29,550	30,505	(955)	170,827	192,868	22,041	25,114	(3,073)
Foreign bonds	121,397	144,404	23,007	23,443	(436)	121,223	140,688	19,465	20,943	(1,478)
Foreign stocks and other securities	49,960	56,503	6,542	7,061	(518)	49,603	52,180	2,576	4,170	(1,594)
Other securities	31,067	33,070	2,003	2,104	(100)	31,223	33,320	2,096	2,231	(134)
Monetary receivables purchased	400	404	3	7	(4)	462	465	2	8	(5)
Negotiable certificates of deposit	1,530	1,529	(0)	0	(0)	1,629	1,628	(0)	0	(0)
Total	501,361	610,990	109,628	114,152	(4,523)	494,618	590,453	95,835	102,331	(6,495)
Domestic bonds	251,464	287,250	35,786	36,787	(1,001)	244,659	283,859	39,199	39,467	(268)
Domestic stocks	41,317	82,385	41,067	43,527	(2,459)	41,421	73,202	31,780	34,749	(2,968)
Foreign securities:	173,904	204,589	30,684	31,641	(957)	173,487	196,153	22,665	25,784	(3,118)
Foreign bonds	122,610	145,715	23,104	23,542	(438)	122,550	142,079	19,528	21,051	(1,522)
Foreign stocks and other securities	51,293	58,874	7,580	8,099	(518)	50,936	54,073	3,137	4,732	(1,595)
Other securities	31,076	33,081	2,005	2,105	(100)	31,232	33,330	2,097	2,232	(134)
Monetary receivables purchased	2,068	2,154	85	90	(4)	2,187	2,278	91	97	(6)
Negotiable certificates of deposit	1,530	1,529	(0)	0	(0)	1,629	1,628	(0)	0	(0)

Note: The above table 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 of Which Fair Value is Extremely Difficult to be Determined]

(100 Million Yen)

	As of June 30, 2020	As of March 31, 2020
Policy-reserve-matching bonds	—	—
Held-to-maturity debt securities:	—	—
Unlisted foreign bonds	—	—
Others	—	—
Investments in subsidiaries and affiliates	10,472	10,182
Available-for-sale securities:	5,930	5,583
Unlisted domestic stocks (excluding over-the-counter stocks)	600	600
Unlisted foreign stocks (excluding over-the-counter stocks)	3	2
Unlisted foreign bonds	—	0
Others	5,326	4,980
Total	16,402	15,766

Note: Of securities whose fair value is extremely difficult to be determined, the net gains on currency exchange valuation of assets denominated in foreign currencies were as follows:

¥(24.5) billion as of June 30, 2020, and ¥(37.6) billion as of March 31, 2020.

(3) Fair Value Information of Assets Held in Trust

(100 Million Yen)

	As of June 30, 2020					As of March 31, 2020				
	Balance sheet amount	Fair value	Net gains/losses		Balance sheet amount	Fair value	Net gains/losses			
			Gains	Losses			Gains	Losses		
Assets held in trust	92	92	—	—	337	337	—	—		

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 June 30, 2020		As of March 31, 2020	
	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	92	(227)	337	279

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 June 30, 2020, and March 31, 2020.

3. Nonconsolidated Balance Sheets

(Million Yen)

	As of June 30, 2020	As of March 31, 2020
Assets:		
Cash and deposits	824,290	1,020,742
Call loans	314,967	422,906
Monetary receivables purchased	207,268	219,068
Assets held in trust	9,224	33,779
Investments in securities:	59,584,938	57,108,802
National government bonds	22,624,353	22,096,083
Local government bonds	837,939	779,033
Corporate bonds	2,218,152	2,114,396
Domestic stocks	8,829,365	7,901,082
Foreign securities	21,520,876	20,651,209
Loans:	7,524,377	7,411,809
Policy loans	585,827	554,285
Industrial and consumer loans	6,938,549	6,857,523
Tangible fixed assets	1,682,261	1,681,851
Intangible fixed assets	191,802	192,824
Reinsurance receivables	416	379
Other assets	870,529	941,616
Customers' liability for acceptances and guarantees	75,000	75,110
Allowance for doubtful accounts	(3,351)	(2,686)
Allowance for investment loss	(35,797)	(35,068)
Total assets	71,245,928	69,071,135
Liabilities:		
Policy reserves and other reserves:	57,825,946	57,454,671
Reserve for outstanding claims	186,143	190,602
Policy reserves	56,473,462	56,220,282
Reserve for dividends to policyholders	1,166,340	1,043,785
Reinsurance payables	520	403
Corporate bonds	1,155,320	1,155,320
Other liabilities:	2,887,160	2,550,660
Income taxes payable	35,402	65,352
Lease obligations	6,847	7,481
Asset retirement obligations	5,346	5,330
Other liabilities	2,839,564	2,472,495
Accrued bonuses for directors, and audit and supervisory board members	122	92
Accrued retirement benefits	375,684	374,460
Accrued retirement benefits for directors, and audit and supervisory board members	—	4,304
Reserve for program points	9,494	8,864
Reserve for price fluctuations in investments in securities	1,486,435	1,448,014
Deferred tax liabilities	489,005	98,548
Deferred tax liabilities for land revaluation	102,633	103,072
Acceptances and guarantees	75,000	75,110
Total liabilities	64,407,324	63,273,522

3. Nonconsolidated Balance Sheets (Continued)

(Million Yen)

	As of June 30, 2020	As of March 31, 2020
Net assets:		
Foundation funds	100,000	100,000
Reserve for redemption of foundation funds	1,300,000	1,300,000
Reserve for revaluation	651	651
Surplus:	229,724	353,780
Legal reserve for deficiencies	18,993	18,394
Other surplus reserves:	210,731	335,386
Contingency funds	71,917	71,917
Reserve for social public welfare assistance	3,351	351
Reserve for reduction entry of real estate	71,855	63,729
Reserve for reduction entry of real estate to be purchased	2,069	14,790
Other reserves	170	170
Unappropriated surplus	61,367	* 184,426
Total foundation funds and others	1,630,375	1,754,431
Net unrealized gains on available-for-sale securities	5,383,746	4,165,946
Deferred losses on derivatives under hedge accounting	(119,822)	(68,056)
Land revaluation losses	(55,695)	(54,706)
Total valuations, conversions, and others	5,208,228	4,043,182
Total net assets	6,838,604	5,797,613
Total liabilities and net assets	71,245,928	69,071,135

* Unappropriated surplus on the condensed balance sheet as of March 31, 2020, represents the current-year unappropriated surplus.

Basis of Presenting the Nonconsolidated Balance Sheet as of June 30, 2020

- As the proposed appropriation of surplus for the fiscal year ended March 31, 2020, was approved at the annual meeting of representatives of policyholders held on July 2, 2020, it is included in the nonconsolidated balance sheet as of June 30, 2020. Details of the appropriation of surplus approved at the annual meeting of representatives of policyholders are as follows:

	Million Yen
a. Unappropriated surplus as of March 31, 2020	¥184,426
b. Reversal from voluntary surplus reserves	¥14,983
c. Appropriations:	¥199,410
Reserve for dividends to policyholders	¥185,145
Legal reserve for deficiencies	¥599
Interest on foundation funds	¥277
Voluntary surplus reserves	¥13,388
d. Surplus carried forward (a+b-c)	—

- The corporate tax, inhabitant tax, and income tax adjustments for the three months ended June 30, 2020, 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.
- A resolution was passed at the Meeting of Representatives held on July 2, 2020, to abolish the retirement benefit plan for directors, and audit and supervisory board members. As a result of this resolution, the payment prescribed under this plan was finalized. Accordingly, the unpaid amount of ¥4,432 million in accrued retirement benefits for directors, and audit and supervisory board members was reversed and transferred to accounts payable.
- In accordance with the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 39, March 31, 2020), the Company records the amounts of deferred tax assets and liabilities based on tax laws and regulations before their revision.
- 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. Effective from the fiscal year ended March 31, 2020, the Company has provided additional policy reserves to cover a possible deficiency in the reserve for paid-up insurance policies and similar policies among certain whole insurance policies (including single premium policies). For such policies with premiums that have been paid as of June 30, 2020, and similar policies (including single premium policies), the

Company will gradually provide additional policy reserves over a six-year period. As a result, policy reserves increased by ¥27,953 million, while ordinary profit and surplus before income taxes decreased by ¥27,953 million, compared with amounts that would have been recorded had the additional policy reserve amounts not been reserved in the three months ended June 30, 2020.

6. Changes in the reserve for dividends to policyholders for the three months ended June 30, 2020, were as follows:

	Million Yen
	<u>Three months ended June 30, 2020</u>
a. Balance at the beginning of the current fiscal year	¥1,043,785
b. Transfer to reserve based on the proposed appropriation of surplus for previous fiscal year	¥185,145
c. Dividends paid to policyholders during the current three-month period	¥67,952
d. Increase in interest	¥5,360
e. Balance at the end of the current three-month period (a+b-c+d)	<u>¥1,166,340</u>

7. The amount of securities lent under lending agreements was ¥3,215,653 million as of June 30, 2020.

4. Nonconsolidated Statements of Income

(Million Yen)

	Three months ended June 30, 2020	Three months ended June 30, 2019
Ordinary income:	1,588,523	1,519,387
Revenues from insurance and reinsurance:	991,441	1,136,332
Insurance premiums	991,068	1,136,212
Investment income:	569,323	343,679
Interest, dividends, and other income	307,083	314,423
Gain from assets held in trust, net	—	147
Gain on sales of securities	220,313	25,230
Gain on separate accounts, net	33,704	3,188
Other ordinary income	27,759	39,375
Ordinary expenses:	1,479,999	1,453,699
Benefits and other payments:	935,395	927,095
Death and other claims	239,917	249,166
Annuity payments	194,992	197,509
Health and other benefits	177,773	197,515
Surrender benefits	217,438	211,491
Other refunds	104,804	71,290
Provision for policy reserves:	258,541	234,502
Provision for policy reserves	253,180	229,099
Provision for interest on reserve for dividends to policyholders	5,360	5,402
Investment expenses:	94,473	81,636
Interest expenses	7,031	7,980
Loss from assets held in trust, net	26,554	—
Loss on sales of securities	1,071	10,304
Loss on valuation of securities	533	25,342
Loss on derivative financial instruments, net	40,710	7,256
Operating expenses	140,931	151,260
Other ordinary expenses	50,657	59,205
Ordinary profit	108,524	65,688
Extraordinary gains:	29	71
Gain on disposals of fixed assets	29	71
Extraordinary losses:	42,334	15,616
Loss on disposals of fixed assets	1,492	456
Impairment losses	2,420	1,049
Provision for reserve for price fluctuations in investments in securities	38,421	14,110
Surplus before income taxes	66,219	50,143
Income taxes – current	58,463	51,605
Income taxes – deferred	(52,622)	(56,025)
Total income taxes	5,840	(4,420)
Net surplus	60,378	54,564

Notes to the Nonconsolidated Statement of Income for the Three Months Ended June 30, 2020

1. Impairment losses are as follows:

1) Method for grouping the assets

Real estate for rental use 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 three months ended June 30, 2020, is as follows:

	Million Yen		
Purpose of use	Land	Buildings	Total
Idle properties	¥1,649	¥771	¥2,420
Total	¥1,649	¥771	¥2,420

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.

5. Details of Ordinary Profit (Core Operating Profit)

(Million Yen)

	Three months ended June 30, 2020	Three months ended June 30, 2019
Core operating profit (A)	122,992	126,132
Capital gains:	227,490	68,545
Gain on proprietary trading securities	—	—
Gain from assets held in trust, net	—	147
Gain on trading securities	—	—
Gain on sales of securities	220,313	25,230
Gain on derivative financial instruments, net	—	—
Foreign exchange gains, net	7,176	—
Other capital gains	—	43,166
Capital losses:	131,251	85,219
Loss on proprietary trading securities	—	—
Loss from assets held in trust, net	26,554	—
Loss on trading securities	—	—
Loss on sales of securities	1,071	10,304
Loss on valuation of securities	533	25,342
Loss on derivative financial instruments, net	40,710	7,256
Foreign exchange losses, net	—	16,557
Other capital losses	62,380	25,758
Net capital gains (losses) (B)	96,238	(16,674)
Core operating profit, including net capital (losses) gains (A+B)	219,230	109,458
Nonrecurring gains:	—	28
Reinsurance revenue	—	—
Reversal of contingency reserve	—	—
Reversal of specific allowance for doubtful accounts	—	28
Other nonrecurring gains	—	—
Nonrecurring losses:	110,705	43,798
Reinsurance premiums	—	—
Provision for contingency reserve	81,141	11,685
Provision for specific allowance for doubtful accounts	882	—
Provision for allowance for specific overseas loans	—	—
Write-offs of loans	—	—
Other nonrecurring losses	28,682	32,113
Net nonrecurring losses (C)	(110,705)	(43,769)
Ordinary profit (A+B+C)	108,524	65,688

(Reference) Breakdown of “Other” Items

(Million Yen)

	Three months ended June 30, 2020	Three months ended June 30, 2019
Core operating profit	62,380	(17,408)
Interest income and expenses related to swap transactions for foreign currency-denominated insurance products and swap transactions for hedging purposes	4,808	4,211
Impact of market exchange rate movements related to foreign currency-denominated insurance policies	56,088	(43,166)
Impact of movements in surrender benefits related to market value adjustment	1,484	21,546
Other capital gains	—	43,166
Interest income and expenses 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	—	43,166
Impact of movements in surrender benefits related to market value adjustment	—	—
Other capital losses	62,380	25,758
Interest income and expenses related to swap transactions for foreign currency-denominated insurance products and swap transactions for hedging purposes	4,808	4,211
Impact of market exchange rate movements related to foreign currency-denominated insurance policies	56,088	—
Impact of movements in surrender benefits related to market value adjustment	1,484	21,546
Other nonrecurring gains	—	—
Reversal of allowance for investment loss	—	—
Other nonrecurring losses	28,682	32,113
Provision for allowance for investment loss	729	1,459
Provision for policy reserves pursuant to Article 69 Paragraph 5 of the Ordinance for Enforcement of the Insurance Business Act in Japan	27,953	30,654

6. Solvency Margin Ratio

(Million Yen)

	As of June 30, 2020	As of March 31, 2020
Solvency margin gross amount (A):	15,471,404	13,865,444
Foundation funds (<i>kikin</i>) and other reserve funds:	5,324,866	5,143,643
Foundation funds and others	1,630,375	1,569,008
Reserve for price fluctuations in investments in securities	1,486,435	1,448,014
Contingency reserve	1,959,408	1,878,267
General allowance for doubtful accounts	1,328	1,035
Others	247,318	247,318
Net unrealized gains on available-for-sale securities (before tax) and deferred losses on derivatives under hedge accounting (before tax) × 90%	6,496,271	5,025,159
Net unrealized gains on real estate × 85%	477,549	479,243
Excess of continued Zillmerized reserve	1,703,764	1,697,908
Qualifying subordinated debt	1,545,320	1,545,320
Excess of continued Zillmerized reserve and qualifying subordinated debt not included in margin calculations	—	—
Deduction clause	(55,023)	(55,023)
Others	(21,344)	29,191
Total amount of risk (B):		
$\sqrt{(R_1 + R_8)^2 + (R_2 + R_3 + R_7)^2} + R_4$	3,069,190	2,831,718
Underwriting risk (R ₁)	114,948	115,290
Underwriting risk of third-sector insurance (R ₈)	84,910	85,115
Anticipated yield risk (R ₂)	346,329	348,663
Minimum guarantee risk (R ₇)	5,617	5,620
Investment risk (R ₃)	2,646,622	2,410,869
Business management risk (R ₄)	63,968	59,311
Solvency margin ratio		
$\frac{(A)}{(1/2) \times (B)} \times 100$	1,008.1%	979.2%

Notes: 1. The amounts and figures as of March 31, 2020, 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.

Those as of June 30, 2020, are calculated based on the methods deemed reasonable by the Company in accordance with the aforementioned provisions.

2. The standard method is used for the calculation of the amount equivalent to minimum guarantee risk.

7. Status of Separate Accounts

(1) Balance of Separate Account Assets

(Million Yen)

	As of June 30, 2020	As of March 31, 2020
Individual variable insurance	97,973	94,319
Individual variable annuities	28,308	28,017
Group annuities	1,017,303	1,080,089
Separate account total	1,143,585	1,202,426

(2) Policies in Force

- Individual Variable Insurance

	As of June 30, 2020		As of March 31, 2020	
	Number of policies	Amount of policies (million yen)	Number of policies	Amount of policies (million yen)
Variable insurance (defined term type)	11,172	4,272	11,312	4,567
Variable insurance (whole life type)	31,126	434,051	31,271	436,503
Total	42,298	438,323	42,583	441,071

- Individual Variable Annuities

	As of June 30, 2020		As of March 31, 2020	
	Number of policies	Amount of policies (million yen)	Number of policies	Amount of policies (million yen)
Individual variable annuities	33,505	28,294	33,818	28,001

8. Status of the Company, Subsidiaries, and Affiliates

(1) Selected Financial Data for Major Operations

(100 Million Yen)

	Three months ended June 30, 2020	Three months ended June 30, 2019
Ordinary income	20,099	19,297
Ordinary profit	1,232	725
Net surplus attributable to the parent company	676	513
Comprehensive income	12,682	1,195

	As of June 30, 2020	As of March 31, 2020
Total assets	824,344	800,811
Solvency margin ratio	1,080.0%	1,047.5%

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

	As of June 30, 2020
Number of consolidated subsidiaries	15
Number of subsidiaries not consolidated but accounted for under the equity method	0
Number of affiliates accounted for under the equity method	15
Changes in significant subsidiaries and affiliates during the period	None

(3) Basis of Preparing the Consolidated Financial Statements for the Three Months Ended June 30, 2020

Under Article 59-7 of the Ordinance for Enforcement of the Insurance Business Act, an insurance company shall, for each quarter, make an effort to disclose the matters which would serve as reference information for policyholders provided in Article 111, paragraph 6 of the Insurance Business Act and any other customers so that they may acquire knowledge on the status of business and properties of the insurance company, its subsidiaries, and others which are especially important. The consolidated financial statements for the three months ended June 30, 2018, have been prepared based on the model format for the announcement of first-quarter and third-quarter financial results (the “Quarterly Reporting Model”) created by The Life Insurance Association of Japan and generally accepted standards for preparation of quarterly consolidated financial statements in Japan. However, the Quarterly Reporting Model is prepared for the purpose of fulfilling the obligation above to make an effort to disclose information. Accordingly, disclosures in the Quarterly Reporting Model differ from those prescribed by the Regulation on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements.

(4) Policies for Preparing the Consolidated Financial Statements for the Three Months Ended June 30, 2020

There have been no significant changes.

(5) Consolidated Balance Sheets

(Million Yen)

	As of June 30, 2020	As of March 31, 2020
Assets:		
Cash and deposits	1,625,646	1,751,037
Call loans	314,967	422,906
Monetary receivables purchased	338,993	375,278
Assets held in trust	9,224	33,779
Investments in securities	67,688,156	65,084,003
Loans	8,555,183	8,436,650
Tangible fixed assets	1,912,788	1,913,574
Intangible fixed assets	380,367	386,396
Reinsurance receivables	84,004	69,533
Other assets	1,443,345	1,512,525
Deferred tax assets	11,425	24,318
Customers' liability for acceptances and guarantees	76,026	76,136
Allowance for doubtful accounts	(5,644)	(4,969)
Total assets	82,434,486	80,081,170
Liabilities:		
Policy reserves and other reserves:	67,224,438	66,765,636
Reserve for outstanding claims	253,308	258,970
Policy reserves	65,748,119	65,406,129
Reserve for dividends to policyholders (mutual company)	1,166,340	1,043,785
Reserve for dividends to policyholders (limited company)	56,670	56,750
Reinsurance payables	6,636	7,519
Corporate bonds	1,277,620	1,277,620
Other liabilities	3,911,619	3,541,405
Accrued bonuses for directors, and audit and supervisory board members	122	92
Net defined benefit liability	449,258	449,594
Accrued retirement benefits for directors, and audit and supervisory board members	659	4,970
Reserve for program points	9,494	8,864
Reserve for price fluctuations in investments in securities	1,571,322	1,531,621
Deferred tax liabilities	558,443	157,426
Deferred tax liabilities for land revaluation	102,633	103,072
Acceptances and guarantees	76,026	76,136
Total liabilities	75,188,275	73,923,960

(5) Consolidated Balance Sheets (Continued)

(Million Yen)

	As of June 30, 2020	As of March 31, 2020
Net assets:		
Foundation funds	100,000	100,000
Reserve for redemption of foundation funds	1,300,000	1,300,000
Reserve for revaluation	651	651
Consolidated surplus	437,964	554,790
Total foundation funds and others	1,838,615	1,955,441
Net unrealized gains on available-for-sale securities	5,476,412	4,199,843
Deferred losses on derivatives under hedge accounting	(121,460)	(69,235)
Land revaluation losses	(55,695)	(54,706)
Foreign currency translation adjustments	(60,084)	(26,406)
Remeasurement of defined benefit plans	(14,135)	(15,030)
Total accumulated other comprehensive income	5,225,036	4,034,464
Share acquisition rights	1,128	926
Noncontrolling interests	181,430	166,377
Total net assets	7,246,210	6,157,210
Total liabilities and net assets	82,434,486	80,081,170

Basis of Presenting the Consolidated Balance Sheet as of June 30, 2020

- As the proposed appropriation of surplus of the Company for the fiscal year ended March 31, 2020, was approved at the annual meeting of representatives of policyholders held on July 2, 2020, it is included in the consolidated balance sheet as of June 30, 2020. Details of the appropriation of surplus approved at the annual meeting of representatives of policyholders are as follows:

	Million Yen
a. Unappropriated surplus as of March 31, 2020	¥184,426
b. Reversal from voluntary surplus reserves	¥14,983
c. Appropriations:	¥199,410
Reserve for dividends to policyholders (mutual company)	¥185,145
Legal reserve for deficiencies	¥599
Interest on foundation funds	¥277
Voluntary surplus reserves	¥13,388
d. Surplus carried forward (a+b-c)	—

- The corporate tax, inhabitant tax, and income tax adjustments of the Company for the three months ended June 30, 2020, 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.
- A resolution was passed at the Meeting of Representatives held on July 2, 2020, to abolish the retirement benefit plan for directors, and audit and supervisory board members. As a result of this resolution, the payment prescribed under this plan was finalized. Accordingly, the unpaid amount of ¥4,432 million in accrued retirement benefits for directors, and audit and supervisory board members was reversed and transferred to accounts payable.
- In accordance with the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No. 39, March 31, 2020), the Company and certain subsidiaries applying the consolidated taxation system record the amounts of deferred tax assets and liabilities based on tax laws and regulations before their revision.
- The Company and its certain consolidated life insurance companies in Japan provided additional policy reserves in the three months ended June 30, 2020. As a result, policy reserves increased by ¥31,232 million, while ordinary profit and surplus before income taxes decreased by ¥31,232 million.
 - 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. Effective from the fiscal year ended March 31, 2020, the Company has provided additional policy reserves to cover a possible deficiency in the reserve for paid-up insurance policies and similar policies among certain whole insurance policies (including single premium policies). For such policies with premiums that have been paid as of June 30, 2020, and similar policies (including single premium policies), the Company will gradually provide additional policy reserves over a six-year period. As a result, policy reserves increased by ¥27,953 million, while ordinary profit and surplus before income taxes decreased by ¥27,953 million, compared with amounts that would have been recorded had the additional policy reserve amounts not been reserved in the three months ended June 30, 2020.

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 ¥3,279 million, while ordinary profit and surplus before income taxes decreased by ¥3,279 million, compared with amounts that would have been recorded had the additional policy reserve amounts not been reserved in the three months ended June 30, 2020.

6. Changes in the reserve for dividends to policyholders of a mutual company for the three months ended June 30, 2020, were as follows:

	Million Yen
	Three months ended June 30, 2020
a. Balance at the beginning of the current fiscal year	¥1,043,785
b. Transfer to reserve based on the proposed appropriation of surplus for previous fiscal year	¥185,145
c. Dividends paid to policyholders (mutual company) during the current three-month period	¥67,952
d. Increase in interest	¥5,360
e. Balance at the end of the current three-month period (a+b-c+d)	¥1,166,340

7. Changes in the reserve for dividends to policyholders of a limited company for the three months ended June 30, 2020, were as follows:

	Million Yen
	Three months ended June 30, 2020
a. Balance at the beginning of the current fiscal year	¥56,750
b. Dividends paid to policyholders (limited company) during the current three-month period	¥3,137
c. Increase in interest	¥2
d. Provision for reserve for dividends to policyholders (limited company)	¥3,055
e. Balance at the end of the current three-month period (a-b+c+d+e)	¥56,670

8. The amount of securities lent under lending agreements was ¥3,501,155 million as of June 30, 2020.

9. TAIJU LIFE INSURANCE COMPANY LIMITED, the Company's consolidated subsidiary, has concluded modified coinsurance agreements covering foreign currency-denominated single premium endowment insurance (U.S. dollar and Australian dollar) and foreign currency-denominated single premium whole life insurance (U.S. dollar and Australian dollar).

Through the above-mentioned modified coinsurance agreements, 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 these modified coinsurance agreements stood at ¥72,204 million as of June 30, 2020. The outstanding balance of the policy reserve for the modified coinsurance agreements stood at ¥781,188 million as of June 30, 2020.

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

(Million Yen)

	Three months ended June 30, 2020	Three months ended June 30, 2019
Ordinary income:	2,009,995	1,929,726
Revenues from insurance and reinsurance	1,228,877	1,423,335
Investment income:	725,538	444,820
Interest, dividends, and other income	345,223	349,122
Gain from assets held in trust, net	—	147
Gain on trading securities	—	15,522
Gain on sales of securities	227,376	40,160
Gain on derivative financial instruments, net	—	35,466
Foreign exchange gains, net	106,933	—
Gain on separate accounts, net	44,636	3,384
Other ordinary income	55,579	61,570
Ordinary expenses:	1,886,768	1,857,137
Benefits and other payments:	1,133,208	1,136,621
Death and other claims	297,590	306,569
Annuity payments	239,966	242,598
Health and other benefits	220,528	243,011
Surrender benefits	258,233	261,488
Other refunds	106,960	72,896
Provision for policy reserves:	383,037	276,590
Provision for policy reserves	377,673	271,184
Provision for interest on reserve for dividends to policyholders (mutual company)	5,360	5,402
Provision for interest on reserve for dividends to policyholders (limited company)	2	2
Investment expenses:	107,892	164,548
Interest expenses	7,697	9,064
Loss from assets held in trust, net	26,554	—
Loss on trading securities	9,732	—
Loss on sales of securities	3,325	12,385
Loss on valuation of securities	1,220	25,657
Loss on derivative financial instruments, net	39,626	—
Foreign exchange losses, net	—	102,654
Operating expenses	192,174	202,783
Other ordinary expenses	70,455	76,593
Ordinary profit	123,226	72,588

(6) [Consolidated Statements of Income] (Continued)

(Million Yen)

	Three months ended June 30, 2020	Three months ended June 30, 2019
Extraordinary gains:	264	108
Gain on disposals of fixed assets	262	108
Gain on reversal of share acquisition rights	1	—
Extraordinary losses:	43,673	16,989
Loss on disposals of fixed assets	1,552	564
Impairment losses	2,420	1,049
Provision for reserve for price fluctuations in investments in securities	39,700	15,375
Provision for reserve for dividends to policyholders (limited company)	3,055	3,245
Surplus before income taxes	76,762	52,462
Income taxes - current	64,243	55,035
Income taxes - deferred	(57,491)	(54,633)
Total income taxes	6,752	402
Net surplus	70,010	52,060
Net surplus attributable to noncontrolling interests	2,402	689
Net surplus attributable to the parent company	67,607	51,371

1. Impairment losses are as follows:

1) Method for grouping the assets

Real estate for rental use and idle properties of the Company and its 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 three months ended June 30, 2020, is as follows:

Purpose of use	Million Yen		
	Land	Buildings and others	Total
Real estate for rental use	¥—	¥0	¥0
Idle properties	¥1,649	¥771	¥2,420
Total	¥1,649	¥771	¥2,420

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%. Net selling price is determined based on appraisals performed in accordance with the “Real Estate Appraisal Standards” or standard land prices.

2. The total amount of depreciation of real estate for rental use and other assets for the three months ended June 30, 2020, was ¥21,230 million. Amortization of goodwill for the three months ended June 30, 2020, was ¥1,057 million.

3. Reinsurance premiums presented in revenues from insurance and reinsurance of TAIJU LIFE INSURANCE COMPANY LIMITED, the Company’s consolidated subsidiary, include reinsurance premiums of ¥11,967 million related to modified coinsurance agreements for foreign currency-denominated single premium endowment insurance (U.S. dollar and Australian dollar) and foreign currency-denominated single premium whole life insurance (U.S. dollar and Australian dollar). These premiums include adjustment to policy reserves for ceded reinsurance (excluding additional policy reserves associated with market price adjustments) of ¥(7,347) million and additional policy reserves associated with market price adjustments of ¥11,679 million.

Through this reinsurance, ordinary profit and surplus before income taxes increased by ¥15,152 million each.

[Consolidated Statements of Comprehensive Income]

(Million Yen)

	Three months ended June 30, 2020	Three months ended June 30, 2019
Net surplus	70,010	52,060
Other comprehensive income:	1,198,229	67,451
Net unrealized gains on available-for-sale securities	1,291,416	32,144
Deferred (losses) gains on derivatives under hedge accounting	(51,730)	30,339
Foreign currency translation adjustments	(29,177)	1,092
Remeasurement of defined benefit plans	935	2,542
Share of other comprehensive (loss) income of associates accounted for under the equity method	(13,213)	1,332
Comprehensive income:	1,268,240	119,511
Comprehensive income attributable to the parent company	1,259,168	114,738
Comprehensive income attributable to noncontrolling interests	9,071	4,773

(7) Consolidated Solvency Margin Ratio

(Million Yen)

	As of June 30, 2020	As of March 31, 2020
Solvency margin gross amount (A):	16,384,706	14,656,094
Foundation funds (<i>kikin</i>) and other reserve funds:	5,721,840	5,508,422
Foundation funds and others	1,880,131	1,791,393
Reserve for price fluctuations in investments in securities	1,571,322	1,531,621
Contingency reserve	2,019,522	1,934,764
Extraordinary contingency reserve	—	—
General allowance for doubtful accounts	3,007	2,702
Others	247,855	247,939
Net unrealized gains on available-for-sale securities (before tax) and deferred losses on derivatives under hedge accounting (before tax) × 90%	6,628,407	5,080,551
Net unrealized gains on real estate × 85%	499,924	501,626
Total amount of unrecognized actuarial gains/losses and unrecognized prior service cost	(19,606)	(20,848)
Excess of continued Zillmerized reserve	1,942,920	1,935,817
Qualifying subordinated debt	1,767,620	1,767,620
Excess of continued Zillmerized reserve and qualifying subordinated debt not included in margin calculations	—	—
Deduction clause	(202,271)	(260,126)
Others	45,872	89,031
Total amount of risk (B): $\sqrt{(\sqrt{R_1^2 + R_5^2 + R_8 + R_9})^2 + (R_2 + R_3 + R_7)^2} + R_4 + R_6$	3,034,132	2,798,230
Underwriting risk (R ₁)	167,137	171,736
General underwriting risk (R ₅)	—	—
Huge disaster risk (R ₆)	—	—
Underwriting risk of third-sector insurance (R ₈)	97,184	97,389
Underwriting risk related to small amount and short-term insurance providers (R ₉)	—	—
Anticipated yield risk (R ₂)	412,912	415,002
Minimum guarantee risk (R ₇)	9,343	9,295
Investment risk (R ₃)	2,535,645	2,300,790
Business management risk (R ₄)	64,444	59,884
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	1,080.0%	1,047.5%

- Notes: 1. The amounts and figures as of March 31, 2020, 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. Those as of June 30, 2020, are calculated based on the methods deemed reasonable by the Company in accordance with the aforementioned provisions.
2. The standard method is used for the calculation of the amount equivalent to minimum guarantee risk.

(8) Segment Information

For the three months ended June 30, 2020, 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 its related information are omitted because there are no other significant segments to be reported.