
Financial Results for the Nine Months Ended December 31, 2016

Nippon Life Insurance Company (the “Company”; President: Yoshinobu Tsutsui) announces financial results for the nine months ended December 31, 2016.

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1. Business Highlights

(1) Amount of Policies in Force and New Policies

• Policies in Force

	As of December 31, 2016				As of March 31, 2016	
	Number of policies		Amount of policies		Number of policies (thousands)	Amount of policies (100 million yen)
	(thousands)	As a percentage of March 31, 2016 (%)	(100 million yen)	As a percentage of March 31, 2016 (%)		
Individual insurance	24,486	105.9	1,432,485	98.7	23,123	1,451,163
Individual annuities	3,659	103.8	225,931	103.6	3,525	218,107
Group insurance	—	—	943,704	101.2	—	932,899
Group annuities	—	—	126,142	101.9	—	123,757

Notes: 1. The amount of individual annuities is the total of (a) annuity funds 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

	Nine months ended December 31, 2016						Nine months ended December 31, 2015			
	Number of policies		Amount of policies				Number of policies (thousands)	Amount of policies		
	(thousands)	As a percentage of nine months ended December 31, 2015 (%)	(100 million yen)	As a percentage of nine months ended December 31, 2015 (%)	New policies	Net (decrease) increase by conversion		(100 million yen)	New policies	Net (decrease) increase by conversion
Individual insurance	2,882	86.8	59,635	87.9	62,402	(2,766)	3,320	67,867	69,399	(1,531)
Individual annuities	239	153.0	14,452	140.9	14,351	100	156	10,259	10,121	137
Group insurance	—	—	5,151	182.1	5,151		—	2,829	2,829	
Group annuities	—	—	11	141.0	11		—	7	7	

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

(2) Annualized Net Premium

- Policies in Force

(100 Million Yen, %)

	As of December 31, 2016		As of March 31, 2016
		As a percentage of March 31, 2016	
Individual insurance	25,767	101.1	25,486
Individual annuities	9,207	104.5	8,814
Total	34,975	102.0	34,300
Medical coverages, living benefits, and others	6,192	101.1	6,125

- New Policies

(100 Million Yen, %)

	Nine months ended December 31, 2016		Nine months ended December 31, 2015
		As a percentage of nine months ended December 31, 2015	
Individual insurance	1,588	87.5	1,815
Individual annuities	665	170.8	389
Total	2,254	102.2	2,205
Medical coverages, living benefits, and others	337	90.3	373

- Notes:
1. The amount of annualized net premium is the annualized premium amount calculated by multiplying factors according to the premium payment method to a single premium payment amount (for lump-sum payment policies, the 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 net premium includes net increases due to conversions.

2. Investment Management Performance (General Account)

(1) Asset Composition

(100 Million Yen, %)

	As of December 31, 2016		As of March 31, 2016	
	Amount	%	Amount	%
Cash, deposits, and call loans	8,464	1.3	10,037	1.6
Receivables under resale agreements	—	—	—	—
Receivables under securities borrowing transactions	—	—	—	—
Monetary receivables purchased	3,298	0.5	4,199	0.7
Proprietary trading securities	—	—	—	—
Assets held in trust	18	0.0	19	0.0
Investments in securities:	521,757	81.9	501,337	80.8
Domestic bonds	226,523	35.6	233,548	37.6
Domestic stocks	86,249	13.5	81,076	13.1
Foreign securities:	191,884	30.1	171,581	27.6
Foreign bonds	149,760	23.5	134,251	21.6
Foreign stocks and other securities	42,123	6.6	37,330	6.0
Other securities	17,099	2.7	15,130	2.4
Loans:	79,793	12.5	81,214	13.1
Policy loans	6,639	1.0	6,958	1.1
Industrial and consumer loans	73,153	11.5	74,256	12.0
Real estate:	16,480	2.6	16,779	2.7
Investment property	10,524	1.7	10,796	1.7
Deferred tax assets	—	—	—	—
Other assets	7,074	1.1	7,206	1.2
Allowance for doubtful accounts	(30)	(0.0)	(35)	(0.0)
Total assets (general account):	636,855	100.0	620,758	100.0
Foreign currency-denominated assets	174,622	27.4	151,783	24.5

Notes: 1. The above assets include cash received as collateral under securities lending transactions. Cash collateral received through these transactions is also recorded in liabilities as cash received as collateral under securities lending transactions (¥913.6 billion and ¥661.8 billion as of December 31, 2016, and March 31, 2016, respectively).

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

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

(100 Million Yen)

	As of December 31, 2016					As of March 31, 2016				
	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*	198,323	237,697	39,374	39,461	(87)	205,613	250,527	44,914	44,914	(0)
Held-to-maturity debt securities	—	—	—	—	—	—	—	—	—	—
Investments in subsidiaries and affiliates	77	704	627	627	—	77	669	592	592	—
Available-for-sale securities:	253,027	317,126	64,098	67,375	(3,276)	226,222	291,383	65,161	67,305	(2,143)
Domestic bonds	29,670	31,794	2,123	2,172	(48)	29,911	32,596	2,684	2,696	(11)
Domestic stocks	40,650	82,526	41,875	42,817	(941)	39,710	76,277	36,567	38,098	(1,531)
Foreign securities:	161,260	179,799	18,538	20,618	(2,079)	136,128	160,169	24,040	24,536	(496)
Foreign bonds	136,305	149,211	12,905	14,728	(1,822)	114,806	133,533	18,727	19,032	(304)
Foreign stocks and other securities	24,954	30,587	5,633	5,890	(256)	21,322	26,636	5,313	5,504	(191)
Other securities	15,187	16,747	1,559	1,766	(206)	12,913	14,781	1,867	1,972	(104)
Monetary receivables purchased	252	253	0	0	(0)	254	255	1	1	(0)
Negotiable certificates of deposit	6,006	6,006	0	0	(0)	7,303	7,302	(0)	0	(0)
Total	451,428	555,528	104,100	107,464	(3,363)	431,912	542,580	110,667	112,812	(2,144)
Domestic bonds	224,399	265,586	41,187	41,322	(135)	230,863	278,029	47,166	47,177	(11)
Domestic stocks	40,650	82,526	41,875	42,817	(941)	39,710	76,277	36,567	38,098	(1,531)
Foreign securities:	161,886	181,077	19,191	21,270	(2,079)	136,923	161,591	24,667	25,163	(496)
Foreign bonds	136,855	149,785	12,930	14,752	(1,822)	115,523	134,285	18,761	19,066	(304)
Foreign stocks and other securities	25,031	31,292	6,261	6,517	(256)	21,399	27,305	5,905	6,096	(191)
Other securities	15,187	16,747	1,559	1,766	(206)	12,913	14,781	1,867	1,972	(104)
Monetary receivables purchased	3,297	3,584	286	287	(0)	4,198	4,597	399	399	(0)
Negotiable certificates of deposit	6,006	6,006	0	0	(0)	7,303	7,302	(0)	0	(0)

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

* Policy-reserve-matching bonds are valued using the moving average method, net of accumulated amortization (straight-line).

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 JICPA.

[Book Value of Securities of which the Fair Value is extremely difficult to be determined]

(100 Million Yen)

	As of December 31, 2016	As of March 31, 2016
Policy-reserve-matching bonds	—	—
Held-to-maturity debt securities:	—	—
Unlisted foreign bonds	—	—
Others	—	—
Investments in subsidiaries and affiliates	8,175	6,920
Available-for-sale securities:	7,126	8,637
Unlisted domestic stocks (excluding over-the-counter stocks)	552	1,047
Unlisted foreign stocks (excluding over-the-counter stocks)	4,312	5,257
Unlisted foreign bonds	—	—
Others	2,261	2,333
Total	15,301	15,558

Note: Of securities of which the 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:

¥57.2billion and ¥37.4 billion as of December 31, 2016, and March 31, 2016, respectively.

(3) Fair Value Information of Assets Held in Trust

(100 Million Yen)

	As of December 31, 2016					As of March 31, 2016				
	Balance sheet amount	Fair value	Net gains/losses		Balance sheet amount	Fair value	Net gains/losses			
			Gains	Losses			Gains	Losses		
Assets held in trust	18	18	—	—	19	19	—	—	—	

Notes: 1. Fair value is based on a reasonably calculated price by the trustee of the assets held in trust.

2. The balance sheet amount includes net gains/losses on derivative transactions within assets held in trust.

- Assets Held in Trust for Trading Purposes

(100 Million Yen)

	As of December 31, 2016		As of March 31, 2016	
	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	18	(7)	19	(0)

Note: The balance sheet amounts and valuation gains (losses) included 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
No ending balance as of December 31, 2016, or March 31, 2016.

3. Nonconsolidated Balance Sheets

(Million Yen)

	As of December 31, 2016	As of March 31, 2016
Assets:		
Cash and deposits	829,451	953,962
Call loans	170,000	120,000
Monetary receivables purchased	329,847	419,915
Assets held in trust	1,833	1,934
Investments in securities:	53,313,622	51,297,396
National government bonds	(19,877,181)	(20,101,494)
Local government bonds	(978,210)	(1,284,844)
Corporate bonds	(2,330,608)	(2,490,960)
Domestic stocks	(8,811,029)	(8,285,950)
Foreign securities	(19,491,385)	(17,477,392)
Loans:	7,979,338	8,121,484
Policy loans	663,989	695,878
Industrial and consumer loans	7,315,349	7,425,606
Tangible fixed assets	1,666,107	1,694,878
Intangible fixed assets	166,156	169,515
Reinsurance receivables	250	496
Other assets	518,092	637,272
Customers' liability for acceptances and guarantees	39,267	40,503
Allowance for doubtful accounts	(3,048)	(3,524)
Total assets	65,010,918	63,453,836
Liabilities:		
Policy reserves and other reserves:	53,775,898	52,767,560
Reserve for outstanding claims	314,773	316,631
Policy reserves	52,399,186	51,435,915
Reserve for dividends to policyholders	1,061,938	1,015,013
Reinsurance payables	320	572
Corporate bonds	840,825	650,825
Other liabilities:	2,061,618	1,627,269
Cash received as collateral under securities lending transactions	913,600	661,819
Income taxes payable	5,627	16,841
Lease obligations	7,379	6,257
Asset retirement obligations	2,208	2,322
Other liabilities	1,132,802	940,028
Accrued bonuses for directors and audit and supervisory board members	58	87
Accrued retirement benefits	360,489	358,762
Accrued retirement benefits for directors and audit and supervisory board members	4,391	4,391
Reserve for program points	10,228	9,420
Reserve for price fluctuations in investments in securities	1,103,574	947,384
Deferred tax liabilities	558,621	644,586
Deferred tax liabilities for land revaluation	105,833	109,383
Acceptances and guarantees	39,267	40,503
Total liabilities	58,861,127	57,160,746

3. Nonconsolidated Balance Sheets (Continued)

(Million Yen)

	As of December 31, 2016	As of March 31, 2016
Net assets:		
Foundation funds	150,000	200,000
Reserve for redemption of foundation funds	1,150,000	1,100,000
Reserve for revaluation	651	651
Surplus:	360,128	479,830
Legal reserve for deficiencies	16,042	15,163
Other surplus reserves:	344,086	464,667
Equalized reserve for dividends to policyholders	50,000	50,000
Contingency funds	71,917	71,917
Reserve for social public welfare assistance	378	305
Reserve for reduction entry of real estate	51,196	50,187
Reserve for reduction entry of real estate to be purchased	5,643	—
Other reserves	170	170
Unappropriated surplus	164,781	292,087
Total foundation funds and others	1,660,780	1,780,481
Net unrealized gains on available-for-sale securities	4,652,803	4,722,733
Deferred losses on derivatives under hedge accounting	(97,997)	(123,923)
Land revaluation losses	(65,794)	(86,202)
Total valuations, conversions, and others	4,489,011	4,512,608
Total net assets	6,149,791	6,293,089
Total liabilities and net assets	65,010,918	63,453,836

Basis of Presenting the Nonconsolidated Balance Sheet as of December 31, 2016

1. Effective from the three months ended June 30, 2016, the Company has applied the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ* Guidance No. 26, March 28, 2016) (hereinafter, the “Implementation Guidance on Recoverability”) and has partially revised its accounting method of recoverability of deferred tax assets. With respect to the application of the Implementation Guidance on Recoverability, the Company has adopted the transitional treatments provided in Paragraph 49 (4) of the Implementation Guidance on Recoverability. Accordingly, the Company has calculated the difference between the amounts of deferred tax assets and deferred tax liabilities determined by applying Paragraph 49 (3), Items 1-3 of the Implementation Guidance on Recoverability as of the beginning of the three months ended June 30, 2016 (April 1, 2016), and the amounts of deferred tax assets and deferred tax liabilities as of the previous fiscal year end, and added the difference to surplus as of April 1, 2016.

As a result, as of April 1, 2016, deferred tax assets increased by ¥1,873 million and unappropriated surplus increased by ¥1,873 million.

2. The corporate tax, inhabitant tax, and income tax adjustments for the nine months ended December 31, 2016, 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.
3. Changes in the reserve for dividends to policyholders for the nine months ended December 31, 2016, were as follows:

	Million Yen
	Nine months ended December 31, 2016
a. Balance at the beginning of the current fiscal year	¥ 1,015,013
b. Transfer to reserve from surplus in the previous fiscal year	¥ 229,857
c. Dividends paid to policyholders during the current nine-month period	¥ 199,867
d. Increase in interest	¥ 16,935
e. Balance at the end of the current nine-month period (a+b-c+d)	¥ 1,061,938

4. The Company redeemed ¥50,000 million of foundation funds and credited the same amount to reserve for redemption of foundation funds as prescribed in Article 56 of the Insurance Business Act as of December 31, 2016.
5. The amount of securities lent under lending agreements was ¥ 3,270,948 million as of December 31, 2016.

*ASBJ: The Accounting Standards Board of Japan

4. Nonconsolidated Statements of Income

(Million Yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Ordinary income:	4,807,603	5,528,072
Revenues from insurance and reinsurance:	3,468,620	4,303,864
Insurance premiums	3,468,182	4,303,430
Investment income:	1,247,753	1,124,440
Interest, dividends, and other income	979,399	1,038,137
Gain on sales of securities	230,136	77,255
Gain from separate accounts, net	31,988	1,607
Other ordinary income	91,228	99,767
Ordinary expenses:	4,450,256	5,153,101
Benefits and other payments:	2,613,944	2,811,715
Death and other claims	750,793	720,073
Annuity payments	610,786	603,191
Health and other benefits	477,680	509,799
Surrender benefits	612,316	646,463
Other refunds	161,560	331,398
Provision for policy reserves:	980,206	1,600,615
Provision for reserve for outstanding claims	—	6,378
Provision for policy reserves	963,270	1,576,874
Provision for interest on reserve for dividends to policyholders	16,935	17,362
Investment expenses:	256,692	109,039
Interest expenses	14,027	10,259
Loss from assets held in trust, net	741	—
Loss on sales of securities	93,346	1,913
Loss on valuation of securities	2,795	11,941
Loss on derivative financial instruments, net	89,788	35,699
Operating expenses	425,866	426,090
Other ordinary expenses	173,547	205,641
Ordinary profit	357,346	374,970
Extraordinary gains:	8,742	3,145
Gain on disposals of fixed assets	8,742	3,145
Extraordinary losses:	169,842	151,685
Loss on disposals of fixed assets	7,122	6,161
Impairment losses	3,603	2,168
Provision for reserve for price fluctuations in investments in securities	156,190	140,429
Contributions for assisting social public welfare	2,927	2,927
Surplus before income taxes	196,245	226,430
Income taxes - current	79,705	100,954
Income taxes - deferred	(61,869)	(82,998)
Total income taxes	17,835	17,955
Net surplus	178,409	208,475

Notes to the Nonconsolidated Statement of Income for the Nine Months Ended December 31, 2016

1. Impairment losses are as follows:

1) Method for grouping the assets

Leased property and idle property are classified as one asset group per property. Assets utilized for insurance business operations are classified into one asset group.

2) Circumstances causing impairment losses

The Company observed a marked decrease in profitability or fair value in some of the fixed asset groups. The book value of fixed assets was reduced to the recoverable amount and impairment losses were recognized as extraordinary losses for the nine month ended December 31, 2016.

3) Breakdown of asset groups that recognized impairment losses for the nine months ended December 31, 2016, is as follows:

Purpose of use	Million Yen		
	Land	Buildings	Total
Leased property	¥1,866	¥598	¥2,465
Idle property	¥927	¥211	¥1,138
Total	¥2,793	¥809	¥3,603

4) Calculation method of recoverable amount

The recoverable amount used for the measurement of impairment losses is based on the net realizable value upon sales of the assets or the discounted future cash flows.

The discount rate used in the calculation of future cash flows is 4.0%. Net realizable values are determined based on appraisals performed in accordance with the “Real Estate Appraisal Standards” or posted land prices.

5. Details of Ordinary Profit (Core Operating Profit)

(Million Yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Core operating profit (A)	416,713	510,367
Capital gains:	230,841	77,255
Gain on proprietary trading securities	—	—
Gain from assets held in trust, net	—	—
Gain on trading securities	—	—
Gain on sales of securities	230,136	77,255
Gain on derivative financial instruments, net	—	—
Foreign exchange gains, net	705	—
Other capital gains	—	—
Capital losses:	191,009	51,186
Loss on proprietary trading securities	—	—
Loss from assets held in trust, net	741	—
Loss on trading securities	—	—
Loss on sales of securities	93,346	1,913
Loss on valuation of securities	2,795	11,941
Loss on derivative financial instruments, net	89,788	35,699
Foreign exchange losses, net	—	1,548
Other capital losses	4,338	83
Net capital gains (B)	39,832	26,068
Core operating profit, including net capital gains (A+B)	456,545	536,436
Nonrecurring gains:	414	264
Reinsurance revenue	—	—
Reversal of contingency reserve	—	—
Reversal of specific allowance for doubtful accounts	414	264
Other nonrecurring gains	—	—
Nonrecurring losses:	99,614	161,729
Reinsurance premiums	—	—
Provision for contingency reserve	99,614	161,708
Provision for specific allowance for doubtful accounts	—	—
Provision for allowance for specific overseas debts	—	—
Write-offs of loans	—	21
Other nonrecurring losses	—	—
Net nonrecurring losses (C)	(99,199)	(161,465)
Ordinary profit (A+B+C)	357,346	374,970

Note: During the nine months ended December 31, 2016, the Company recorded the amount of foreign exchange gains and losses related to foreign currency-denominated insurance products as ¥4,338 million in core operating profit and ¥4,338 million in other capital losses.

6. Solvency Margin Ratio

(Million Yen)

	As of December 31, 2016	As of March 31, 2016
Solvency margin gross amount (A):	12,472,476	12,172,555
Foundation funds (<i>kikin</i>) and other reserve funds:	4,532,088	4,164,622
Foundation funds and others	1,660,780	1,548,925
Reserve for price fluctuations in investments in securities	1,103,574	947,384
Contingency reserve	1,500,204	1,400,590
General allowance for doubtful accounts	1,558	1,751
Others	265,970	265,970
Net unrealized gains on available-for-sale securities (before tax) and deferred losses on derivatives under hedge accounting (before tax) × 90%	5,669,552	5,719,951
Net unrealized gains on real estate × 85%	145,102	129,232
Excess of continued Zillmerized reserve	1,425,022	1,459,759
Qualifying subordinated debt	840,825	650,825
Excess of continued Zillmerized reserve and qualifying subordinated debt not included in margin calculations	—	—
Deduction clause	(600)	(357)
Others	(139,512)	48,522
Total amount of risk (B):		
$\sqrt{(R_1 + R_8)^2 + (R_2 + R_3 + R_7)^2} + R_4$	2,763,343	2,693,788
Underwriting risk (R ₁)	123,307	124,832
Underwriting risk of third-sector insurance (R ₈)	77,833	76,984
Anticipated yield risk (R ₂)	386,077	386,141
Minimum guarantee risk (R ₇)	5,721	5,759
Investment risk (R ₃)	2,306,076	2,237,530
Business management risk (R ₄)	57,980	56,624
Solvency margin ratio		
$\frac{(A)}{(1/2) \times (B)} \times 100$	902.7%	903.7%

Notes: 1. The amounts and figures as of March 31, 2016, in the above table are calculated based on the provisions of Article 86 and Article 87 of the Ordinance for Enforcement of the Insurance Business Act and the Ministry of Finance Public Notice No. 50 of 1996.

Those as of December 31, 2016, are calculated based on the methods deemed reasonable by the Company in accordance with the aforementioned provisions.

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

7. Status of Separate Accounts

(1) Balance of Separate Account Assets

(Million Yen)

	As of December 31, 2016	As of March 31, 2016
Individual variable insurance	116,803	113,805
Individual variable annuities	44,409	52,973
Group annuities	1,164,156	1,211,177
Separate account total	1,325,369	1,377,955

(2) Policies in Force

- Individual Variable Insurance

	As of December 31, 2016		As of March 31, 2016	
	Number of policies	Amount of policies (million yen)	Number of policies	Amount of policies (million yen)
Variable insurance (defined term type)	1,383	6,451	1,627	7,735
Variable insurance (whole life type)	33,495	482,585	33,983	494,469
Total	34,878	489,037	35,610	502,204

- Individual Variable Annuities

	As of December 31, 2016		As of March 31, 2016	
	Number of policies	Amount of policies (million yen)	Number of policies	Amount of policies (million yen)
Individual variable annuities	9,241	44,402	7,501	52,972

8. Status of the Company, Subsidiaries, and Affiliates

(1) Selected Financial Data for Major Operations

(100 Million Yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Ordinary income	54,051	56,153
Ordinary profit	3,911	3,855
Net surplus attributable to the parent company	1,882	3,122
Comprehensive income (loss)	1,367	(2,530)

	As of December 31, 2016	As of March 31, 2016
Total assets	727,229	706,079
Solvency margin ratio	937.0%	922.7%

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

	As of December 31, 2016
Number of consolidated subsidiaries	11
Number of subsidiaries not consolidated but accounted for under the equity method	0
Number of affiliates accounted for under the equity method	10
Changes in significant subsidiaries and affiliates during the period	Additions: 1 MLC Limited

(3) Policies of Presenting the Consolidated Financial Statements for the Nine Months Ended December 31, 2016

Consolidated subsidiaries

MLC Limited has been included within the scope of consolidation for the nine months ended December 31, 2016.

(4) Consolidated Balance Sheets

(Million Yen)

	As of December 31, 2016	As of March 31, 2016
Assets:		
Cash and deposits	1,410,551	1,351,597
Call loans	170,000	120,000
Monetary receivables purchased	342,106	436,630
Assets held in trust	2,033	2,134
Investments in securities	58,497,237	56,100,232
Loans	9,240,970	9,456,217
Tangible fixed assets	1,890,424	1,923,519
Intangible fixed assets	223,784	177,404
Reinsurance receivables	9,697	856
Other assets	896,516	1,003,987
Deferred tax assets	4,799	4,918
Customers' liability for acceptances and guarantees	39,947	36,110
Allowance for doubtful accounts	(5,069)	(5,668)
Total assets	72,722,999	70,607,941
Liabilities:		
Policy reserves and other reserves:	60,182,233	58,929,002
Reserve for outstanding claims	357,234	353,480
Policy reserves	58,694,605	57,490,828
Reserve for dividends to policyholders (mutual company)	1,061,938	1,015,013
Reserve for dividends to policyholders (limited company)	68,455	69,681
Reinsurance payables	655	761
Corporate bonds	920,825	650,825
Other liabilities	2,847,849	2,291,459
Accrued bonuses for directors and audit and supervisory board members	58	87
Net defined benefit liability	453,363	460,449
Accrued retirement benefits for directors and audit and supervisory board members	5,159	5,208
Reserve for program points	10,228	9,420
Reserve for price fluctuations in investments in securities	1,121,846	963,730
Deferred tax liabilities	620,937	697,450
Deferred tax liabilities for land revaluation	105,833	109,383
Acceptances and guarantees	39,947	36,110
Total liabilities	66,308,937	64,153,887

(4) Consolidated Balance Sheets (Continued)

(Million Yen)

	As of December 31, 2016	As of March 31, 2016
Net assets:		
Foundation funds	150,000	200,000
Reserve for redemption of foundation funds	1,150,000	1,100,000
Reserve for revaluation	651	651
Consolidated surplus	518,402	630,790
Total foundation funds and others	1,819,053	1,931,441
Net unrealized gains on available-for-sale securities	4,661,573	4,721,039
Deferred losses on derivatives under hedge accounting	(97,997)	(123,921)
Land revaluation losses	(65,794)	(86,202)
Foreign currency translation adjustments	(8,491)	24,893
Remeasurement of defined benefit plans	(24,770)	(29,637)
Total accumulated other comprehensive income	4,464,519	4,506,171
Noncontrolling interests	130,488	16,440
Total net assets	6,414,062	6,454,053
Total liabilities and net assets	72,722,999	70,607,941

Basis of Presenting the Consolidated Balance Sheet as of December 31, 2016

1. Effective from the three months ended June 30, 2016, the Company has applied the “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) (hereinafter, the “Implementation Guidance on Recoverability”) and has partially revised its accounting method of recoverability of deferred tax assets. With respect to the application of the Implementation Guidance on Recoverability, the Company has adopted the transitional treatments provided in Paragraph 49 (4) of the Implementation Guidance on Recoverability. Accordingly, the Company has calculated the difference between the amounts of deferred tax assets and deferred tax liabilities determined by applying Paragraph 49 (3), Items 1-3 of the Implementation Guidance on Recoverability as of the beginning of the three months ended June 30, 2016 (April 1, 2016), and the amounts of deferred tax assets and deferred tax liabilities as of the previous fiscal year end, and added the difference to consolidated surplus as of April 1, 2016.

As a result, as of April 1, 2016, deferred tax assets increased by ¥1,881 million, consolidated surplus increased by ¥1,880 million and noncontrolling interests increased by ¥0 million.

2. The corporate tax, inhabitant tax, and income tax adjustments of the Company for the nine months ended December 31, 2016, 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.
3. Changes in the reserve for dividends to policyholders (mutual company) for the nine months ended December 31, 2016, were as follows:

	Million Yen
	Nine months ended December 31, 2016
a. Balance at the beginning of the current fiscal year	¥ 1,015,013
b. Transfer to reserve from surplus in the previous fiscal year	¥ 229,857
c. Dividends paid to policyholders (mutual company)	¥ 199,867
d. Increase in interest	¥ 16,935
e. Balance at the end of the current nine-month period (a+b-c+d)	¥ 1,061,938

4. Changes in the reserve for dividends to policyholders (limited company) for the nine months ended December 31, 2016, were as follows:

	Million Yen
	Nine months ended December 31, 2016
a. Balance at the beginning of the current fiscal year	¥ 69,681
b. Dividends paid to policyholders (limited company)	¥ 14,156
c. Increase in interest	¥ 22
d. Provision for reserve for dividends to policyholders (limited company)	¥ 12,908
e. Balance at the end of the current nine-month period (a-b+c+d)	¥ 68,455

5. The Company redeemed ¥50,000 million of foundation funds and credited the same amount to reserve for redemption of foundation funds as prescribed in Article 56 of the Insurance Business Act as of December 31, 2016.
6. Matters concerning business combinations through acquisitions are as follows:
- 1) Overview of the business combination
 - a. Name and business of the acquiree
Name: MLC Limited
Business: Life insurance business
 - b. Main reasons for executing the business combination
The Australian life insurance market is forecast to realize high rates of growth over the long term. By entering this market, the Company aims to sustainably expand policyholders' benefits through enhancing steady and sustainable operating profit bases of overseas insurance businesses.
 - c. Business combination date
October 1, 2016 (deemed acquisition date)
 - d. Legal form of the business combination
Share acquisition for cash consideration
 - e. Name of company after business combination
MLC Limited
 - f. Percentage of voting rights acquired
80%
 - g. Main rationale for determining the acquirer
The main rationale for the Company being the acquirer is that the Company will clearly control the decision-making body of the acquiree based on majority ownership of voting rights.
 - 2) Period for which the acquiree's business results were included in the consolidated statement of income for the nine months ended December 31, 2016

Because the financial statements as of the business combination date are used, the acquiree's business results have not been included in the consolidated statement of income for the nine months ended December 31, 2016.

3) Acquisition cost

Consideration for acquisition: payment in cash ¥175,149 million

Acquisition cost ¥175,149 million

The figure is a provisional amount as part of the consideration for acquisition has not yet been determined.

4) Description and amount of main acquisition-related costs

Advisory fees ¥2,846 million

5) Amount and rationale for recognizing goodwill, and amortization method and period

a. Amount of goodwill recognized

¥48,318 million

The figure is a provisional amount as the acquisition cost has not yet been determined.

b. Rationale for recognizing goodwill

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

c. Amortization method and period

Straight-line amortization over 20 years

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

Total assets: ¥470,920 million

(including investments in securities of ¥333,130 million)

Total liabilities: ¥318,876 million

(including policy reserves and other reserves of ¥297,715 million)

7) Estimated impact on the consolidated statement of income for the nine months ended December 31, 2016, assuming the business combination had been completed at the beginning of the nine-month period (unaudited).

The estimated amounts of the impact are total ordinary income of ¥360,977 million, ordinary profit of ¥24,622 million, and net surplus attributable to the parent company of ¥10,913 million.

The estimated amounts of the impact represent the respective differences between the total ordinary income and other earnings data calculated as if the business combination had been completed at the beginning of the nine-month period ended December 31, 2016, and the total ordinary income and other earnings data shown on the Company's consolidated statement of income for the nine months ended December 31, 2016.

7. The amount of securities lent under lending agreements was ¥3,620,296 million as of December 31, 2016.

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

[Consolidated Statements of Income]

(Million Yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Ordinary income:	5,405,164	5,615,330
Revenues from insurance and reinsurance	3,866,302	4,328,932
Investment income:	1,370,228	1,122,549
Interest, dividends, and other income	1,043,388	1,035,807
Gain on sales of securities	254,619	77,416
Foreign exchange gains, net	19,092	—
Gain from separate accounts, net	46,402	1,607
Other ordinary income	168,632	163,848
Ordinary expenses:	5,014,035	5,229,826
Benefits and other payments:	3,040,069	2,832,378
Death and other claims	889,954	720,324
Annuity payments	683,985	603,191
Health and other benefits	593,780	530,073
Surrender benefits	704,576	646,463
Other refunds	165,601	331,398
Provision for policy reserves:	931,564	1,599,398
Provision for reserve for outstanding claims	—	6,378
Provision for policy reserves	914,606	1,575,656
Provision for interest on reserve for dividends to policyholders (mutual company)	16,935	17,362
Provision for interest on reserve for dividends to policyholders (limited company)	22	—
Investment expenses:	296,982	111,230
Interest expenses	16,721	10,641
Loss from assets held in trust, net	741	—
Loss on sales of securities	97,211	1,915
Loss on valuation of securities	2,795	11,941
Loss on derivative financial instruments, net	119,115	37,840
Foreign exchange losses, net	—	1,556
Operating expenses	516,584	443,810
Other ordinary expenses	228,834	243,008
Ordinary profit	391,129	385,503
Extraordinary gains:	9,678	101,620
Gain on disposals of fixed assets	9,678	3,145
Gain on bargain purchase	—	98,475
Extraordinary losses:	172,941	151,739
Loss on disposals of fixed assets	7,556	6,215
Impairment losses	4,341	2,168
Provision for reserve for price fluctuations in investments in securities	158,115	140,429
Contributions for assisting social public welfare	2,927	2,927
Provision for reserve for dividends to policyholders (limited company)	12,908	—
Surplus before income taxes	214,957	335,384
Income taxes - current	86,892	104,586
Income taxes - deferred	(63,444)	(82,493)
Total income taxes	23,447	22,093
Net surplus	191,509	313,290
Net surplus attributable to noncontrolling interests	3,213	1,061
Net surplus attributable to the parent company	188,296	312,229

Notes to the Consolidated Statement of Income for the Nine Months Ended December 31, 2016

1. Impairment losses are as follows:

1) Method for grouping the assets

Leased property and idle property 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.

2) Circumstances causing impairment losses

The Company and certain consolidated subsidiaries observed a marked decrease in profitability or fair value in some of the fixed asset groups. The book value of fixed assets was reduced to the recoverable amount and impairment losses were recognized as extraordinary losses for the nine months ended December 31, 2016.

3) Breakdown of asset groups that recognized impairment losses for the nine months ended December 31, 2016, is as follows:

Purpose of use	Million Yen		
	Land	Buildings and others	Total
Leased property	¥2,136	¥956	¥3,093
Idle property	¥998	¥250	¥1,248
Total	¥3,135	¥1,206	¥4,341

4) Calculation method of recoverable amount

The recoverable amount used for the measurement of impairment losses is based on the net realizable value upon sales of the assets or the discounted future cash flows.

The discount rate used in the calculation of future cash flows is 4.0%-4.4%. Net realizable values are determined based on appraisals performed in accordance with the "Real Estate Appraisal Standards" or posted land prices.

2. The total amount of depreciation of rental real estate and other assets and depreciation and amortization for the nine months ended December 31, 2016, was ¥53,148 million. There was no amortization of goodwill for the nine months ended December 31, 2016.

[Consolidated Statements of Comprehensive Income]

(Million Yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Net surplus	191,509	313,290
Other comprehensive loss:	(54,786)	(566,313)
Net unrealized gains on available-for-sale securities	(61,357)	(594,223)
Deferred losses on derivatives under hedge accounting	25,924	49,542
Land revaluation losses	1,978	396
Foreign currency translation adjustments	(18,862)	(3,701)
Remeasurement of defined benefit plans	4,635	1,976
Share of other comprehensive loss of associates accounted for under the equity method	(7,105)	(20,303)
Comprehensive income (loss):	136,722	(253,022)
Comprehensive income (loss) attributable to the parent company	132,048	(254,057)
Comprehensive income attributable to noncontrolling interests	4,673	1,034

(6) Consolidated Solvency Margin Ratio

(Million Yen)

	As of December 31, 2016	As of March 31, 2016
Solvency margin gross amount (A):	12,913,514	12,479,088
Foundation funds (<i>kikin</i>) and other reserve funds:	4,829,228	4,390,194
Foundation funds and others	1,914,593	1,730,592
Reserve for price fluctuations in investments in securities	1,121,846	963,730
Contingency reserve	1,522,605	1,425,637
Extraordinary contingency reserve	—	—
General allowance for doubtful accounts	3,122	3,441
Others	267,060	266,792
Net unrealized gains on available-for-sale securities (before tax) and deferred losses on derivatives under hedge accounting (before tax) × 90%	5,690,362	5,730,365
Net unrealized gains on real estate × 85%	149,543	131,422
Total amount of unrecognized actuarial gains/losses and unrecognized prior service cost	(34,370)	(41,133)
Excess of continued Zillmerized reserve	1,572,444	1,604,361
Qualifying subordinated debt	1,020,825	800,825
Excess of continued Zillmerized reserve and qualifying subordinated debt not included in margin calculations	—	—
Deduction clause	(202,492)	(205,561)
Others	(112,026)	68,614
Total amount of risk (B): $\sqrt{(\sqrt{R_1^2 + R_5^2 + R_8 + R_9})^2 + (R_2 + R_3 + R_7)^2} + R_4 + R_6$	2,756,102	2,704,855
Underwriting risk (R ₁)	160,671	145,594
General underwriting risk (R ₅)	—	—
Huge disaster risk (R ₆)	—	—
Underwriting risk of third-sector insurance (R ₈)	88,425	87,509
Underwriting risk related to small amount and short-term insurance providers (R ₉)	—	—
Anticipated yield risk (R ₂)	444,693	446,886
Minimum guarantee risk (R ₇)	14,975	16,854
Investment risk (R ₃)	2,226,207	2,173,426
Business management risk (R ₄)	58,699	57,405
Solvency margin ratio $\frac{(A)}{(1/2) \times (B)} \times 100$	937.0%	922.7%

- Notes: 1. The amounts and figures as of March 31, 2016, in the above table are calculated based on the provisions of Article 86-2 and Article 88 of the Ordinance for Enforcement of the Insurance Business Act and the Financial Services Agency Public Notice No. 23 of 2011. Those as of December 31, 2016, are calculated based on the methods deemed reasonable by the Company in accordance with the aforementioned provisions.
2. The standard method is used for the calculation of the amount equivalent to minimum guarantee risk.

(7) Segment Information

For the nine months ended December 31, 2016, the Company and its consolidated subsidiaries are 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 report.