
Financial Results for the Six Months Ended September 30, 2020

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

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Attached: Supplementary Materials for the Six Months Ended September 30, 2020

1. Business Highlights

(1) Annualized Premium

- Policies in Force

(100 Million Yen, %)

	As of September 30, 2020		As of March 31, 2020
		As a percentage of March 31, 2020	
Individual insurance	26,591	98.5	27,001
Individual annuities	10,664	100.4	10,616
Total	37,256	99.0	37,618
Medical coverages, living benefits, and others	6,566	99.9	6,571

- New Policies

(100 Million Yen, %)

	Six months ended September 30, 2020		Six months ended September 30, 2019
		As a percentage of six months ended September 30, 2019	
Individual insurance	533	69.7	765
Individual annuities	205	53.2	387
Total	739	64.2	1,152
Medical coverages, living benefits, and others	161	54.8	294

- Notes:
1. The amount of annualized premium is calculated by multiplying a single premium payment by a factor according to the premium payment method (for single premium policies, the annualized amount is the total premium divided by the insured period).
 2. The amount of medical coverages, living benefits, and others represents annualized premium related to medical benefits (hospitalization benefits and surgical benefits), living benefits (specified illness benefits and nursing care benefits), and waiver of premium benefits (excluding disability benefits alone, but including specified illness and nursing care benefits).
 3. Annualized new policy premium includes net increases due to conversions.

(2) Amount of Policies in Force and New Policies

• Policies in Force

	As of September 30, 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	29,203	100.3	1,304,178	98.4	29,111	1,325,065
Individual annuities	4,087	100.0	248,855	100.3	4,088	248,128
Group insurance	—	—	991,902	101.3	—	978,894
Group annuities	—	—	135,036	100.9	—	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

	Six months ended September 30, 2020						Six months ended September 30, 2019			
	Number of policies		(100 million yen)	Amount of policies			Number of policies (thousands)	Amount of policies		
	(thousands)	As a percentage of six months ended September 30, 2019 (%)		As a percentage of six months ended September 30, 2019 (%)	New policies	Net increase by conversion		(100 million yen)	New policies	Net increase by conversion
Individual insurance	1,392	59.0	19,611	66.1	19,328	282	2,361	29,659	29,277	382
Individual annuities	66	54.8	4,717	53.3	4,701	16	121	8,849	8,741	108
Group insurance	—	—	1,997	162.1	1,997		—	1,232	1,232	
Group annuities	—	—	0	16.1	0		—	2	2	

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 represent annuity resources at the start of annuity payments.
4. The amount of new policies for group annuities represents the first-time premium.

2. Overview of General Accounts Asset Management for the Six Months Ended September 30, 2020

(1) Investment Environment

In the six months ended September 30, 2020, the Japanese economy experienced substantial negative growth in the April–June period due to the impact of voluntary restraints on economic activities in response to the spread of coronavirus disease 2019 (COVID-19). In the July–September period, the economy showed some signs of improvement, supported by the Japanese government’s economic policies and the Bank of Japan’s monetary policies. Considering the continuing impacts of COVID-19, however, a recovery in economic activities will require still more time.

- The Nikkei Stock Average at the start of the fiscal year was ¥18,065. Subsequently, stock prices rose atop stronger expectations for an economic recovery, underpinned by the Japanese government’s economic policies and the Bank of Japan’s accommodative monetary policies. The index finished at ¥23,185 at the end of September 2020.
- The yield rate on 10-year government bonds at the start of the fiscal year was 0.00%. Thereafter, with the Bank of Japan continuing to implement accommodative monetary policies, the yield rate remained largely in a flat range. The yield rate stood at 0.01% at the end of September 2020.
- The yen-dollar exchange rate at the start of the fiscal year was at the ¥107 level. Thereafter, while expectations for economic recovery gained strength, the yen-dollar exchange rate was impacted in part by the spread of COVID-19 and the uncertainty of the presidential election in the United States (U.S.). As a result, the yen appreciated to ¥105.80 at the end of September 2020.

The yen-euro exchange rate at the start of the fiscal year was at the ¥118 level. Subsequently, the yen depreciated against the euro based on expectations for an economic recovery driven by fiscal support within the European Union. This fiscal support was underpinned by developments, such as an agreement on the European Recovery Fund. The yen-euro exchange rate was ¥124.17 at the end of September 2020.

(2) Investment Policy

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

Specifically, to provide the stable rate of return that the Company promised to policyholders in the long term, the Company has positioned yen-denominated assets that can be expected to provide stable income, such as bonds and loans, as the Company’s core assets. Also, while focusing on its profitability and dividend situation from a medium- to long-term viewpoint and taking into account business stability, the Company has

invested in stocks and foreign securities within the scope of acceptable risk. From the perspective of diversifying profit-making opportunities, while continuously paying enough attention to asset allocation and risks, the Company is steadily pursuing investments that can yield surplus income, such as corporate bonds and securitized products, and investment areas, such as private equities and hedge funds.

(3) Status of Investment Income/Expense

Investment income was ¥1,030.1 billion, an increase from ¥806.0 billion in the six months ended September 30, 2019. The main factor behind this increase was an increase in gain on sales of foreign bonds.

Investment expenses amounted to ¥129.3 billion, a decrease from ¥169.0 billion in the six months ended September 30, 2019. The main factor behind this decrease was a decline in loss on valuation of securities.

As a result, the Company's net investment income increased by ¥263.8 billion, compared with the same period of the previous fiscal year, to ¥900.7 billion.

3. Investment Management Performance (General Account)

(1) Asset Composition

(100 Million Yen, %)

	As of September 30, 2020		As of March 31, 2020	
	Amount	%	Amount	%
Cash, deposits, and call loans	10,584	1.5	9,965	1.5
Receivables under resale agreements	—	—	—	—
Receivables under securities borrowing transactions	—	—	—	—
Monetary receivables purchased	1,979	0.3	2,190	0.3
Proprietary trading securities	—	—	—	—
Assets held in trust	33	0.0	337	0.0
Investments in securities:	591,858	83.9	564,276	83.1
Domestic bonds	258,201	36.6	246,581	36.3
Domestic stocks	89,529	12.7	78,582	11.6
Foreign securities:	209,883	29.7	204,714	30.2
Foreign bonds	140,663	19.9	141,910	20.9
Foreign stocks and other securities	69,220	9.8	62,803	9.3
Other securities	34,242	4.9	34,398	5.1
Loans:	75,044	10.6	74,118	10.9
Policy loans	5,465	0.8	5,542	0.8
Industrial and consumer loans	69,578	9.9	68,575	10.1
Real estate:	16,559	2.3	16,587	2.4
Investment properties	10,394	1.5	10,613	1.6
Deferred tax assets	—	—	—	—
Other assets	9,640	1.4	11,238	1.7
Allowance for doubtful accounts	(39)	(0.0)	(26)	(0.0)
Total assets (general account):	705,659	100.0	678,687	100.0
Foreign currency-denominated assets	202,977	28.8	196,873	29.0

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

(2) Increases/Decreases in Assets

(100 Million Yen)

	Six months ended September 30, 2020	Six months ended September 30, 2019
Cash, deposits, and call loans	619	536
Receivables under resale agreements	—	—
Receivables under securities borrowing transactions	—	—
Monetary receivables purchased	(211)	(306)
Proprietary trading securities	—	—
Assets held in trust	(304)	(23)
Investments in securities:	27,581	15,280
Domestic bonds	11,620	1,932
Domestic stocks	10,947	(697)
Foreign securities:	5,169	11,314
Foreign bonds	(1,247)	6,579
Foreign stocks and other securities	6,416	4,734
Other securities	(155)	2,730
Loans:	926	168
Policy loans	(77)	(158)
Industrial and consumer loans	1,003	326
Real estate:	(27)	(5)
Investment properties	(219)	56
Deferred tax assets	—	—
Other assets	(1,598)	4,921
Allowance for doubtful accounts	(12)	12
Total assets (general account):	26,972	20,583
Foreign currency-denominated assets	6,104	13,141

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

(3) Investment Income

(100 Million Yen)

	Six months ended September 30, 2020	Six months ended September 30, 2019
Interest, dividends, and other income:	6,821	7,172
Interest on deposits and savings	5	31
Interest on securities and dividends	5,779	6,021
Interest on loans	542	616
Real estate rental income	444	440
Other income	50	61
Gain on proprietary trading securities	—	—
Gain from assets held in trust, net	—	—
Gain on trading securities	—	—
Gain on sales of securities:	3,362	865
Gain on sales of domestic bonds, including national government bonds	119	317
Gain on sales of domestic stocks and other securities	694	74
Gain on sales of foreign securities	2,548	467
Other gains	—	5
Gain on redemptions of securities	21	15
Gain on derivative financial instruments, net	—	—
Foreign exchange gains, net	93	—
Reversal of allowance for doubtful accounts	—	2
Reversal of allowance for investment loss	—	—
Other investment income	2	4
Total	10,301	8,060

(4) Investment Expenses

(100 Million Yen)

	Six months ended September 30, 2020	Six months ended September 30, 2019
Interest expenses	138	161
Loss on proprietary trading securities	—	—
Loss from assets held in trust, net	309	32
Loss on trading securities	—	—
Loss on sales of securities:	120	151
Loss on sales of domestic bonds, including national government bonds	3	0
Loss on sales of domestic stocks and other securities	90	23
Loss on sales of foreign securities	25	127
Other losses	0	0
Loss on valuation of securities:	34	496
Loss on valuation of domestic bonds, including national government bonds	—	—
Loss on valuation of domestic stocks and other securities	34	217
Loss on valuation of foreign securities	—	279
Other losses	—	—
Loss on redemptions of securities	94	37
Loss on derivative financial instruments, net	340	341
Foreign exchange losses, net	—	224
Provision for allowance for doubtful accounts	18	—
Provision for allowance for investment loss	3	25
Write-offs of loans	—	—
Depreciation of real estate for rental use and other assets	88	86
Other investment expenses	146	132
Total	1,293	1,690

(5) Net Valuation Gains/Losses on Trading Securities

(100 Million Yen)

	As of September 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
Trading securities	32	(249)	331	279

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

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

(100 Million Yen)

	As of September 30, 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*	229,902	263,580	33,677	34,575	(898)	217,703	255,132	37,429	37,657	(227)
Held-to-maturity debt securities	—	—	—	—	—	—	—	—	—	—
Investments in subsidiaries and affiliates	1,342	2,084	742	742	—	1,342	1,904	562	563	(0)
Available-for-sale securities:	269,751	347,226	77,475	80,885	(3,409)	275,572	333,416	57,843	64,110	(6,267)
Domestic bonds	29,071	31,137	2,065	2,113	(47)	30,008	31,930	1,922	2,007	(85)
Domestic stocks	41,078	84,138	43,059	45,615	(2,555)	41,421	73,202	31,780	34,749	(2,968)
Foreign securities:	166,877	197,022	30,144	30,872	(727)	170,827	192,868	22,041	25,114	(3,073)
Foreign bonds	116,293	139,464	23,170	23,470	(299)	121,223	140,688	19,465	20,943	(1,478)
Foreign stocks and other securities	50,584	57,557	6,973	7,402	(428)	49,603	52,180	2,576	4,170	(1,594)
Other securities	30,895	33,096	2,201	2,276	(75)	31,223	33,320	2,096	2,231	(134)
Monetary receivables purchased	366	369	3	7	(3)	462	465	2	8	(5)
Negotiable certificates of deposit	1,462	1,461	(0)	0	(0)	1,629	1,628	(0)	0	(0)
Total	500,996	612,891	111,894	116,203	(4,308)	494,618	590,453	95,835	102,331	(6,495)
Domestic bonds	256,136	291,698	35,562	36,507	(945)	244,659	283,859	39,199	39,467	(268)
Domestic stocks	41,078	84,138	43,059	45,615	(2,555)	41,421	73,202	31,780	34,749	(2,968)
Foreign securities:	169,439	200,425	30,986	31,715	(728)	173,487	196,153	22,665	25,784	(3,118)
Foreign bonds	117,522	140,793	23,271	23,571	(300)	122,550	142,079	19,528	21,051	(1,522)
Foreign stocks and other securities	51,917	59,632	7,715	8,143	(428)	50,936	54,073	3,137	4,732	(1,595)
Other securities	30,904	33,107	2,202	2,277	(75)	31,232	33,330	2,097	2,232	(134)
Monetary receivables purchased	1,975	2,059	83	87	(4)	2,187	2,278	91	97	(6)
Negotiable certificates of deposit	1,462	1,461	(0)	0	(0)	1,629	1,628	(0)	0	(0)

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

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

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

(100 Million Yen)

	As of September 30, 2020	As of March 31, 2020
Policy-reserve-matching bonds	—	—
Held-to-maturity debt securities:	—	—
Unlisted foreign bonds	—	—
Others	—	—
Investments in subsidiaries and affiliates	10,612	10,182
Available-for-sale securities:	6,338	5,583
Unlisted domestic stocks (excluding over-the-counter stocks)	616	600
Unlisted foreign stocks (excluding over-the-counter stocks)	3	2
Unlisted foreign bonds	31	0
Others	5,686	4,980
Total	16,951	15,766

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

¥(28.7) billion and ¥(37.6) billion as of September 30, 2020, and March 31, 2020, respectively.

(7) Fair Value Information of Assets Held in Trust

(100 Million Yen)

	As of September 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	33	33	—	—	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 September 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	33	(249)	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 September 30, 2020, and March 31, 2020.

4. Nonconsolidated Balance Sheets

(Million Yen)

	As of September 30, 2020	As of March 31, 2020
Assets:		
Cash and deposits	1,022,371	1,020,742
Call loans	416,125	422,906
Monetary receivables purchased	197,943	219,068
Assets held in trust	3,359	33,779
Investments in securities:	59,923,645	57,108,802
National government bonds	23,040,099	22,096,083
Local government bonds	856,952	779,033
Corporate bonds	2,267,924	2,114,396
Domestic stocks	9,007,718	7,901,082
Foreign securities	21,185,740	20,651,209
Loans:	7,504,428	7,411,809
Policy loans	546,542	554,285
Industrial and consumer loans	6,957,885	6,857,523
Tangible fixed assets	1,679,415	1,681,851
Intangible fixed assets	191,441	192,824
Reinsurance receivables	331	379
Other assets	780,852	941,616
Customers' liability for acceptances and guarantees	69,490	75,110
Allowance for doubtful accounts	(3,953)	(2,686)
Allowance for investment loss	(35,433)	(35,068)
Total assets	71,750,016	69,071,135
Liabilities:		
Policy reserves and other reserves:	58,142,793	57,454,671
Reserve for outstanding claims	184,014	190,602
Policy reserves	56,830,678	56,220,282
Reserve for dividends to policyholders	1,128,100	1,043,785
Reinsurance payables	421	403
Corporate bonds	1,155,320	1,155,320
Other liabilities:	2,695,741	2,550,660
Income taxes payable	68,156	65,352
Lease obligations	6,344	7,481
Asset retirement obligations	5,359	5,330
Other liabilities	2,615,881	2,472,495
Accrued bonuses for directors, and audit and supervisory board members	82	92
Accrued retirement benefits	367,778	374,460
Accrued retirement benefits for directors, and audit and supervisory board members	—	4,304
Reserve for program points	9,110	8,864
Reserve for price fluctuations in investments in securities	1,546,972	1,448,014
Deferred tax liabilities	537,703	98,548
Deferred tax liabilities for land revaluation	102,324	103,072
Acceptances and guarantees	69,490	75,110
Total liabilities	64,636,739	63,273,522

4. Nonconsolidated Balance Sheets (Continued)

(Million Yen)

	As of September 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:	300,427	353,780
Legal reserve for deficiencies	18,993	18,394
Other surplus reserves:	281,434	335,386
Contingency funds	71,917	71,917
Reserve for social public welfare assistance	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	135,070	*184,426
Total foundation funds and others	1,701,078	1,754,431
Net unrealized gains on available-for-sale securities	5,581,338	4,165,946
Deferred losses on derivatives under hedge accounting	(112,712)	(68,056)
Land revaluation losses	(56,427)	(54,706)
Total valuations, conversions, and others	5,412,198	4,043,182
Total net assets	7,113,277	5,797,613
Total liabilities and net assets	71,750,016	69,071,135

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

Notes to the Nonconsolidated Balance Sheet as of September 30, 2020

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

* ASBJ: The Accounting Standards Board of Japan

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

5. Assets and liabilities denominated in foreign currencies are translated into Japanese yen in accordance with the “Accounting Standards for Foreign Currency Transactions” (Business Accounting Council). Foreign currency-denominated available-for-sale securities with exchange rates which have significantly fluctuated and where those recoveries are not expected are converted to Japanese yen using either the rate at the balance sheet date or the one-month average rate prior to the balance sheet date, whichever indicates a weaker yen. The translation difference is recorded as a loss on valuation of securities.
6. (1) An allowance for doubtful accounts is recognized in accordance with the Company’s internal Asset Valuation Regulation and Write-off/Provision Rule as follows:
- 1) An allowance for loans to borrowers who are legally or substantially bankrupt, such as being bankrupt or being in the process of civil rehabilitation proceedings, is recognized based on the amount of credit remaining after directly deducting amounts expected to be collected through the disposal of collateral or the execution of guarantees from the balance of loans (as mentioned at (3) below).
 - 2) An allowance for loans to borrowers who are not currently legally bankrupt, but have a high possibility of bankruptcy, is recognized at the amounts deemed necessary considering the borrowers’ overall solvency and the amounts remaining after deduction of amounts expected to be collected through the disposal of collateral or the execution of guarantees.
 - 3) An allowance for loans to borrowers other than the above is provided based on the borrowers’ balance multiplied by the historical average percentage of bad debt for a certain period.
- (2) All credits are assessed by responsible sections in accordance with the Company’s internal Asset Valuation Regulation. The assessments are verified by the independent Asset Auditing Department. The results of the assessments are reflected in the calculation of the allowance for doubtful accounts.
- (3) The estimated uncollectible amount calculated by subtracting the amount of collateral value or the amount collectible by the execution of guarantees from the balance of loans is directly deducted from the balance of loans (including loans with credits secured and/or guaranteed) made to legally or substantially bankrupt borrowers. The estimated uncollectible amount was ¥2,672 million (including ¥121 million of credits secured and/or guaranteed) as of September 30, 2020.
7. To provide for losses on investments, an allowance for investment loss is recognized for the securities of which the fair value is extremely difficult to be determined, but expected to have loss in future and measured at the amount of the estimated losses that could arise in the future in accordance with the Company’s internal Asset Valuation Regulation and Write-off/Provision Rule.

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

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

the Company;

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

2) Hedging instruments and hedged items

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

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

14. All transactions are accounted for exclusive of consumption taxes and local consumption taxes; however, consumption taxes paid on certain asset transactions, which are not deductible from consumption taxes withheld and are stipulated to be deferred under the Consumption Tax Act, are deferred as prepaid expenses and amortized over a five-year period on a straight-line basis. Consumption taxes other than deferred consumption taxes are expensed as incurred.
15. The Company applies the consolidated taxation system as the parent company for consolidated taxation purposes.
16. 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 Practical Issues Task Force (PITF) No. 39, March 31, 2020), the Company calculates the amounts of deferred tax assets and liabilities based on tax laws and regulations before the revision.

17. Policy reserves are reserves set forth in accordance with Article 116 of the Insurance Business Act. Insurance premiums reserves are recognized based on the following methodology. In accordance with Article 69, Paragraph 5 of the Ordinance for Enforcement of the Insurance Business Act, policy reserves include those that are reserved for certain individual annuity policies and for certain whole life insurance policies.

- 1) Reserves for policies subject to the standard policy reserve are computed in accordance with the method prescribed by the Commissioner of the Financial Services Agency (Ordinance No. 48 issued by the Ministry of Finance in 1996).
- 2) Reserves for other policies are computed based on the net level premium method.

Effective from the fiscal year ended March 31, 2019, the Company has provided additional policy reserves over a five-year period to cover a possible deficiency in the reserve for certain individual annuity policyholders. 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 life insurance policies (including lump-sum payment policies). For such policies with premiums that have been paid as of September 30, 2020, and similar policies (including lump-sum payment policies), the Company will successively provide additional policy reserves over a six-year period. As a result, the policy reserves increased by ¥64,828 million, while ordinary profit and surplus before income taxes decreased by ¥64,828 million, compared with amounts that would have been recorded had the additional policy reserves not been provided in the six months ended September 30, 2020.

18. The corporate tax, inhabitant tax, and income tax adjustments for the six months ended September 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.

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

(Million Yen)

	Balance sheet amount (*1)	Fair value (*2)	Difference
Cash and deposits (negotiable certificates of deposit):	146,199	146,199	—
Available-for-sale securities	146,199	146,199	—
Monetary receivables purchased:	197,943	205,932	7,988
Policy-reserve-matching bonds	160,984	168,973	7,988
Available-for-sale securities	36,958	36,958	—
Assets held in trust:	3,359	3,359	—
Trading securities	3,359	3,359	—
Investments in securities:	58,234,737	61,674,864	3,440,126
Trading securities	737,827	737,827	—
Policy-reserve-matching bonds	22,823,181	26,189,035	3,365,854
Investments in subsidiaries and affiliates	134,222	208,494	74,272
Available-for-sale securities	34,539,506	34,539,506	—
Loans (*3):	7,501,777	7,689,574	187,797
Policy loans	546,379	546,379	—
Industrial and consumer loans	6,955,397	7,143,195	187,797
Derivative financial instruments (*4):	(91,582)	(91,582)	—
Hedge accounting not applied	44,808	44,808	—
Hedge accounting applied	(136,391)	(136,391)	—
Corporate bonds (*3 and *5)	(1,155,320)	(1,167,816)	(12,496)
Payables under repurchase agreements (*5)	(1,246,800)	(1,246,800)	—
Loans payable (*5)	(537,629)	(537,957)	(328)

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

(*2) For securities for which impairment losses were recognized in the six months ended September 30, 2020, the fair value is the balance sheet amount, net of the impairment losses recognized.

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

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

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

- (2) Fair value measurement methods for major financial instruments are as follows:
- 1) Securities, deposits, and monetary receivables purchased that are treated as securities based on the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10)
 - a. Items with a market price

Fair value is measured based on the closing market price at the balance sheet date. However, the fair values of available-for-sale domestic and foreign equity securities are based on the average market price over a one-month period prior to the balance sheet date.
 - b. Items without a market price

Fair value is measured by discounting future cash flows to present value or valuations obtained from external parties.
 - 2) Loans
 - a. Policy loans

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

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

Fair value of loans to legally or substantially bankrupt borrowers or borrowers who are not currently legally bankrupt, but have a high probability of bankruptcy are measured by deducting the estimated uncollectible amount from the book value prior to direct write-offs.
 - 3) Derivative financial instruments
 - a. Fair value of futures and other market transactions is measured by the liquidation value or closing market price at the balance sheet date.
 - b. Fair value of equity options is measured mainly based on liquidation value or closing market price at the balance sheet date or valuations obtained from external parties.
 - c. Fair value of interest rate swaps, interest rate swaptions, foreign exchange contracts, currency options, currency swaps, and forward contracts is measured mainly based on valuations obtained from external parties.

4) Assets held in trust

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

5) Corporate bonds

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

6) Payable under repurchase agreements

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

7) Loans payable

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

- (3) Unlisted equity securities, investments in partnerships whereby partnership assets consist of unlisted equity securities, and other items of which the fair value is extremely difficult to be determined are not included in investments in securities in table (1).

Balance sheet amounts by holding purpose were ¥1,061,284 million for stocks of subsidiaries and affiliates, and ¥627,622 million for available-for-sale securities as of September 30, 2020.

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

1) Trading securities

Derivative financial instruments within assets held in trust and investments in securities for separate accounts are classified as trading securities. Valuation losses of those instruments included in profit and loss were ¥5,431 million for the six months ended September 30, 2020.

2) Held-to-maturity debt securities

There were no balances as of September 30, 2020.

3) Policy-reserve-matching bonds

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

(Million Yen)

	Type	Balance sheet amount	Fair value	Difference
Fair value exceeds the balance sheet amount	Monetary receivables purchased	157,144	165,172	8,028
	Domestic bonds	20,219,947	23,659,367	3,439,419
	Foreign securities	115,246	131,405	16,159
	Subtotal	20,492,337	23,955,945	3,463,607
Fair value does not exceed the balance sheet amount	Monetary receivables purchased	3,840	3,801	(39)
	Domestic bonds	2,486,506	2,396,785	(89,721)
	Foreign securities	1,481	1,477	(3)
	Subtotal	2,491,828	2,402,064	(89,764)
Total		22,984,166	26,358,009	3,373,843

4) Available-for-sale securities

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

(Million Yen)

	Type	Acquisition cost or amortized cost	Balance sheet amount	Difference
Balance sheet amount exceeds acquisition cost or amortized cost	Cash and deposits (negotiable certificates of deposit)	92,200	92,200	0
	Monetary receivables purchased	17,731	18,464	732
	Domestic bonds	2,604,593	2,815,960	211,367
	Domestic stocks	3,151,367	7,712,870	4,561,503
	Foreign securities	15,082,468	18,169,723	3,087,255
	Other securities	2,815,794	3,043,438	227,643
	Subtotal	23,764,154	31,852,657	8,088,502
Balance sheet amount does not exceed acquisition cost or amortized cost	Cash and deposits (negotiable certificates of deposit)	54,000	53,999	(0)
	Monetary receivables purchased	18,869	18,494	(375)
	Domestic bonds	302,566	297,779	(4,786)
	Domestic stocks	956,531	700,971	(255,559)
	Foreign securities	1,605,325	1,532,552	(72,773)
	Other securities	273,713	266,210	(7,503)
	Subtotal	3,211,005	2,870,006	(340,998)
Total		26,975,160	34,722,664	7,747,503

* Securities totaling ¥627,622 million, whose fair value is extremely difficult to determine, are not included in the table above. Impairment losses of ¥3,388 million were recognized for securities with a fair value during the six months ended September 30, 2020.

Regarding stocks (including foreign stocks) with fair values, impairment losses are recognized for stocks whose fair value has declined significantly from the acquisition cost based on the average fair value of the month preceding September 30, 2020, in principle. However, in the case of a security that meets certain criteria, such as a security for which the fair value has declined significantly and the decline in the fair value in the month preceding September 30, 2020, is significant, impairment losses are recognized based on the fair value as of September 30, 2020.

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

- a. A security for which the average fair value in the month preceding September 30, 2020, is 50% or less of the acquisition cost.

- b. A security that meets both of the following criteria:
 - i). The average fair value in the month preceding September 30, 2020, exceeds 50%, but equal to or less than 70% of the acquisition cost.
 - ii). The historical market price, the business conditions of the issuing company, and other aspects are subject to certain requirements.

20. As of September 30, 2020, there were no significant changes in the balance sheet amounts and fair values of investment and rental properties from the end of the previous fiscal year.

21. (1) The total amount of loans to bankrupt borrowers, delinquent loans, loans that are delinquent for over three months, and restructured loans, which were included in loans, was ¥31,943 million as of September 30, 2020. The details of those balances were as follows:

- 1) The balances of loans to bankrupt borrowers and delinquent loans were ¥1,025 million and ¥28,139 million, respectively, as of September 30, 2020.

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

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

- 2) There were no loans delinquent for over three months as of September 30, 2020.

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

- 3) The balance of restructured loans was ¥2,777 million as of September 30, 2020.

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

- (2) Direct write-offs of loans decreased the balances of loans to bankrupt borrowers and delinquent loans by ¥2,542 million and ¥129 million, respectively, as of September 30, 2020.
22. The amount of accumulated depreciation of tangible fixed assets was ¥1,137,250 million as of September 30, 2020.
23. Separate account assets as provided in accordance with Article 118, Paragraph 1 of the Insurance Business Act were ¥1,184,017 million as of September 30, 2020, and a corresponding liability is recorded in the same amount.
24. Changes in the reserve for dividends to policyholders for the six months ended September 30, 2020, were as follows:

	Million Yen
	Six months ended September 30, 2020
a. Balance at the beginning of the current fiscal year	¥1,043,785
b. Transfer to reserve from surplus for the previous fiscal year	¥185,145
c. Dividends paid to policyholders during the current six-month period	¥111,603
d. Increase in interest	¥10,771
e. Balance at the end of the current six-month period (a+b-c+d)	¥1,128,100

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

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

Issue date	Callable date
October 2012	Each interest payment date on or after October 2022
October 2014	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
January 2016	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
September 2017	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
January 2020	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter

26. Other liabilities include subordinated loans payable of ¥520,000 million with special provisions that the fulfillment of obligations on the loans payable is subordinate to all other debt obligations.

27. Assets pledged as collateral in the form of investments in securities, land, and buildings as of September 30, 2020, were ¥2,052,864 million, ¥252 million, and ¥42 million, respectively. The total amount of liabilities covered by the assets pledged was ¥1,246,803 million as of September 30, 2020.

These amounts included ¥1,175,675 million of sale of securities under repurchase agreements and ¥1,246,800 million of payables under repurchase agreements as of September 30, 2020.

28. The total amount of stocks and investments in subsidiaries and affiliates was ¥1,195,507 million as of September 30, 2020.

29. The amount of securities lent under lending agreements was ¥2,953,653 million as of September 30, 2020.

30. Assets that the Company has a free disposal right to sell or re-pledge are marketable securities borrowed under lending agreements. These assets were held without being sold or re-pledged and totaled ¥416,865 million at fair value as of September 30, 2020.

31. The unused amount of commitments related to loans and similar loans agreements was ¥356,820 million as of September 30, 2020.

32. Of the maximum borrowing amount from the Life Insurance Policyholders Protection Corporation of Japan, which is provided for in Article 37-4 of the Order for Enforcement of the Insurance Business Act, the amount applied to the Company was estimated to be ¥72,187 million as of September 30, 2020. The amount contributed to the corporation above was recorded as operating expenses.

33. Revaluation of land used in the operations is performed based on the Act on Revaluation of Land. The tax effect of the amount related to the valuation difference between the book value and the revalued amount for land revaluation is recognized as a deferred tax liability within the liability section. The valuation differences are recognized as land revaluation losses within the net assets section.

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

34. The amount of policy reserves provided for the portion of reinsurance (the “policy reserves for ceded reinsurance”) as defined in Article 71, Paragraph 1 of the Ordinance for Enforcement of the Insurance Business Act was ¥193 million as of September 30, 2020.

5. Nonconsolidated Statements of Income

(Million Yen)

	Six months ended September 30, 2020	Six months ended September 30, 2019
Ordinary income:	3,189,029	3,209,611
Revenues from insurance and reinsurance:	2,052,341	2,302,623
Insurance premiums	2,051,752	2,302,434
Investment income:	1,081,922	817,911
Interest, dividends, and other income	682,155	717,262
Gain on sales of securities	336,221	86,550
Gain on separate accounts, net	51,763	11,841
Other ordinary income	54,765	89,076
Ordinary expenses:	2,942,940	3,046,953
Benefits and other payments:	1,806,780	1,787,126
Death and other claims	488,152	501,134
Annuity payments	374,625	376,768
Health and other benefits	333,360	361,639
Surrender benefits	471,947	442,027
Other refunds	137,836	105,182
Provision for policy reserves:	621,167	671,659
Provision for policy reserves	610,396	660,721
Provision for interest on reserve for dividends to policyholders	10,771	10,937
Investment expenses:	129,371	169,094
Interest expenses	13,830	16,162
Loss from assets held in trust, net	30,919	3,260
Loss on sales of securities	12,001	15,154
Loss on valuation of securities	3,419	49,682
Loss on derivative financial instruments, net	34,058	34,172
Operating expenses	280,981	301,273
Other ordinary expenses	104,639	117,800
Ordinary profit	246,088	162,657
Extraordinary gains:	60	1,366
Gain on disposals of fixed assets	60	1,366
Extraordinary losses:	107,418	59,927
Loss on disposals of fixed assets	2,661	1,520
Impairment losses	2,798	1,455
Provision for reserve for price fluctuations in investments in securities	98,958	53,951
Contributions for assisting social public welfare	3,000	3,000
Surplus before income taxes	138,731	104,097
Income taxes - current	96,791	71,787
Income taxes - deferred	(88,409)	(70,540)
Total income taxes	8,381	1,246
Net surplus	130,349	102,850

Notes to the Nonconsolidated Statement of Income for the Six Months Ended September 30, 2020

1. Gain on sales of securities includes gains on sales of domestic bonds, including national government bonds, domestic stocks, and foreign securities of ¥11,993 million, ¥69,411 million, and ¥254,816 million, respectively, for the six months ended September 30, 2020.
2. Loss on sales of securities includes losses on sales of domestic bonds, including national government bonds, domestic stocks and other securities, and foreign securities of ¥363 million, ¥9,098 million, and ¥2,539 million, respectively, for the six months ended September 30, 2020.
3. Loss on valuation of securities includes loss on valuation of domestic stocks and other securities of ¥3,419 million, for the six months ended September 30, 2020.
4. Provision for policy reserves for ceded reinsurance that was added to the calculation of provision for policy reserves was ¥60 million for the six months ended September 30, 2020.
5. Breakdown of interest, dividends, and other income for the six months ended September 30, 2020, is as follows:

	Million Yen
	Six months ended September 30, 2020
Interest on deposits and savings	¥551
Interest on securities and dividends	¥577,904
Interest on loans	¥54,272
Real estate rental income	¥44,413
Other income	¥5,013
Total	¥682,155

6. Impairment losses are as follows:
 - 1) Method for grouping the assets
Real estate for rental use and other assets and idle properties are classified as one asset group per property. Assets utilized for insurance business operations are classified into one asset group for each operation.
 - 2) Recognition of impairment losses
When a significant decrease in profitability or fair value of a certain asset group is noted, the book value is reduced to the recoverable amount, recognizing an impairment loss under extraordinary losses.

- 3) Breakdown of asset groups for which impairment losses were recognized for the six months ended September 30, 2020, is as follows:

Purpose of use	Million Yen		Total
	Land	Buildings	
Idle properties	¥1,926	¥872	¥2,798
Total	¥1,926	¥872	¥2,798

- 4) Measurement of recoverable amount

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

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

6. Nonconsolidated Statements of Changes in Net Assets

For the six months ended September 30, 2020

(Million Yen)

	Foundation funds and others											Total foundation funds and others
	Foundation funds	Reserve for redemption of foundation funds	Reserve for revaluation	Legal reserve for deficiencies	Surplus						Total surplus	
					Contingency funds	Reserve for social public welfare assistance	Reserve for reduction entry of real estate	Reserve for reduction entry of real estate to be purchased	Other reserves	Unappropriated surplus		
Beginning balance	100,000	1,300,000	651	18,394	71,917	351	63,729	14,790	170	184,426	353,780	1,754,431
Increase/decrease:												
Additions to reserve for dividends to policyholders										(185,145)	(185,145)	(185,145)
Additions to legal reserve for deficiencies				599						(599)	—	—
Interest on foundation funds										(277)	(277)	(277)
Net surplus										130,349	130,349	130,349
Additions to reserve for social public welfare assistance						3,000				(3,000)	—	—
Reversal of reserve for social public welfare assistance						(3,000)				3,000	—	—
Additions to reserve for reduction entry of real estate							9,380			(9,380)	—	—
Reversal of reserve for reduction entry of real estate							(1,254)			1,254	—	—
Additions to reserve for reduction entry of real estate to be purchased								1,007		(1,007)	—	—
Reversal of reserve for reduction entry of real estate to be purchased								(13,728)		13,728	—	—
Reversal of land revaluation losses										1,720	1,720	1,720
Net change, excluding foundation funds and others												
Net change	—	—	—	599	—	—	8,126	(12,721)	—	(49,356)	(53,352)	(53,352)
Ending balance	100,000	1,300,000	651	18,993	71,917	351	71,855	2,069	170	135,070	300,427	1,701,078

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

For the six months ended September 30, 2020

(Million Yen)

	Valuations, conversions, and others				Total net assets
	Net unrealized gains on available-for-sale securities	Deferred losses on derivatives under hedge accounting	Land revaluation losses	Total valuations, conversions, and others	
Beginning balance	4,165,946	(68,056)	(54,706)	4,043,182	5,797,613
Increase/decrease:					
Additions to reserve for dividends to policyholders					(185,145)
Additions to legal reserve for deficiencies					—
Interest on foundation funds					(277)
Net surplus					130,349
Additions to reserve for social public welfare assistance					—
Reversal of reserve for social public welfare assistance					—
Additions to reserve for reduction entry of real estate					—
Reversal of reserve for reduction entry of real estate					—
Additions to reserve for reduction entry of real estate to be purchased					—
Reversal of reserve for reduction entry of real estate to be purchased					—
Reversal of land revaluation losses					1,720
Net change, excluding foundation funds and others	1,415,392	(44,655)	(1,720)	1,369,016	1,369,016
Net change	1,415,392	(44,655)	(1,720)	1,369,016	1,315,663
Ending balance	5,581,338	(112,712)	(56,427)	5,412,198	7,113,277

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

For the six months ended September 30, 2019

(Million Yen)

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

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

For the six months ended September 30, 2019

(Million Yen)

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

7. Details of Ordinary Profit (Core Operating Profit)

(Million Yen)

	Six months ended September 30, 2020	Six months ended September 30, 2019
Core operating profit (A)	326,593	331,531
Capital gains:	345,601	153,114
Gain on proprietary trading securities	—	—
Gain from assets held in trust, net	—	—
Gain on trading securities	—	—
Gain on sales of securities	336,221	86,550
Gain on derivative financial instruments, net	—	—
Foreign exchange gains, net	9,380	—
Other capital gains	—	66,564
Capital losses:	150,148	204,698
Loss on proprietary trading securities	—	—
Loss from assets held in trust, net	30,919	3,260
Loss on trading securities	—	—
Loss on sales of securities	12,001	15,154
Loss on valuation of securities	3,419	49,682
Loss on derivative financial instruments, net	34,058	34,172
Foreign exchange losses, net	—	22,439
Other capital losses	69,748	79,988
Net capital gains (losses) (B)	195,453	(51,583)
Core operating profit, including net capital gains (losses) (A+B)	522,046	279,947
Nonrecurring gains:	—	1,076
Reinsurance revenue	—	—
Reversal of contingency reserve	—	—
Reversal of specific allowance for doubtful accounts	—	1,076
Other nonrecurring gains	—	—
Nonrecurring losses:	275,957	118,366
Reinsurance premiums	—	—
Provision for contingency reserve	209,300	53,514
Provision for specific allowance for doubtful accounts	1,464	—
Provision for allowance for specific overseas loans	—	—
Write-offs of loans	—	—
Other nonrecurring losses	65,192	64,852
Net nonrecurring losses (C)	(275,957)	(117,290)
Ordinary profit (A+B+C)	246,088	162,657

(Reference) Breakdown of “Other” items

(Million Yen)

	Six months ended September 30, 2020	Six months ended September 30, 2019
Core operating profit	69,748	13,424
Interest income and expenses related to swap transactions for foreign currency-denominated insurance products and swap transactions for hedging purposes	9,506	8,626
Impact of market exchange rate movements related to foreign currency-denominated insurance policies	57,508	(66,564)
Impact of movements in surrender benefits related to market value adjustment	2,733	71,362
Other capital gains	—	66,564
Interest income related to swap transactions for foreign currency-denominated insurance products and swap transactions for hedging purposes	—	—
Impact of market exchange rate movements related to foreign currency-denominated insurance policies	—	66,564
Impact of movements in surrender benefits related to market value adjustment	—	—
Other capital losses	69,748	79,988
Interest expenses related to swap transactions for foreign currency-denominated insurance products and swap transactions for hedging purposes	9,506	8,626
Impact of market exchange rate movements related to foreign currency-denominated insurance policies	57,508	—
Impact of movements in surrender benefits related to market value adjustment	2,733	71,362
Other nonrecurring gains	—	—
Reversal of allowance for investment loss	—	—
Other nonrecurring losses	65,192	64,852
Provision for allowance for investment loss	364	2,553
Provision for policy reserves pursuant to Article 69 Paragraph 5 of the Ordinance for Enforcement of the Insurance Business Act in Japan	64,828	62,299

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

(Million Yen, %)

	As of September 30, 2020	As of March 31, 2020
Bankrupt and quasi-bankrupt loans	11,716	10,523
Doubtful loans	17,449	17,067
Substandard loans	2,777	1,563
Subtotal	31,943	29,155
[Percentage of total, %]	[0.30]	[0.27]
Normal loans	10,519,677	10,945,411
Total	10,551,620	10,974,566

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

Supplemental information for borrowers' classification

- Classifications and calculation methods used in this table are based on the Ordinance for Enforcement of the Insurance Business Act. The table includes guaranteed private offering loans of financial institutions, loans, securities lending, accrued interest, suspense payments, and customers' liability for acceptances and guarantees.
- For bankrupt and quasi-bankrupt loans, the estimated uncollectible amount calculated by subtracting the amount of collateral value or the amount collectible by the execution of guarantees from the balance of loans is directly deducted from the total loan amount. The estimated uncollectible amounts as of September 30, 2020, and March 31, 2020, were ¥2,672 million and ¥2,106 million, respectively.

9. Status of Risk-Monitored Loans

(Million Yen, %)

	As of September 30, 2020	As of March 31, 2020
Loans to bankrupt borrowers	1,025	1,532
Delinquent loans	28,139	26,057
Loans that are delinquent for over three months	—	—
Restructured loans	2,777	1,563
Total	31,943	29,154
[Percentage of total loans, %]	[0.43]	[0.39]

- Notes:
1. For loans to bankrupt borrowers and quasi-bankrupt borrowers (including collateralized and guaranteed loans), an estimated uncollectible amount (calculated by subtracting estimated collectible amounts based on collateral and guarantees from total loans) is directly deducted from the total loan amount. Such loans to bankrupt borrowers and delinquent loans were ¥2,542 million and ¥129 million, respectively, as of September 30, 2020, and ¥2,027 million and ¥78 million, respectively, as of March 31, 2020.
 2. Loans to bankrupt borrowers are loans for which interest is not accrued as income since the recovery of principal or interest on the loan is unlikely due to the fact that the principal repayments or interest payments are overdue for a significant period of time or for other reasons; and loans are extended to any of (a) borrowers that are legally bankrupt through filings for proceedings under the Corporate Reorganization Act, Civil Rehabilitation Act, Bankruptcy Act, or Company Act; (b) borrowers that have notes suspended from being traded; or (c) borrowers that have filed for legal proceedings similar to the aforementioned proceedings based on overseas laws.
 3. Delinquent loans are loans for which interest is not accrued other than the loans to bankrupt borrowers and those with interest payments extended with the objective of restructuring or supporting the borrowers.
 4. Loans that are delinquent for over three months are loans with principal or interest unpaid for over three months beginning one day after the due date based on the loan agreement other than the loans to bankrupt borrowers and delinquent loans.
 5. Restructured loans are loans that provide certain concessions favorable to the borrower with the intent of supporting the borrower's restructuring, such as by reducing or exempting interest, postponing principal or interest payments, releasing credits, or providing other benefits to the borrowers other than the loans to bankrupt borrowers, delinquent loans, and loans that are delinquent for over three months.
 6. Accrued interest for the following loans is not recorded as revenue: loans to borrowers who are bankrupt, substantially bankrupt, or potentially bankrupt based on the result of asset self-assessment.

10. Breakdown of Allowance for Doubtful Accounts

(Million Yen)

	Six months ended September 30, 2020	Year ended March 31, 2020	Difference
(1) Breakdown of allowance for doubtful accounts			
(A) General allowance for doubtful accounts	1,404	1,035	369
(B) Specific allowance for doubtful accounts	2,549	1,651	897
(C) Allowance for specific overseas loans	—	—	—
(2) Specific allowance for doubtful accounts			
(A) Provision	5,221	3,757	1,463
(B) Reversal	3,756	5,231	(1,474)
[excluding reversals with write-offs]			
(C) Net provision	1,464	(1,473)	2,938
(3) Allowance for specific overseas loans			
(A) Number of countries	—	—	—
(B) Loan amount	—	—	—
(C) Provision	—	—	—
(D) Reversal	—	—	—
(4) Write-offs	—	—	—

11. Solvency Margin Ratio

(Million Yen)

	As of September 30, 2020	As of March 31, 2020
Solvency margin gross amount (A):	16,073,456	13,865,444
Foundation funds (<i>kikin</i>) and other reserve funds:	5,584,341	5,143,643
Foundation funds and others	1,701,078	1,569,008
Reserve for price fluctuations in investments in securities	1,546,972	1,448,014
Contingency reserve	2,087,567	1,878,267
General allowance for doubtful accounts	1,404	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%	6,750,239	5,025,159
Net unrealized gains on real estate × 85%	476,718	479,243
Excess of continued Zillmerized reserve	1,716,679	1,697,908
Qualifying subordinated debt	1,675,320	1,545,320
Excess of continued Zillmerized reserve and qualifying subordinated debt not included in margin calculations	—	—
Deduction clause	(56,802)	(55,023)
Others	(73,040)	29,191
Total amount of risk (B):		
$\sqrt{(R_1 + R_8)^2 + (R_2 + R_3 + R_7)^2 + R_4}$	3,194,198	2,831,718
Underwriting risk (R ₁)	114,669	115,290
Underwriting risk of third-sector insurance (R ₈)	85,875	85,115
Anticipated yield risk (R ₂)	342,438	348,663
Minimum guarantee risk (R ₇)	5,589	5,620
Investment risk (R ₃)	2,773,296	2,410,869
Business management risk (R ₄)	66,437	59,311
Solvency margin ratio		
$\frac{(A)}{(1/2) \times (B)} \times 100$	1,006.4%	979.2%

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

12. Status of Separate Accounts

(1) Balance of Separate Account Assets

(Million Yen)

	As of September 30, 2020	As of March 31, 2020
Individual variable insurance	100,078	94,319
Individual variable annuities	28,872	28,017
Group annuities	1,055,067	1,080,089
Separate account total	1,184,017	1,202,426

(2) Policies in Force

- Individual Variable Insurance

	As of September 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)	11,077	4,479	11,312	4,567
Variable insurance (whole life type)	30,991	431,606	31,271	436,503
Total	42,068	436,085	42,583	441,071

- Individual Variable Annuities

	As of September 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	33,219	28,865	33,818	28,001

13. Status of the Company, Subsidiaries, and Affiliates

(1) Selected Financial Data for Major Operations

(100 Million Yen)

	Six months ended September 30, 2020	Six months ended September 30, 2019
Ordinary income	39,447	41,022
Ordinary profit	2,737	1,537
Net surplus attributable to the parent company	1,393	1,337
Comprehensive income	16,035	6,857

	As of September 30, 2020	As of March 31, 2020
Total assets	830,328	800,811
Solvency margin ratio	1,078.4%	1,047.5%

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

	As of September 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	Not applicable

(3) Policies for Preparing the Consolidated Financial Statements for the Six Months Ended September 30, 2020

1) Consolidated subsidiaries

Number of consolidated subsidiaries: 15 entities

Major consolidated subsidiaries:

Nissay Credit Guarantee Co., Ltd. (Japan)

Nissay Leasing Co., Ltd. (Japan)

Nissay Capital Co., Ltd. (Japan)

Nissay Asset Management Corporation (Japan)

Nissay Information Technology Co., Ltd. (Japan)

TAIJU LIFE INSURANCE COMPANY LIMITED

Nippon Wealth Life Insurance Company Limited

HANASAKU LIFE INSURANCE Co., Ltd.

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

NLI US Investments, Inc. (U.S.A.)

MLC Limited (Australia)

Nippon Life India Asset Management Limited

Major unconsolidated subsidiaries are Nippon Life Global Investors Americas, Inc.; Nissay Trading Corporation; and Nissay Insurance Agency Co., Ltd.

Unconsolidated subsidiaries have minimal balances or amounts of total assets, revenue, net income, and surplus for the six months ended September 30, 2020, which are immaterial enough to be excluded from consolidation given that they would not affect reasonable judgements to be made on the financial position and financial results of Nippon Life Group.

2) Equity method affiliates

Number of unconsolidated equity method affiliates: None

Number of affiliates accounted for under the equity method: 15 entities

Major affiliates accounted for under the equity method:

The Master Trust Bank of Japan, Ltd. (Japan)

Corporate-Pension Business Service Co., Ltd. (Japan)

Great Wall Changsheng Life Insurance Co., Ltd. (China)

Bangkok Life Assurance Public Company Limited (Thailand)

Reliance Nippon Life Insurance Company Limited (India)

Post Advisory Group, LLC (U.S.A.)

PT Sequis (Indonesia)

PT Asuransi Jiwa Sequis Life (Indonesia)

The TCW Group, Inc.

Grand Guardian Nippon Life Insurance Company Limited

Unconsolidated subsidiaries, including Nippon Life Global Investors Americas, Inc. and Nissay Trading Corporation, as well as affiliates other than those listed above, such as SL Towers Co., Ltd., are not accounted for under the equity method as respective and aggregate effects of such companies on the Company's consolidated net income and surplus for the six months ended September 30, 2020, are immaterial.

3) Reporting date for consolidated subsidiaries

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

(4) Consolidated Balance Sheets

(Million Yen)

	As of September 30, 2020	As of March 31, 2020
Assets:		
Cash and deposits	1,794,999	1,751,037
Call loans	416,125	422,906
Monetary receivables purchased	337,731	375,278
Assets held in trust	3,359	33,779
Investments in securities	68,161,167	65,084,003
Loans	8,509,916	8,436,650
Tangible fixed assets	1,907,207	1,913,574
Intangible fixed assets	381,937	386,396
Reinsurance receivables	84,860	69,533
Other assets	1,362,465	1,512,525
Deferred tax assets	7,643	24,318
Customers' liability for acceptances and guarantees	71,715	76,136
Allowance for doubtful accounts	(6,291)	(4,969)
Total assets	83,032,837	80,081,170
Liabilities:		
Policy reserves and other reserves:	67,576,778	66,765,636
Reserve for outstanding claims	251,817	258,970
Policy reserves	66,140,509	65,406,129
Reserve for dividends to policyholders (mutual company)	1,128,100	1,043,785
Reserve for dividends to policyholders (limited company)	56,351	56,750
Reinsurance payables	7,945	7,519
Corporate bonds	1,277,620	1,277,620
Other liabilities	3,704,176	3,541,405
Accrued bonuses for directors, and audit and supervisory board members	82	92
Net defined benefit liability	449,019	449,594
Accrued retirement benefits for directors, and audit and supervisory board members	651	4,970
Reserve for program points	9,110	8,864
Reserve for price fluctuations in investments in securities	1,633,120	1,531,621
Deferred tax liabilities	618,975	157,426
Deferred tax liabilities for land revaluation	102,324	103,072
Acceptances and guarantees	71,715	76,136
Total liabilities	75,451,520	73,923,960

(4) Consolidated Balance Sheets (Continued)

(Million Yen)

	As of September 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	510,486	554,790
Total foundation funds and others	1,911,138	1,955,441
Net unrealized gains on available-for-sale securities	5,700,110	4,199,843
Deferred losses on derivatives under hedge accounting	(114,361)	(69,235)
Land revaluation losses	(56,427)	(54,706)
Foreign currency translation adjustments	(38,172)	(26,406)
Remeasurement of defined benefit plans	(13,240)	(15,030)
Total accumulated other comprehensive income	5,477,908	4,034,464
Share acquisition rights	1,258	926
Noncontrolling interests	191,011	166,377
Total net assets	7,581,316	6,157,210
Total liabilities and net assets	83,032,837	80,081,170

Notes to the Consolidated Balance Sheets as of September 30, 2020

1. (1) Securities of the Company and its certain consolidated subsidiaries (including items such as deposits and monetary receivables purchased which are treated as securities based on the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10) and securities within assets held in trust) are valued as follows:
 - 1) Trading securities are stated at fair value at the balance sheet date. The moving average method is used for calculating cost of securities sold.
 - 2) Held-to-maturity debt securities are measured at amortized cost using the moving average method. The cost of securities is amortized on a straight-line basis.
 - 3) Policy-reserve-matching bonds are measured at amortized cost using the moving average method. The cost of bonds is amortized on a straight-line basis in accordance with the Industry Audit Committee Report No. 21, “Temporary Treatment of Accounting and Auditing Concerning Policy-Reserve-Matching Bonds in the Insurance Industry,” issued by the JICPA.
 - 4) Investments in subsidiaries and affiliates that are neither consolidated nor accounted for under the equity method (stocks issued by subsidiaries prescribed in Article 2, Paragraph 12 of the Insurance Business Act or subsidiaries prescribed in Article 13-5-2, Paragraph 3 of the Order for Enforcement of the Insurance Business Act and stocks issued by affiliates prescribed in Article 13-5-2, Paragraph 4 of the Order for Enforcement of the Insurance Business Act) are stated at cost using the moving average method.
 - 5) Available-for-sale securities
 - a. Regarding securities with a fair value, stocks (including foreign stocks) are measured at the average fair value based on quoted market prices during the period of one month before the balance sheet date (cost of securities sold is calculated using the moving average method). Other securities with a fair value are measured at the fair value at the balance sheet date (cost of securities sold is calculated using the moving average method).
 - b. Of securities of which fair value is extremely difficult to be determined, bonds (including foreign bonds) for which the difference between the purchase price and face value is due to an interest rate adjustment are measured at amortized cost using the moving average method. The cost of those bonds is amortized on a straight-line basis. Other securities without readily determinable fair values are stated at cost using the moving average method.

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

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

(1) The Company

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

(2) TAIJU LIFE INSURANCE COMPANY LIMITED

- 1) Whole life insurance and annuity insurance (up to 40 years) (the component of future cash flows generated from whole life insurance (including whole life insurance with term rider) and annuity insurance for up to 40 years)
- 2) Insured contributory pension plans (up to 27 years) (future cash flows generated from insured contributory pension plans for the period up to 27 years)
- 3) Subcategory 1 for foreign currency-denominated single payment endowment insurance (U.S. dollar) (foreign currency-denominated single payment endowment insurance (U.S. dollar) commencing from October 1, 2015, to September 30, 2019)
- 4) Subcategory 2 for foreign currency-denominated single payment endowment insurance (U.S. dollar) (foreign currency-denominated single payment endowment insurance (U.S. dollar) commencing on or after October 1, 2019)
- 5) Subcategory 1 for foreign currency-denominated single-payment endowment insurance (Australian dollar) (foreign currency-denominated single payment endowment insurance (Australian dollar) commencing from October 1, 2015, to September 30, 2019)
- 6) Subcategory 2 for foreign currency-denominated single payment endowment insurance (Australian dollar) (foreign currency-denominated single payment endowment insurance (Australian dollar) commencing on or after October 1, 2019)

(3) Nippon Wealth Life Insurance Company Limited

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

(4) HANASAKU LIFE INSURANCE Co., Ltd.

All insurance policy groups are classified as a single subcategory, and securities that are held for the purpose of matching the duration of these outstanding insurance liabilities are classified as policy-reserve-matching bonds.

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

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

a. Tangible fixed assets (except for lease assets)

(i) Buildings

Straight-line method.

(ii) Assets other than the above

Primarily the declining-balance method.

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

b. Lease assets

(i) Lease assets related to financial leases that transfer ownership of the leased property to the lessee

The same depreciation method applied to self-owned fixed assets.

(ii) Lease assets other than the above

Straight-line method over the lease term

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

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

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

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

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

- (4) The estimated uncollectible amount calculated by subtracting the amount of collateral value or the amount collectible by the execution of guarantees from the balance of loans is directly deducted from the balance of loans (including loans with credits secured and/or guaranteed) made to legally or substantially bankrupt borrowers. The estimated uncollectible amount was ¥3,949 million (including ¥121 million of credits secured and/or guaranteed) as of September 30, 2020.
7. Accrued bonuses for directors, and audit and supervisory board members are recognized based on amounts estimated to be paid.
8. (1) Net defined benefit liability is recognized based on the estimated amount of projected benefit obligations in excess of the fair value of pension plan assets as of September 30, 2020, for future payment of employee retirement benefits that have been accrued.
- (2) Basis used for accounting for retirement benefits of the Company and its certain consolidated subsidiaries is as follows:
- 1) Attribution method for estimated retirement benefits: Benefit formula basis
 - 2) Amortizing period for actuarial gains/losses: Five years
 - 3) Amortizing period for prior service costs: Five years
9. In order to provide for payments of retirement benefits to directors, and audit and supervisory board members at certain consolidated subsidiaries, accrued retirement benefits for directors, and audit and supervisory board members are recognized based on estimated payment amounts under internal rules.

The Company passed a resolution 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, transferred to accounts payable, and presented in other liabilities.

10. A reserve for program points is recognized based on the amount projected to be incurred for expenses from the use of points granted to policyholders.
11. A reserve for price fluctuations in investments in securities is recognized based on Article 115 of the Insurance Business Act.

12. In finance leases where the Company's consolidated subsidiary is the lessor that do not transfer ownership of the leased property to the lessee, the consolidated subsidiary recognizes sales revenue and cost of sale at the time of receiving the lease payments.

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

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

2) Hedging instruments and hedged items

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

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

14. All transactions are accounted for exclusive of consumption taxes and local consumption taxes of the Company and its certain consolidated subsidiaries; however, consumption taxes paid on certain asset transactions, which are not deductible from consumption taxes withheld and are stipulated to be deferred under the Consumption Tax Act, are deferred as prepaid expenses and amortized over a five-year period on a straight-line basis. Consumption taxes other than deferred consumption taxes are expensed as incurred in the six months ended September 30, 2020.
15. The Company and certain subsidiaries have applied the consolidated taxation system with the Company as the parent company for consolidated taxation purposes.
16. 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 its certain subsidiaries applying the consolidated taxation system calculate the amounts of deferred tax assets and liabilities based on tax laws and regulations before the revision.
17. (1) Policy reserves of the Company and its consolidated subsidiaries that are domestic life insurance companies are reserves set forth in accordance with Article 116 of the Insurance Business Act. Insurance premium reserves are recognized based on the following methodology. In accordance with Article 69, Paragraph 5 of the Ordinance for Enforcement of the Insurance Business Act, policy reserves include those that are reserved for certain individual annuity policies and for certain whole life insurance policies.
- 1) Reserves for policies subject to the standard policy reserve are calculated in accordance with the method prescribed by the Commissioner of the Financial Services Agency (Ordinance No. 48 issued by the Ministry of Finance in 1996).
 - 2) Reserves for other policies are calculated based on the net level premium method.
- In addition, the Company and its certain consolidated life insurance companies in Japan provided additional policy reserves in the six months ended September 30, 2020. As a result, policy reserves increased by ¥70,685 million, while ordinary profit and surplus before income taxes decreased by ¥70,685 million.
- a. The Company
- Effective from the fiscal year ended March 31, 2019, the Company has provided additional policy reserves over a five-year period to cover a possible deficiency in the reserve for certain individual annuity policyholders. 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 life insurance policies (including single payment policies). For such policies with premiums that have been paid as of September 30, 2020, and similar policies

(including lump-sum payment policies), the Company will successively provide additional policy reserves over a six-year period.

As a result, policy reserves increased by ¥64,828 million, while ordinary profit and surplus before income taxes decreased by ¥64,828 million, compared with amounts that would have been recorded if the additional policy reserve amounts had not been reserved in the six months ended September 30, 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 ¥5,857 million, while ordinary profit and surplus before income taxes decreased by ¥5,857 million, compared with amounts that would have been recorded if the additional policy reserve amounts had not been reserved in the six months ended September 30, 2020.

(2) Policy reserves of consolidated overseas life insurance companies are recorded as the amounts calculated in accordance with the accounting standards of each country, such as Australian accounting standards.

18. The corporate tax, inhabitant tax, and income tax adjustments of the Company for the six months ended September 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.

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

(Million Yen)

	Consolidated balance sheet amount (*1)	Fair value (*2)	Difference
Cash and deposits (negotiable certificates of deposit):	200,199	200,199	—
Available-for-sale securities	200,199	200,199	—
Monetary receivables purchased:	337,731	350,323	12,592
Held-to-maturity debt securities	32,884	33,412	528
Policy-reserve-matching bonds	228,476	240,539	12,063
Available-for-sale securities	76,371	76,371	—
Assets held in trust:	3,359	3,359	—
Trading securities	3,359	3,359	—
Investments in securities:	67,087,791	71,077,881	3,990,090
Trading securities	1,350,078	1,350,078	—
Held-to-maturity debt securities	354,180	381,706	27,526
Policy-reserve-matching bonds	26,584,917	30,557,198	3,972,280
Investments in subsidiaries and affiliates	43,759	34,043	(9,716)
Available-for-sale securities	38,754,854	38,754,854	—
Loans (*3):	8,506,524	8,716,197	209,673
Policy loans	596,293	596,293	—
Industrial and consumer loans	7,910,230	8,119,903	209,673
Derivative financial instruments (*4):	4,473	4,473	—
Hedge accounting not applied	136,916	136,916	—
Hedge accounting applied	(132,442)	(132,442)	—
Corporate bonds (*3 and *5)	(1,277,620)	(1,290,561)	(12,941)
Payables under repurchase agreements (*5)	(1,584,021)	(1,584,021)	—
Loans payable (*3 and *5)	(739,244)	(739,337)	(93)

- (*1) For transactions for which an allowance for doubtful accounts was recorded, the amounts are presented net of the allowance.
- (*2) For securities for which impairment losses were recognized in the six months ended September 30, 2020, the fair value is the consolidated balance sheet amount net of the impairment losses recognized.
- (*3) The fair values of derivative financial instruments that are interest rate swaps to which exceptional accounting treatment (“*Tokurei-shori*”) is applied or currency swaps to which designated hedge accounting (“*Furiate-shori*”) is applied are included in the fair values of loans, corporate bonds, and loans payable because they are accounted for as an integral part of the loans, corporate bonds, and loans payable that are the hedged items.
- (*4) Receivables and payables generated by derivative financial instruments are offset and presented in net amounts. Net payables in total are presented in parentheses.
- (*5) Corporate bonds, payables under repurchase agreements, and loans payable are recorded in liabilities and presented in parentheses.

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

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

a. Items with a market price

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

b. Items without a market price

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

2) Loans

a. Policy loans

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

b. Industrial and consumer loans

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

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

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

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

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

- 6) Payables under repurchase agreements
- The book value is used as fair value due to their short-term settlement.

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

- (3) Unlisted equity securities, investments in partnerships whereby partnership assets consist of unlisted equity securities, and other items of which the fair value is extremely difficult to be determined are not included in investments in securities in table (1). The consolidated balance sheet amount of the foregoing was ¥1,073,376 million as of September 30, 2020.

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

1) Trading securities

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

Valuation gains/losses of those instruments included in profit and loss were gains of ¥17,131 million for the six months ended September 30, 2020.

2) Held-to-maturity debt securities

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

(Million Yen)

	Type	Consolidated balance sheet amount	Fair value	Difference
Fair value exceeds the consolidated balance sheet amount	Monetary receivables purchased	22,395	23,119	724
	Domestic bonds	54,454	56,017	1,562
	Foreign securities	268,232	294,312	26,080
	Subtotal	345,081	373,449	28,367
Fair value does not exceed the consolidated balance sheet amount	Monetary receivables purchased	10,488	10,292	(195)
	Domestic bonds	4,507	4,504	(3)
	Foreign securities	26,986	26,872	(113)
	Subtotal	41,982	41,669	(312)
Total		387,064	415,118	28,054

3) Policy-reserve-matching bonds

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

(Million Yen)

	Type	Consolidated balance sheet amount	Fair value	Difference
Fair value exceeds the consolidated balance sheet amount	Monetary receivables purchased	220,986	233,113	12,127
	Domestic bonds	22,909,425	26,809,841	3,900,415
	Foreign securities	998,609	1,165,740	167,130
	Subtotal	24,129,022	28,208,695	4,079,672
Fair value does not exceed the consolidated balance sheet amount	Monetary receivables purchased	7,489	7,426	(63)
	Domestic bonds	2,646,460	2,552,277	(94,182)
	Foreign securities	30,422	29,340	(1,082)
	Subtotal	2,684,371	2,589,043	(95,328)
Total		26,813,394	30,797,738	3,984,344

4) Available-for-sale securities

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

(Million Yen)

	Type	Acquisition cost or amortized cost	Consolidated balance sheet amount	Difference
Consolidated balance sheet amount exceeds acquisition cost or amortized cost	Cash and deposits (negotiable certificates of deposit)	92,200	92,200	0
	Monetary receivables purchased	37,249	38,689	1,439
	Domestic bonds	3,584,953	3,838,804	253,850
	Domestic stocks	3,237,412	7,823,713	4,586,301
	Foreign securities	16,853,599	20,098,581	3,244,982
	Other securities	2,955,593	3,191,479	235,885
	Subtotal	26,761,008	35,083,467	8,322,459
Consolidated balance sheet amount does not exceed acquisition cost or amortized cost	Cash and deposits (negotiable certificates of deposit)	108,000	107,999	(0)
	Monetary receivables purchased	38,260	37,682	(578)
	Domestic bonds	534,307	524,406	(9,901)
	Domestic stocks	1,231,066	894,567	(336,498)
	Foreign securities	2,184,407	2,092,803	(91,604)
	Other securities	298,951	290,498	(8,452)
	Subtotal	4,394,993	3,947,958	(447,035)
Total		31,156,001	39,031,425	7,875,424

* Securities totaling ¥701,371 million, whose fair value is extremely difficult to determine, are not included in the table above.

Impairment losses of ¥4,545 million were recognized for securities with a fair value during the six months ended September 30, 2020. Regarding stocks (including foreign stocks) with fair values of the Company and certain consolidated subsidiaries, impairment losses are recognized for stocks whose fair value has declined significantly from the acquisition cost based on the average fair value of the month preceding September 30, 2020. However, in the case of a security that meets certain criteria, such as a security for which the fair value has declined significantly and the decline in the fair value in the month preceding September 30, 2020, is significant, impairment losses are recognized based on the fair value as of September 30, 2020.

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

- a. A security for which the average fair value in the month preceding September 30, 2020, is 50% or less of the acquisition cost.
 - b. The average fair value in the month preceding September 30, 2020, exceeds 50%, but equal to or less than 70% of the acquisition cost.
20. As of September 30, 2020, there were no significant changes in the consolidated balance sheet amounts and fair values of investment and rental properties from the end of the previous fiscal year.
21. (1) The total amount of loans to bankrupt borrowers, delinquent loans, loans that are delinquent for over three months, and restructured loans, which were included in loans, was ¥32,248 million as of September 30, 2020. The details of those balances were as follows:
- 1) The balances of loans to bankrupt borrowers and delinquent loans were ¥1,051 million and ¥28,419 million, respectively, as of September 30, 2020.

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

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

- 2) There were no loans delinquent for over three months as of September 30, 2020. Loans that are delinquent for over three months are loans with principal or interest unpaid for over three months beginning one day after the due date based on the loan agreement other than the loans classified as loans to bankrupt borrowers and delinquent loans.

3) The balance of restructured loans was ¥2,777 million as of September 30, 2020.

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

(2) Direct write-offs of loans decreased the balances of loans to bankrupt borrowers and delinquent loans by ¥3,751 million and ¥198 million, respectively, as of September 30, 2020.

22. The amount of accumulated depreciation of tangible fixed assets was ¥1,182,617 million as of September 30, 2020.

23. Separate account assets as provided in accordance with Article 118, Paragraph 1 of the Insurance Business Act were ¥1,400,934 million as of September 30, 2020, and a corresponding liability is recorded in the same amount.

24. Changes in the reserve for dividends to policyholders (mutual company) for the six months ended September 30, 2020, were as follows:

	Million Yen
	<u>Six months ended September 30, 2020</u>
a. Balance at the beginning of the current fiscal year	¥1,043,785
b. Transfer to reserve from surplus for the previous fiscal year	¥185,145
c. Dividends paid to policyholders (mutual company) during the current six-month period	¥111,603
d. Increase in interest	¥10,771
e. Balance at the end of the current six-month period (a+b-c+d)	<u>¥1,128,100</u>

25. Changes in the reserve for dividends to policyholders (limited company) for the six months ended September 30, 2020, were as follows:

	Million Yen
	Six months ended September 30, 2020
a. Balance at the beginning of the current fiscal year	¥56,750
b. Dividends paid to policyholders (limited company) during the current six-month period	¥6,519
c. Increase in interest	¥5
d. Provision for reserve for dividends to policyholders (limited company)	¥6,115
e. Balance at the end of the current six-month period (a-b+c+d)	¥56,351

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

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

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

Issue date	Callable date
October 2012	Each interest payment date on or after October 2022
October 2014	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
January 2016	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
September 2017	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
January 2020	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter

27. Other liabilities include subordinated loans payable of ¥620,000 million with special provisions that the fulfillment of obligations on the loans payable is subordinate to all other debt obligations.
28. Assets pledged as collateral in the form of cash and deposits, investments in securities, land, buildings, and lease receivables as of September 30, 2020, were ¥151 million, ¥2,405,570 million, ¥252 million, ¥42 million, and ¥2,080 million, respectively. The total amount of liabilities covered by the assets pledged was ¥1,586,221 million as of September 30, 2020.
- These amounts included ¥1,471,714 million of sale of securities under repurchase agreements and ¥1,584,021 million of payables under repurchase agreements as of September 30, 2020.

29. The total amount of stocks and investments in nonconsolidated subsidiaries and affiliates was ¥415,764 million.

30. Matters concerning stock options are as follows:

1) Stock option-related expenses and line items

(Million Yen)

Operating expenses	343
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2) Gains related to the forfeiture of unexercised stock options and line items

(Million Yen)

Gain on reversal of share acquisition rights	3
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3) Description of stock options

	Nippon Life India Asset Management Limited 2019 Second Series of Share Acquisition Rights
Title and number of grantees	Representative Director: 1 Employees: 31
Number of stock options granted by class of shares*	Common shares: 469,772
Grant date	June 10, 2020
Vesting conditions	25% of the stock options are vested every year after being granted.
Requisite service period	From the grant date to the date when the vesting conditions are satisfied
Exercise period	From June 10, 2021 to June 9, 2027
Exercise price	247.60
Fair value per unit on the grant date	65.51

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

31. The amount of securities lent under lending agreements was ¥3,055,833 million as of September 30, 2020.

32. Assets that the Company has a free disposal right to sell or re-pledge are marketable securities borrowed under lending agreements. These assets were held without being sold or re-pledged and totaled ¥417,602 million at fair value as of September 30, 2020.

33. The unused amount of commitments related to loans and similar loan agreements was ¥289,591 million as of September 30, 2020.

34. Of the maximum borrowing amount from the Life Insurance Policyholders Protection Corporation of Japan, which is provided for in Article 37-4 of the Order for Enforcement of the Insurance Business Act, the amount applied to the Company and its certain consolidated subsidiaries was estimated to be ¥85,539 million as of September 30, 2020. The amount contributed to the corporation above was recorded as operating expenses.

35. Revaluation of land used in the operations of the Company is performed based on the Act on Revaluation of Land. The tax effect of the amount related to the valuation difference between the book value and the revalued

amount for land revaluation is recognized as a deferred tax liability within the liability section. The valuation differences are recognized as land revaluation losses within the net assets section.

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

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

Through these 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 this modified coinsurance agreement stood at ¥73,092 million as of September 30, 2020. The outstanding balance of the policy reserve component associated with the modified coinsurance agreement stood at ¥783,819 million as of September 30, 2020.

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

[Consolidated Statements of Income]

(Million Yen)

	Six months ended September 30, 2020	Six months ended September 30, 2019
Ordinary income:	3,944,783	4,102,239
Revenues from insurance and reinsurance	2,511,242	2,950,348
Investment income:	1,301,481	995,495
Interest, dividends, and other income	764,138	796,468
Gain on trading securities	—	28,143
Gain on sales of securities	350,165	105,155
Gain on derivative financial instruments, net	—	48,095
Foreign exchange gains, net	116,330	—
Gain from separate accounts, net	67,716	14,822
Other ordinary income	132,059	156,395
Ordinary expenses:	3,671,059	3,948,483
Benefits and other payments:	2,225,719	2,250,651
Death and other claims	604,341	619,463
Annuity payments	465,332	468,568
Health and other benefits	416,439	449,771
Surrender benefits	553,618	537,199
Other refunds	161,059	127,173
Provision for policy reserves:	754,192	829,684
Provision for policy reserves	743,415	818,741
Provision for interest on reserve for dividends to policyholders (mutual company)	10,771	10,937
Provision for interest on reserve for dividends to policyholders (limited company)	5	5
Investment expenses:	144,260	291,686
Interest expenses	15,333	18,509
Loss from assets held in trust, net	30,920	3,260
Loss on trading securities	51	—
Loss on sales of securities	16,838	18,499
Loss on valuation of securities	5,185	50,121
Loss on derivative financial instruments, net	37,280	—
Foreign exchange losses, net	—	171,332
Operating expenses	384,838	405,496
Other ordinary expenses	162,047	170,964
Ordinary profit	273,724	153,756

[Consolidated Statements of Income] (Continued)

(Million Yen)

	Six months ended September 30, 2020	Six months ended September 30, 2019
Extraordinary gains:	1,300	51,767
Gain on disposals of fixed assets	1,297	3,036
Gain on step acquisitions	—	48,730
Gain on reversal of share acquisition rights	3	—
Extraordinary losses:	110,180	63,301
Loss on disposals of fixed assets	2,812	1,754
Impairment losses	2,868	2,065
Provision for reserve for price fluctuations in investments in securities	101,499	56,480
Contributions for assisting social public welfare	3,000	3,000
Provision for reserve for dividends to policyholders (limited company)	6,115	6,197
Surplus before income taxes	158,729	136,024
Income taxes—current	103,923	73,728
Income taxes—deferred	(88,466)	(69,837)
Total income taxes	15,456	3,890
Net surplus	143,272	132,133
Net surplus (deficit) attributable to noncontrolling interests	3,926	(1,634)
Net surplus attributable to the parent company	139,346	133,768

1. Impairment losses are as follows:

1) Method for grouping the assets

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

2) Recognition of impairment losses

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

3) Breakdown of asset groups for which impairment losses were recognized for the six months ended September 30, 2020, is as follows:

Purpose of use	Million Yen		Total
	Land	Buildings and others	
Real estate for rental use	¥33	¥35	¥69
Idle properties	¥1,926	¥872	¥2,798
Total	¥1,960	¥908	¥2,868

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. Reinsurance premiums presented in revenues from insurance and reinsurance of TAIJU LIFE INSURANCE COMPANY LIMITED, the Company’s consolidated subsidiary, include reinsurance premiums of ¥18,368 million related to modified coinsurance agreements for foreign currency-denominated single payment endowment insurance (U.S. dollar and Australian dollar) and foreign currency-denominated single payment 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 ¥(10,266) million and additional policy reserves associated with market price adjustments of ¥12,582 million.

Through this reinsurance, ordinary profit and surplus before income taxes increased by ¥15,962 million each.

[Consolidated Statements of Comprehensive Income]

(Million Yen)

	Six months ended September 30, 2020	Six months ended September 30, 2019
Net surplus	143,272	132,133
Other comprehensive income:	1,460,268	553,588
Net unrealized gains on available-for-sale securities	1,515,444	533,289
Deferred gains (losses) on derivatives under hedge accounting	(44,634)	28,547
Foreign currency translation adjustments	(8,938)	(12,993)
Remeasurement of defined benefit plans	1,870	5,084
Share of other comprehensive loss of associates accounted for under the equity method	(3,474)	(339)
Comprehensive income:	1,603,540	685,722
Comprehensive income attributable to the parent company	1,584,511	677,330
Comprehensive income attributable to noncontrolling interests	19,029	8,391

(6) Consolidated Statements of Cash Flows

(Million Yen)

	Six months ended September 30, 2020	Six months ended September 30, 2019
I. Cash flows from operating activities:		
Surplus before income taxes	158,729	136,024
Depreciation of real estate for rental use and other assets	10,250	10,008
Depreciation	35,119	33,367
Impairment losses	2,868	2,065
Amortization of goodwill	2,115	1,238
Net decrease in reserve for outstanding claims	(6,743)	(30,688)
Net increase in policy reserve	744,162	814,370
Provision for interest on reserve for dividends to policyholders (mutual company)	10,771	10,937
Provision for interest on reserve for dividends to policyholders (limited company)	5	5
Provision for reserve for dividends to policyholders (limited company)	6,115	6,197
Net increase (decrease) in allowance for doubtful accounts	1,890	(588)
Net decrease in accrued bonuses for directors, and audit and supervisory board members	(9)	(68)
Net increase in net defined benefit liability	2,020	4,357
Net decrease in accrued retirement benefits for directors, and audit and supervisory board members	(4,318)	(200)
Net increase in reserve for price fluctuations in investments in securities	101,499	56,480
Interest, dividends, and other income	(764,138)	(796,468)
Net gains on investments in securities	(320,914)	(34,332)
Interest expenses	15,333	18,509
Net losses on tangible fixed assets	1,915	309
Gains from separate accounts	(67,716)	(14,822)
Gain on step acquisitions	—	(48,730)
Others, net	(63,341)	(20,536)
Subtotal	(134,387)	147,437
Interest, dividends, and other income received	795,022	838,736
Interest paid	(13,693)	(17,513)
Dividends paid to policyholders (mutual company)	(89,395)	(98,514)
Dividends paid to policyholders (limited company)	(6,519)	(7,449)
Others, net	(7,043)	(6,375)
Income taxes paid	(94,200)	(68,295)
Net cash provided by operating activities	449,783	788,025

(6) Consolidated Statements of Cash Flows (Continued)

(Million Yen)

	Six months ended September 30, 2020	Six months ended September 30, 2019
II. Cash flows from investing activities:		
Net increase in deposits	2,489	0
Purchases of monetary receivables purchased	(3,203)	(3,328)
Proceeds from sales and redemptions of monetary receivables purchased	24,433	24,340
Purchases of assets held in trust	(2,000)	(1,000)
Proceeds from decrease in assets held in trust	1,500	99
Purchases of securities	(4,460,577)	(4,519,982)
Proceeds from sales and redemptions of securities	3,886,857	3,333,996
Disbursements for loans	(847,520)	(758,781)
Proceeds from collections of loans	748,323	665,449
Others, net	139,668	653,767
Total of asset management activities	(510,028)	(605,439)
[Sum of operating activities and asset management activities]	60,244	182,586
Purchases of tangible fixed assets	(21,629)	(25,354)
Proceeds from sales of tangible fixed assets	7,050	3,670
Payments for acquisition of subsidiary's shares resulting in change in the scope of consolidation	—	(55,886)
Others, net	(22,777)	(24,956)
Net cash used in investing activities	(547,384)	(707,965)
III. Cash flows from financing activities:		
Proceeds from debt borrowing	204,250	133,514
Repayments of debt	(68,262)	(47,284)
Proceeds from issuance of foundation funds	—	50,000
Redemption of foundation funds	—	(50,000)
Interest payments on foundation funds	(277)	(355)
Others, net	(17,570)	963
Net cash provided by financing activities	118,139	86,838
IV. Effect of exchange rate changes on cash and cash equivalents	(7,814)	(11,475)
V. Net increase in cash and cash equivalents	12,724	155,422
VI. Cash and cash equivalents at the beginning of the period	2,226,280	2,011,931
VII. Increase in cash and cash equivalents resulting from change in scope of consolidation	—	3,621
VIII. Cash and cash equivalents at the end of the period	2,239,005	2,170,976

Notes to the Consolidated Statement of Cash Flows for the Six Months Ended September 30, 2020

1. Cash and cash equivalents

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

(7) Consolidated Statements of Changes in Net Assets

For the six months ended September 30, 2020

(Million Yen)

	Foundation funds and others				
	Foundation funds	Reserve for redemption of foundation funds	Reserve for revaluation	Consolidated surplus	Total foundation funds and others
Beginning balance	100,000	1,300,000	651	554,790	1,955,441
Increase/decrease:					
Additions to reserve for dividends to policyholders (mutual company)				(185,145)	(185,145)
Interest on foundation funds				(277)	(277)
Net surplus attributable to the parent company				139,346	139,346
Reversal of land revaluation losses				1,720	1,720
Change in ownership interest of the parent due to transactions with noncontrolling interests				52	52
Net change, excluding foundation funds and others					
Net change	—	—	—	(44,303)	(44,303)
Ending balance	100,000	1,300,000	651	510,486	1,911,138

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

For the six months ended September 30, 2020

(Million Yen)

	Accumulated other comprehensive income						Share acquisition rights	Non-controlling interests	Total net assets
	Net unrealized gains on available-for-sale securities	Deferred losses on derivatives under hedge accounting	Land revaluation losses	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Beginning balance	4,199,843	(69,235)	(54,706)	(26,406)	(15,030)	4,034,464	926	166,377	6,157,210
Increase/decrease:									
Additions to reserve for dividends to policyholders (mutual company)									(185,145)
Interest on foundation funds									(277)
Net surplus attributable to the parent company									139,346
Reversal of land revaluation losses									1,720
Change in ownership interest of the parent due to transactions with noncontrolling interests									52
Net change, excluding foundation funds and others	1,500,266	(45,126)	(1,720)	(11,765)	1,790	1,443,444	332	24,634	1,468,410
Net change	1,500,266	(45,126)	(1,720)	(11,765)	1,790	1,443,444	332	24,634	1,424,106
Ending balance	5,700,110	(114,361)	(56,427)	(38,172)	(13,240)	5,477,908	1,258	191,011	7,581,316

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

For the six months ended September 30, 2019

(Million Yen)

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

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

For the six months ended September 30, 2019

(Million Yen)

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

Notes to Statements of Changes in Net Assets for the Six Months Ended September 30, 2020

1. Matters concerning share acquisition rights

(Million Yen)

Classification	Breakdown of share acquisition rights	Balance as of September 30, 2020
Nippon Life India Asset Management Limited	Share acquisition rights provided as stock options	1,258

(8) Consolidated Solvency Margin Ratio

(Million Yen)

	As of September 30, 2020	As of March 31, 2020
Solvency margin gross amount (A):	17,032,884	14,656,094
Foundation funds (<i>kikin</i>) and other reserve funds:	5,993,275	5,508,422
Foundation funds and others	1,964,157	1,791,393
Reserve for price fluctuations in investments in securities	1,633,120	1,531,621
Contingency reserve	2,145,134	1,934,764
Extraordinary contingency reserve	—	—
General allowance for doubtful accounts	3,089	2,702
Others	247,772	247,939
Net unrealized gains on available-for-sale securities (before tax) and deferred losses on derivatives under hedge accounting (before tax) × 90%	6,910,736	5,080,551
Net unrealized gains on real estate × 85%	499,156	501,626
Total amount of unrecognized actuarial gains/losses and unrecognized prior service cost	(18,365)	(20,848)
Excess of continued Zillmerized reserve	1,956,296	1,935,817
Qualifying subordinated debt	1,897,620	1,767,620
Excess of continued Zillmerized reserve and qualifying subordinated debt not included in margin calculations	—	—
Deduction clause	(204,371)	(206,126)
Others	(1,462)	89,031
Total amount of risk (B): $\sqrt{(\sqrt{R_1^2 + R_5^2 + R_8 + R_9})^2 + (R_2 + R_3 + R_7)^2} + R_4 + R_6$	3,158,706	2,798,230
Underwriting risk (R ₁)	167,421	171,736
General underwriting risk (R ₅)	—	—
Huge disaster risk (R ₆)	—	—
Underwriting risk of third-sector insurance (R ₈)	98,254	97,389
Underwriting risk related to small amount and short-term insurance providers (R ₉)	—	—
Anticipated yield risk (R ₂)	408,658	415,002
Minimum guarantee risk (R ₇)	9,347	9,295
Investment risk (R ₃)	2,662,344	2,300,790
Business management risk (R ₄)	66,920	59,884
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	1,078.4%	1,047.5%

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

(9) Segment Information

For the six months ended September 30, 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.