May 25, 2018

Financial Results for the Fiscal Year Ended March 31, 2018

Nippon Life Insurance Company (the "Company"; President: Hiroshi Shimizu) announces financial results for the fiscal year ended March 31, 2018.

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Financial Summary for the Fiscal Year Ended March 31, 2018

Attached: Supplementary Materials for the Fiscal Year Ended March 31, 2018

Nippon Life Insurance Company

The Company will submit the financial results for the fiscal year ended March 31, 2018, for discussion at the 71st annual meeting of the representatives of policyholders to be held on July 3, 2018. A summary of the results is provided below.

1. Business Highlights

(1) Amount of Policies in Force and New Policies

- Policies in Force

	As of March 31, 2018				As of March 31, 2017			
	Number of policies		Amount of policies		Number of policies		Amount of policies	
	(thousands)	As a percentage of March 31, 2017 (%)	(100 million yen)	As a percentage of March 31, 2017 (%)	(thousands)	As a percentage of March 31, 2016 (%)	(100 million yen)	As a percentage of March 31, 2016 (%)
Individual insurance	26,194	104.8	1,381,477	96.4	24,986	108.1	1,432,370	98.7
Individual annuities	3,886	102.1	235,809	101.5	3,805	108.0	232,306	106.5
Group insurance	—	—	955,119	101.3	—	—	943,263	101.1
Group annuities	—	—	128,541	101.8	—	—	126,254	102.0

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

	Year ended March 31, 2018						Year ended March 31, 2017					
	Number of policies		Amount of policies				Number of policies		Amount of policies			
	(thousands)	As a percentage of March 31, 2017 (%)	(100 million yen)	As a percentage of March 31, 2017 (%)	New policies	Net increase (decrease) by conversion	(thousands)	As a percentage of March 31, 2016 (%)	(100 million yen)	As a percentage of March 31, 2016 (%)	New policies	Net increase (decrease) by conversion
Individual insurance	3,322	84.8	52,143	61.2	58,130	(5,987)	3,915	88.8	85,187	90.6	89,819	(4,631)
Individual annuities	222	52.2	13,685	54.1	13,579	106	425	190.6	25,275	172.8	25,099	175
Group insurance	—	—	3,043	53.6	3,043		—	—	5,682	151.9	5,682	
Group annuities	—	—	3	9.9	3		—	—	36	226.0	36	

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 March 31, 2018		As of March 31, 2017	
		As a percentage of March 31, 2017		As a percentage of March 31, 2016
Individual insurance	26,861	103.0	26,089	102.4
Individual annuities	9,795	102.7	9,538	108.2
Total	36,657	102.9	35,627	103.9
Medical coverages, living benefits, and others	6,279	100.9	6,223	101.6

- New Policies

(100 Million Yen, %)

	Year ended March 31, 2018		Year ended March 31, 2017	
		As a percentage of March 31, 2017		As a percentage of March 31, 2016
Individual insurance	2,623	111.7	2,349	87.9
Individual annuities	598	53.7	1,114	200.3
Total	3,221	93.0	3,463	107.3
Medical coverages, living benefits, and others	420	90.6	463	93.9

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 single 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.

(3) Major Profit and Loss Items

(100 Million Yen, %)

	Year ended March 31, 2018		Year ended March 31, 2017	
		As a percentage of March 31, 2017		As a percentage of March 31, 2016
Revenues from insurance and reinsurance	44,884	96.6	46,473	76.4
Investment income	16,526	99.4	16,619	110.8
Benefits and other payments	36,631	103.8	35,292	94.1
Investment expenses	3,242	83.6	3,880	179.1
Ordinary profit	4,104	89.5	4,584	85.3

(4) Proposed Appropriations of Surplus

(100 Million Yen, %)

	Year ended March 31, 2018		Year ended March 31, 2017	
		As a percentage of March 31, 2017		As a percentage of March 31, 2016
Current-year unappropriated surplus	2,482	101.2	2,453	84.0
Reserve for dividends to policyholders	2,183	118.6	1,840	80.1
Net surplus after deduction	695	87.1	798	127.0

(5) Total Assets

(100 Million Yen, %)

	As of March 31, 2018		As of March 31, 2017	
		As a percentage of March 31, 2017		As a percentage of March 31, 2016
Total assets	664,726	102.6	648,140	102.1

2. Overview of General Accounts Asset Management for the Fiscal Year Ended March 31, 2018

(1) Investment Environment

In the fiscal year ended March 31, 2018, the Japanese economy tracked a steady recovery path, notably achieving positive GDP growth for eight consecutive quarters, supported by a robust corporate sector against the backdrop of a solid global economy and an upturn in consumer spending due to an improving employment environment.

- The Nikkei Stock Average started the fiscal year at ¥18,909. Subsequently, the index saw some unsteady movements due to concerns about the North Korea situation, the French presidential election, and certain other factors. However, against the backdrop of favorable corporate earnings, the index temporarily reached the ¥24,000 level in January. Thereafter, the markets experienced a global stock price correction amid an increase in U.S. long-term interest rates in line with heightened concerns about inflation and worsening public finances in the United States. Consequently, the index finished at ¥21,454 at the end of March.
- The yield rate on 10-year government bonds started the fiscal year at 0.07%. As the Bank of Japan maintained its policy of quantitative and qualitative monetary easing with yield curve control, the yield rate was range bound between about 0.0% and 0.1%. The yield rate trended at a low level throughout the year, finishing at 0.04% at the end of March.
- The yen-U.S. dollar exchange rate started the fiscal year at the ¥112 level. Thereafter, the rate remained bound to the range of ¥107 to ¥114 in response to speculation about exit strategies for monetary policy in Europe and the United States, risks associated with North Korea, and certain other factors. From February onward, the yen headed to a stronger level due to increased moves to avoid risk following a global stock price correction. The yen-U.S. dollar exchange rate finished at ¥106.24 at the end of March.

  The yen-euro exchange rate started the fiscal year at the ¥119 level. Subsequently, in response to a sense of caution about the French presidential election, the yen appreciated to the ¥114 level in April. Thereafter, the yen temporarily depreciated to the ¥137 level against the backdrop of diminished European political risks, stronger expectations for a tightening of monetary policy by the European Central Bank, and certain other factors. From February onward, the yen headed toward a stronger level due to increased moves to avoid risk. The yen-euro rate finished at ¥130.52 at the end of March.

(2) Investment Policy

The Company’s general account assets increased by ¥1,680.3 billion compared to the end of the fiscal year ended March 31, 2017, totaling ¥65,178.5 billion as of March 31, 2018 (2.6% increase compared to the previous fiscal year-end).

The Company has positioned yen-denominated assets that can be expected to provide stable income, such as bonds, as its core assets. From the perspective of improving profits in the mid- to long-term, the Company invested in assets such as stocks and foreign securities within the scope of acceptable risk while taking into account business stability.

- Considering the low interest rate environment, the Company limited the additional accumulation of outstanding domestic bond balances.
- The Company focused on safe and stable prime lending by accurately assessing credit risks.
- For domestic stocks, the Company strove to enhance the profitability of its portfolio by replacing certain stocks, while focusing the Company's attention on the overall state, including corporate profitability and dividends from the point of view of investing for the mid- to long-term.
- Regarding foreign securities, the Company invested in foreign currency-denominated bonds based on currency movements. Also, the Company invested in foreign bonds with foreign exchange hedges, taking into consideration the advantages against other yen interest rate assets.

(3) Status of Investment Income/Expense

Investment income was ¥1,603.0 billion, decrease from ¥1,626.8 billion in the fiscal year ended March 31, 2017. The decrease mainly reflected a decrease in gain on sales of domestic stocks.

Investment expenses amounted to ¥324.2 billion, decrease from ¥388.0 billion in the fiscal year ended March 31, 2017. This decrease mainly reflected a decrease in loss on sales, primarily of foreign securities.

As a result, the Company's net investment income balance increased by ¥39.9 billion, compared to the same period of the previous fiscal year, to ¥1,278.8 billion.

(4) Investment Risk Management

Investment risk refers to the risk of incurring losses when the value of the Company's assets and liabilities fluctuates. It can be categorized into market risk, credit risk, and real estate investment risk. The long-term nature of life insurance policies requires a long-term approach based on liability characteristics to managing risks associated with investment. Hence, we seek to manage our portfolio efficiently based on risk-return analyses that emphasize the importance of generating investment returns over the medium and long terms.

The Company has, therefore, established an Investment Risk Management Department within the Risk Management Department and, by maintaining and upgrading its rigorous system for managing risks, the Company seeks to limit losses to acceptable levels while pursuing stable returns.

a. Market risk management

Market risk refers to the risk of incurring losses when the fair value of invested assets and liabilities fluctuates due to such factors as fluctuations in interest rates, exchange rates, or stock prices. To avoid excessive losses from financing and investment transactions, the Company manages market risk by setting and monitoring investment limits for each type of asset and holding purpose as necessary. In doing so, the Company strives to build a portfolio that gives due consideration to the diversification of risk. In addition, to control the market risk of the Company's portfolio, the Company reasonably calculates the market value-at-risk and conducts appropriate asset allocation within acceptable boundaries of risk.

b. Credit risk management

Credit risk refers to the risk of incurring losses when the value of assets, primarily loans and bonds, declines due to deterioration of the financial condition of the party to whom credit has been extended.

In managing credit risk, the Company continues to build a sound portfolio by rigorous examinations of each transaction by the Credit Department, which is independent of the departments handling investment and finance activities, setting terms appropriate to the level of credit risk involved, and setting and monitoring credit ceilings to ensure that credit risk is not excessively concentrated in a particular company, group, or country. In addition, the Company calculates credit value-at-risk as a measurement of the magnitude of credit risk across the Company's portfolio as a whole and monitors whether the magnitude of risk stays within an appropriate range.

c. Real estate investment risk management

Real estate investment risk refers to the risk of reduced returns caused by such factors as rent decline as well as incurring losses when real estate values decline due to market deterioration and other factors. The Company's approach to managing real estate investment risk involves the rigorous examination of each investment by the Credit Department, which is independent of the departments handling investment and finance activities. The Company also adheres to a system involving warning levels for investment returns and prices. This enables the Company to appropriately focus management efforts on properties with low profitability.

(5) Asset Liability Management

For life insurance companies to carry out stable management in the long term, it is important to use the Asset Liability Management (ALM) approach as a basis for understanding the situation of liabilities that pay future insurance benefits (policy reserves) and investment assets, as well as for adjusting investment periods. The Company analyzes and evaluates liability cash flows, risk of falling short of assumed interest rates, and level of allowed risk for each product, and decides the mid- to long-term investment plan at the Managing Directors' Meetings and the Risk Management Committee Meetings.

(6) Self-Assessment and Allowance for Doubtful Accounts

Asset self-assessment refers to evaluating individual assets based on the financial condition of each borrower and its collateral. Assets are classified into four categories (noncategorized, II, III, or IV).

To ensure the objectivity of the self-assessment process, the Company has established a highly reliable framework that includes:

- Strict assessment standards based on the Inspection Manual for Insurance Companies of the Financial Services Agency
- Internal audit by the Auditing Department, which is independent from the groups handling the actual assessment
- External audit by external auditors (certified public accountants)

In the fiscal year ended March 31, 2018, the Company recorded an appropriate allowance for doubtful accounts according to the same allowance standards as the previous fiscal year.

Allowance for doubtful accounts standard:

- Normal: General allowance for doubtful accounts based on actual loan losses in the previous fiscal year.
- On caution: General allowance for doubtful accounts based on the accumulated actual loan loss ratio (ratio of losses incurred from loans within three years from a certain date) for the previous three fiscal years.
  Substandard: Corporate loans are divided into two categories: those that are not secured by collateral and guarantees and others, and the actual loan loss ratio is calculated.
- For doubtful, quasi-bankrupt, and bankrupt loans, the necessary amount, concerning the balance calculated by subtracting the estimated collectible amount based on collateral and guarantees from total loans, is provided as a specific allowance for doubtful accounts. The portion of the amount in “Category IV” is directly deducted from total loans.

3. Investment Management Performance (General Account)

(1) Asset Composition

(100 Million Yen, %)

	As of March 31, 2018		As of March 31, 2017	
	Amount	%	Amount	%
Cash, deposits, and call loans	10,634	1.6	10,779	1.7
Receivables under resale agreements	—	—	—	—
Receivables under securities borrowing transactions	—	—	—	—
Monetary receivables purchased	2,782	0.4	3,262	0.5
Proprietary trading securities	—	—	—	—
Assets held in trust	104	0.0	33	0.0
Investments in securities:	537,443	82.5	518,715	81.7
Domestic bonds	223,813	34.3	224,601	35.4
Domestic stocks	93,588	14.4	86,952	13.7
Foreign securities:	193,710	29.7	188,550	29.7
Foreign bonds	144,335	22.1	143,794	22.6
Foreign stocks and other securities	49,375	7.6	44,756	7.0
Other securities	26,330	4.0	18,610	2.9
Loans:	74,683	11.5	77,495	12.2
Policy loans	6,190	0.9	6,547	1.0
Industrial and consumer loans	68,492	10.5	70,948	11.2
Real estate:	16,073	2.5	16,192	2.6
Investment property	10,105	1.6	10,223	1.6
Deferred tax assets	—	—	—	—
Other assets	10,087	1.5	8,531	1.3
Allowance for doubtful accounts	(24)	(0.0)	(28)	(0.0)
Total assets (general account):	651,785	100.0	634,982	100.0
Foreign currency-denominated assets	180,158	27.6	170,361	26.8

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 (¥330.7 billion and ¥674.0 billion as of March 31, 2018 and 2017, respectively).

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

(2) Increases/Decreases in Assets

(100 Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
Cash, deposits, and call loans	(144)	741
Receivables under resale agreements	—	—
Receivables under securities borrowing transactions	—	—
Monetary receivables purchased	(480)	(936)
Proprietary trading securities	—	—
Assets held in trust	70	14
Investments in securities:	18,727	17,378
Domestic bonds	(788)	(8,946)
Domestic stocks	6,636	5,875
Foreign securities:	5,159	16,969
Foreign bonds	540	9,543
Foreign stocks and other securities	4,619	7,425
Other securities	7,720	3,479
Loans:	(2,811)	(3,719)
Policy loans	(356)	(411)
Industrial and consumer loans	(2,455)	(3,307)
Real estate:	(119)	(586)
Investment property	(118)	(573)
Deferred tax assets	—	—
Other assets	1,556	1,325
Allowance for doubtful accounts	4	6
Total assets (general account):	16,803	14,223
Foreign currency-denominated assets	9,796	18,578

Notes: 1. Increases/decreases in cash received as collateral under securities lending transactions are as follows: ¥(343.3) billion and ¥12.2 billion for the fiscal years ended March 31, 2018 and 2017, respectively.

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

(3) Investment Income

(100 Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
Interest, dividends, and other income:	14,073	13,656
Interest on deposits and savings	4	0
Interest on securities and dividends	11,839	11,278
Interest on loans	1,300	1,411
Real estate rental income	802	844
Other income	126	120
Gain on proprietary trading securities	—	—
Gain from assets held in trust, net	—	—
Gain on trading securities	—	—
Gain on sales of securities:	1,796	2,540
Gain on sales of domestic bonds, including national government bonds	124	275
Gain on sales of domestic stocks and other securities	1,309	1,941
Gain on sales of foreign securities	362	322
Other gains	—	—
Gain on redemptions of securities	149	58
Gain on derivative financial instruments, net	—	—
Foreign exchange gains, net	—	—
Reversal of allowance for doubtful accounts	4	7
Reversal of allowance for investment loss	—	—
Other investment income	5	7
Total	16,030	16,268

(4) Investment Expenses

(100 Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
Interest expenses	219	189
Loss on proprietary trading securities	—	—
Loss from assets held in trust, net	32	19
Loss on trading securities	—	—
Loss on sales of securities:	1,028	1,187
Loss on sales of domestic bonds, including national government bonds	5	11
Loss on sales of domestic stocks and other securities	77	81
Loss on sales of foreign securities	945	1,093
Other losses	—	0
Loss on valuation of securities:	112	277
Loss on valuation of domestic bonds, including national government bonds	—	—
Loss on valuation of domestic stocks and other securities	2	136
Loss on valuation of foreign securities	108	140
Other losses	1	0
Loss on redemptions of securities	233	329
Loss on derivative financial instruments, net	1,058	1,191
Foreign exchange losses, net	95	12
Provision for allowance for doubtful accounts	—	—
Provision for allowance for investment loss	29	252
Write-offs of loans	—	—
Depreciation of rental real estate and other assets	148	153
Other investment expenses	283	266
Total	3,242	3,880

(5) Investment Indicators

1) Yield on primary assets

(%)

	Year ended March 31, 2018	Year ended March 31, 2017
Cash, deposits, and call loans	0.04	(0.00)
Receivables under resale agreements	—	—
Receivables under securities borrowing transactions	—	—
Monetary receivables purchased	1.88	2.00
Proprietary trading securities	—	—
Assets held in trust	(32.68)	(94.29)
Investments in securities:	2.42	2.35
Domestic bonds	1.81	1.93
Domestic stocks	7.02	7.54
Foreign securities	2.12	1.57
Foreign bonds	1.51	1.12
Foreign stocks and other securities	4.12	3.31
Loans:	1.67	1.76
Industrial and consumer loans	1.39	1.50
Real estate:	2.70	2.89
Investment property	4.29	4.51
General account total:	2.20	2.19
Overseas investments	2.07	1.58

Notes: 1. Yields are calculated by dividing investment income less investment expenses by the daily average book value balance.
2. The amount of overseas investments is the sum of assets denominated in foreign currencies and yen.

2) Daily average balance

(100 Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
Cash, deposits, and call loans	4,459	4,066
Receivables under resale agreements	—	—
Receivables under securities borrowing transactions	—	—
Monetary receivables purchased	2,906	3,596
Proprietary trading securities	—	—
Assets held in trust	100	20
Investments in securities:	464,381	446,708
Domestic bonds	221,770	226,389
Domestic stocks	44,452	43,736
Foreign securities	177,990	161,610
Foreign bonds	136,906	128,191
Foreign stocks and other securities	41,083	33,419
Loans:	76,522	80,214
Industrial and consumer loans	70,177	73,476
Real estate:	16,156	16,633
Investment property	10,175	10,654
General account total:	580,870	566,887
Overseas investments	185,518	167,557

(6) Net Valuation Gains/Losses on Trading Securities

(100 Million Yen)

	As of March 31, 2018		As of March 31, 2017	
	Balance sheet amount	Valuation gains (losses) included in profit and loss	Balance sheet amount	Valuation gains (losses) included in profit and loss
Trading securities	91	(32)	28	(19)

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.

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

(100 Million Yen)

	As of March 31, 2018					As of March 31, 2017				
	Book value	Fair value	Net gains/ losses	Gains	Losses	Book value	Fair value	Net gains/ losses	Gains	Losses
Policy-reserve-matching bonds*	195,283	232,296	37,013	37,072	(59)	196,592	233,314	36,721	36,823	(101)
Held-to-maturity debt securities	—	—	—	—	—	—	—	—	—	—
Investments in subsidiaries and affiliates	640	1,695	1,055	1,055	—	142	875	733	733	—
Available-for-sale securities:	264,467	331,872	67,404	71,298	(3,893)	253,308	316,587	63,279	67,020	(3,741)
Domestic bonds	29,458	31,406	1,947	2,004	(56)	29,547	31,428	1,881	1,945	(64)
Domestic stocks	41,660	89,654	47,993	48,881	(887)	40,273	83,215	42,942	43,879	(937)
Foreign securities:	166,001	181,594	15,592	18,438	(2,846)	159,325	176,343	17,018	19,524	(2,506)
Foreign bonds	134,692	143,863	9,171	11,756	(2,585)	132,366	143,245	10,878	13,214	(2,336)
Foreign stocks and other securities	31,309	37,730	6,421	6,681	(260)	26,958	33,098	6,140	6,310	(169)
Other securities	23,681	25,553	1,872	1,973	(100)	16,794	18,231	1,436	1,669	(232)
Monetary receivables purchased	390	388	(1)	0	(2)	391	392	0	0	(0)
Negotiable certificates of deposit	3,275	3,275	0	0	(0)	6,976	6,976	0	0	(0)
Total	460,391	565,864	105,473	109,426	(3,953)	450,043	550,777	100,734	104,577	(3,842)
Domestic bonds	221,865	260,700	38,835	38,941	(106)	222,720	261,025	38,304	38,470	(166)
Domestic stocks	41,660	89,654	47,993	48,881	(887)	40,273	83,215	42,942	43,879	(937)
Foreign securities:	167,115	183,771	16,655	19,511	(2,855)	160,008	177,781	17,773	20,279	(2,506)
Foreign bonds	135,175	144,354	9,179	11,774	(2,595)	132,916	143,816	10,899	13,235	(2,336)
Foreign stocks and other securities	31,940	39,416	7,476	7,737	(260)	27,091	33,965	6,873	7,043	(169)
Other securities	23,690	25,562	1,872	1,973	(100)	16,803	18,240	1,436	1,669	(232)
Monetary receivables purchased	2,784	2,900	116	118	(2)	3,261	3,539	277	277	(0)
Negotiable certificates of deposit	3,275	3,275	0	0	(0)	6,976	6,976	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 March 31, 2018	As of March 31, 2017
Policy-reserve-matching bonds		—	—
Held-to-maturity debt securities:		—	—
	Unlisted foreign bonds	—	—
	Others	—	—
Investments in subsidiaries and affiliates		8,954	8,234
Available-for-sale securities:		6,695	7,243
	Unlisted domestic stocks (excluding over-the-counter stocks)	549	551
	Unlisted foreign stocks (excluding over-the-counter stocks)	3,170	4,282
	Unlisted foreign bonds	—	—
	Others	2,975	2,410
Total		15,649	15,478

Note: Of securities of which the fair value is extremely difficult to be determined, the net gains on currency exchange valuation of assets denominated in foreign currencies were as follows:
¥7.5 billion and ¥46.7 billion as of March 31, 2018 and 2017, respectively.

(8) Fair Value Information of Assets Held in Trust

(100 Million Yen)

	As of March 31, 2018					As of March 31, 2017				
	Balance sheet amount	Fair value	Net gains/losses			Balance sheet amount	Fair value	Net gains/losses		
				Gains	Losses				Gains	Losses
Assets held in trust	104	104	—	—	—	33	33	—	—	—

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 March 31, 2018		As of March 31, 2017	
	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	104	(32)	33	(19)

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 March 31, 2018 or 2017.

4. Policies in Force by Type of Benefits as of March 31, 2018

		Individual insurance		Individual annuities		Group insurance		Total	
		Number of policies (thousands)	Amount (100 million yen)	Number of policies (thousands)	Amount (100 million yen)	Number of policies (thousands)	Amount (100 million yen)	Number of policies (thousands)	Amount (100 million yen)
Death protection	General	25,877	1,373,435	—	—	27,464	954,973	53,342	2,328,408
	Disaster	2,840	237,259	88	1,791	2,798	32,351	5,727	271,402
	Others	164	1,931	—	—	69	1,232	233	3,164
Pure endowment		317	8,041	3,886	235,809	8	146	4,212	243,997
Hospitalization coverage	Disaster	6,556	420	258	11	1,388	13	8,203	446
	Illness	6,547	419	255	11	—	—	6,803	431
	Others	6,609	453	57	2	58	0	6,725	455
Disability coverage		7,163	—	64	—	2,507	—	9,735	—
Surgical coverage		9,851	—	256	—	—	—	10,107	—

	Group annuities		Workers' asset-formation insurance/annuities		Total	
	Number of policies (thousands)	Amount (100 million yen)	Number of policies (thousands)	Amount (100 million yen)	Number of policies (thousands)	Amount (100 million yen)
Pure endowment	9,344	128,541	177	4,519	9,522	133,061

	Medical care insurance	
	Number of policies (thousands)	Amount (100 million yen)
Hospitalization coverage	823	36

	Disability income insurance	
	Number of policies (thousands)	Amount (100 million yen)
Disability income coverage	762	413

Notes: 1. The number of policies for "Group insurance," "Group annuities," "Workers' asset-formation insurance/annuities," "Medical care insurance" (group type), and "Disability income insurance" represents the number of insureds.

2. The amount in "Pure endowment" for "Individual annuities," "Group insurance" (annuity riders), and "Workers' asset-formation annuities" (excluding workers' asset-formation savings annuities) represents the total of (a) annuity resources at the start of the annuities for policies bound prior to the start of the annuity payments and (b) policy reserves for policies bound after the start of the annuity payments. The amount in "Pure endowment" for "Group annuities," "Workers' asset-formation insurance," and workers' asset-formation savings annuities represents the amount of corresponding policy reserves.

3. The amount in "Hospitalization coverage" represents the amount of daily hospitalization benefits.

4. The amount in "Hospitalization coverage" of medical care insurance represents the amount related to hospitalization from illness.

5. The amount in disability income insurance represents the amount of monthly disability benefit payments.

6. The number of insureds and amount of policies for reinsurance written were 37,000 people and ¥38.2 billion, respectively.

5. Nonconsolidated Balance Sheets

(Million Yen)

	As of March 31, 2018	As of March 31, 2017
Assets:		
Cash and deposits:	834,511	917,055
Cash	283	270
Deposits	834,227	916,784
Call loans	471,113	270,000
Monetary receivables purchased	278,235	326,256
Assets held in trust	10,421	3,397
Investments in securities:	54,703,507	53,025,060
National government bonds	19,842,086	19,724,839
Local government bonds	883,461	959,375
Corporate bonds	2,089,678	2,290,236
Domestic stocks	9,521,609	8,879,181
Foreign securities	19,661,925	19,201,698
Other securities	2,704,745	1,969,730
Loans:	7,468,329	7,749,527
Policy loans	619,030	654,701
Industrial and consumer loans	6,849,298	7,094,826
Tangible fixed assets:	1,630,859	1,641,001
Land	1,089,297	1,107,241
Buildings	475,516	471,770
Lease assets	12,669	11,738
Construction in Progress	42,550	40,283
Other tangible fixed assets	10,825	9,968
Intangible fixed assets:	185,042	173,302
Software	81,985	80,949
Other intangible fixed assets	103,057	92,353
Reinsurance receivables	512	523
Other assets:	868,603	691,712
Accounts receivable	191,009	79,970
Prepaid expenses	15,594	13,651
Accrued income	300,306	279,876
Money on deposit	34,000	34,280
Deposits for futures transactions	20,562	10,371
Futures transactions variation margin	7	34
Derivative financial instruments	258,631	218,327
Suspense	10,802	20,412
Other assets	37,686	34,789
Customers' liability for acceptances and guarantees	52,065	44,267
Allowance for doubtful accounts	(2,401)	(2,882)
Allowance for investment loss	(28,138)	(25,219)
Total assets	66,472,661	64,814,005

5. Nonconsolidated Balance Sheets (Continued)

(Million Yen)

	As of March 31, 2018	As of March 31, 2017
Liabilities:		
Policy reserves and other reserves:	55,021,894	53,999,143
Reserve for outstanding claims	285,702	347,747
Policy reserves	53,741,024	52,650,294
Reserve for dividends to policyholders	995,167	1,001,102
Reinsurance payables	594	605
Corporate bonds	1,028,889	840,825
Other liabilities:	1,466,056	1,567,152
Payables under repurchase agreements	237,046	—
Cash received as collateral under securities lending transactions	330,722	674,067
Loans payable	22,897	26,649
Income taxes payable	37,406	8,020
Accounts payable	199,866	195,211
Accrued expenses	64,810	63,839
Deferred income	17,399	19,100
Deposits received	105,494	102,065
Guarantee deposits received	77,870	78,799
Futures transactions variation margin	9	17
Derivative financial instruments	156,536	270,838
Cash collateral received for financial instruments	191,976	103,383
Lease obligations	12,059	11,835
Asset retirement obligations	2,192	2,191
Suspense received	9,768	11,085
Other liabilities	—	48
Accrued bonuses for directors and audit and supervisory board members	90	79
Accrued retirement benefits	361,114	358,630
Accrued retirement benefits for directors and audit and supervisory board members	4,840	4,498
Reserve for program points	9,411	9,013
Reserve for price fluctuations in investments in securities	1,282,194	1,116,795
Deferred tax liabilities	577,415	563,323
Deferred tax liabilities for land revaluation	104,828	106,432
Acceptances and guarantees	52,065	44,267
Total liabilities	59,909,395	58,610,767

5. Nonconsolidated Balance Sheets (Continued)

(Million Yen)

	As of March 31, 2018	As of March 31, 2017
Net assets:		
Foundation funds	150,000	150,000
Reserve for redemption of foundation funds	1,200,000	1,150,000
Reserve for revaluation	651	651
Surplus:	450,600	440,635
Legal reserve for deficiencies	16,804	16,042
Other surplus reserves:	433,796	424,593
Equalized reserve for dividends to policyholders	40,000	50,000
Contingency funds	71,917	71,917
Reserve for social public welfare assistance	351	328
Reserve for reduction entry of real estate	49,708	51,196
Reserve for reduction entry of real estate to be purchased	23,422	5,643
Other reserves	170	170
Unappropriated surplus	248,227	245,337
Total foundation funds and others	1,801,251	1,741,286
Net unrealized gains on available-for-sale securities	4,882,103	4,585,298
Deferred losses on derivatives under hedge accounting	(59,099)	(65,262)
Land revaluation losses	(60,989)	(58,084)
Total valuations, conversions, and others	4,762,014	4,461,951
Total net assets	6,563,265	6,203,237
Total liabilities and net assets	66,472,661	64,814,005

Notes to the Nonconsolidated Balance Sheet as of March 31, 2018

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 on the balance sheet date. The moving average method is used for calculating cost basis.

2) Held-to-maturity debt securities are valued using the moving average method, net of accumulated amortization (straight-line).

3) Policy-reserve-matching bonds are valued using the moving average method, net of accumulated amortization (straight-line), 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 a fair value, stocks (including foreign stocks) are valued using the average fair value during the period of one month before the balance sheet date (cost basis is calculated using the moving average method). Other securities with a fair value are valued using the fair value on the balance sheet date (cost basis is calculated using the moving average method).

b. Regarding securities of which the 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 stated at cost using the moving average method, net of accumulated amortization (straight-line). Other securities without readily determinable fair values are stated at cost using the moving average method.

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* ASBJ: The Accounting Standards Board of Japan

** JICPA: Japanese Institute of Certified Public Accountants

(2) Unrealized gains/losses, net of applicable taxes for 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 and subcategorized the following insurance policies:

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.

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 price of less than ¥200,000 are depreciated over a three-year period on a straight-line basis.

b. Lease assets

(i) Lease assets related to financial leases where ownership is transferred
The same depreciation method applied to fixed assets owned by the Company.

(ii) Lease assets related to financial leases where ownership is not transferred
Straight-line method based on lease period.

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

5. Assets and liabilities denominated in foreign currencies are translated into Japanese yen using 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 recovery is not expected, are converted to Japanese yen using either the rate on the balance sheet date or the average one-month rate prior to the balance sheet date, whichever indicates a weaker yen. This 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.

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 significant possibility of bankruptcy is recognized at the amounts deemed necessary considering an assessment of 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 (of a certain period) percentage of bad debt.

(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 ¥102 million (including ¥83 million of credits secured and/or guaranteed) as of March 31, 2018.

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 for future severance payments to employee on the balance sheet date of the current fiscal year.

(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: 5 years
3) Period of amortizing prior service costs: 5 years

10. Accrued retirement benefits for directors and audit and supervisory board members are recognized based on estimated payment amounts under internal rules.

11. A reserve for program points is recognized based on the amount projected to be incurred for expenses from the use of points granted to policyholders.

12. 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"*) for interest rate swaps is applied to hedge the cash flow volatility of certain loans denominated in Japanese yen and certain loans denominated in foreign currencies; deferred hedge accounting for interest rate swaps is applied 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"*) for currency swaps are applied to hedge the cash flow volatility caused by foreign exchange rate fluctuations on certain foreign currency-denominated bonds, certain foreign currency-denominated loans, and foreign currency-denominated subordinated corporate bonds issued by the Company; fair value hedge accounting for foreign exchange forward contracts is applied 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 for equity forward contracts is applied to hedge the price fluctuation exposures on certain domestic stocks.

2) Hedging instruments and hedged items

(Hedging instruments)	(Hedged items)
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 performing a ratio analysis of fair value movement comparisons based on the hedging instruments and hedged items taken, which is in accordance with the Company’s internal risk management policies.

14. Consumption taxes and local consumption taxes are accounted for by the tax exclusion method. 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. Policy reserves are reserves set forth in accordance with Article 116 of the Insurance Business Act. Insurance premiums reserves are recognized based on the following methodology. In accordance with Article 69, Paragraph 5 of the Ordinance for Enforcement of the Insurance Business Act, policy reserves include those that are reserved for certain individual annuity policies.
    1) Reserves for contracts 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 contracts are calculated based on the net level premium method.
    During the fiscal year ended March 31, 2018, additional policy reserve amounts were included to cover a possible deficiency in the amount of the reserve for certain individual annuity policyholders. As a result, policy reserves increase by ¥88,192 million, while ordinary profit and surplus before income taxes decrease by ¥88,192 million, compared to amounts that would have been recorded had the additional policy reserve amounts not been included.

16. Regarding the investment of general accounts (except separate accounts as provided in Article 118, Paragraph 1 of the Insurance Business Act), in light of the characteristics of life insurance policies, the Company has built a portfolio geared toward mid- to long-term investment and formulated an investment plan considering the outlook of the investment environment.
    Based on this, in order to reliably pay benefits and other payments in the future, 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, and from the viewpoint of improving profit in the mid- to long-term, the Company invests in stocks and foreign securities. Also, from the viewpoint of effective investment, the Company mainly uses derivative transactions for controlling asset investment risks. Specifically, the Company uses interest rate swaps for the Company’s interest rate-related investments, foreign exchange forward contracts and currency options and swaps for the Company’s currency-related investments, and equity forward contracts, equity index

futures and equity index options for the Company’s equity-related investments, and hedge accounting is applied with respect to a portion thereof.

The Company mainly applies the following hedge accounting methods: The exceptional accounting treatment (“*Tokurei-shori*”) for interest rate swaps is applied to hedge the cash flow volatility of certain loans denominated in Japanese yen and certain loans denominated in foreign currencies; deferred hedge accounting for interest rate swaps is applied 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*”) for currency swaps are applied to hedge the cash flow volatility caused by foreign exchange rate fluctuations on certain foreign currency-denominated bonds, certain foreign currency-denominated loans, and foreign currency-denominated subordinated corporate bonds issued by the Company; fair value hedge accounting for foreign exchange forward contracts is applied 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 for equity forward contracts is applied to hedge the price fluctuation exposures on certain domestic stocks. The effectiveness of hedging activities is mainly evaluated by performing a ratio analysis of fair value movement comparisons based on the hedging instruments and hedging methods taken, which is in accordance with the Company’s internal risk management policies.

Securities are mainly exposed to market risk and credit risk, loans are exposed to credit risk, and derivative transactions are exposed to market risk and credit risk. Market risk refers to the risk of incurring losses when the fair value of investment assets declines due to such factors as fluctuations in interest rates, exchange rates, or stock prices. Credit risk refers to the risk of incurring losses when the value of assets, primarily loans and bonds, declines due to deterioration of the financial condition of the party to whom credit has been extended. It includes country risk. These risks are managed according to rules and regulations regarding investment risks.

To manage market risk, the Company has implemented investment limits based on the nature of the assets in order to avoid excessive losses from financing and investment transactions. In addition, the Company monitors and regularly reports on the status of compliance to the Risk Management Committee, the advisory body of the Management Committee, and has developed a system to control risk within acceptable levels in the event of a breach of the internal rules. Also, to control market risk in the Company’s portfolio, the Company uses a statistical analysis method to rationally calculate the market value-at-risk of the portfolio as a whole and conducts appropriate asset allocation within acceptable boundaries of risk.

To manage credit risk, the Company has built a thorough monitoring system involving the Assessment Management Department, which is independent of the departments handling investment and finance activities. The Company also continues to build a sound portfolio through the establishment and monitoring of interest guidelines to ensure the returns the Company obtains are commensurate with the risk, a system of internal ratings for classifying the creditworthiness of borrowers, and credit ceilings to ensure that credit risk is not excessively concentrated in a particular company, group, or country. In addition, the Company calculates credit value-at-risk as a measurement of the magnitude of credit risk across the Company's portfolio as a whole and monitors whether the magnitude of risk stays within an appropriate range.

17. (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):	327,500	327,500	—
Available-for-sale securities	327,500	327,500	—
Monetary receivables purchased:	278,235	290,037	11,801
Policy-reserve-matching bonds	239,375	251,177	11,801
Available-for-sale securities	38,859	38,859	—
Assets held in trust:	10,421	10,421	—
Trading securities	10,421	10,421	—
Investments in securities:	53,131,946	56,928,112	3,796,166
Trading securities	959,156	959,156	—
Policy-reserve-matching bonds	19,287,856	22,978,483	3,690,626
Investments in subsidiaries and affiliates	64,047	169,587	105,539
Available-for-sale securities	32,820,885	32,820,885	—
Loans (*3):	7,466,987	7,692,014	225,026
Policy loans	618,864	618,864	—
Industrial and consumer loans	6,848,123	7,073,150	225,026
Derivative financial instruments (*4):	102,095	102,095	—
Hedge accounting not applied	8,879	8,879	—
Hedge accounting applied	93,215	93,215	—
Corporate bonds (*3,*5)	(1,028,889)	(1,081,892)	(53,003)

(*1) For transactions for which an allowance for doubtful accounts was recorded, the amount of the allowance is deducted.

(*2) For securities for which impairment losses were recognized in the fiscal year ended March 31, 2018, the fair value is the balance sheet amount after the impairment losses are deducted.

(*3) The fair values of derivative financial instruments that are interest rate swaps under exceptional accounting treatment (*"Tokurei-shori"*) or currency swaps under designated hedge accounting ("*Furiate-shori*") 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) Assets and liabilities generated by derivative financial instruments are offset and presented net. Net liabilities in total are presented in parentheses.

(*5) Corporate bonds 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 on 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 information vendors.

2) Loans

a. Policy loans

Fair value is measured by the book value of the policy loans, as the fair value is deemed to approximate book value, due to expected repayment periods, interest rate requirements, and other characteristics. These loans have no repayment date either in form or in substance because stated due dates can be extended if the loan amount is within certain range of its surrender benefit.

b. Industrial and consumer loans

Fair value of variable interest rate loans is deemed to approximate 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 on the balance sheet date.

b. Fair value of equity options is measured mainly based on liquidation value or closing market price at the end of March or valuations obtained from external information vendors.

c. Fair value of foreign exchange contracts, currency options, interest rate swaps, currency swaps, and forward contracts is measured mainly based on valuations obtained from external information vendors.

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 on the balance sheet date.

(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 ¥895,401 million for stocks of subsidiaries and affiliates, and ¥676,159 million for available-for-sale securities as of March 31, 2018.

(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 as of March 31, 2018.

Valuation gains/losses included in profit and loss were gains of ¥64,141 million for derivative financial instruments within assets held in trust and investments in securities related to separate accounts for the current fiscal year.

2) Held-to-maturity debt securities

No ending balance as of March 31, 2018.

3) Policy-reserve-matching bonds

Balance sheet amounts, 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	233,375	245,210	11,835
	Domestic bonds	19,038,485	22,732,183	3,693,698
	Foreign securities	40,685	42,681	1,995
	Subtotal	19,312,546	23,020,075	3,707,529
Fair value does not exceed the balance sheet amount	Monetary receivables purchased	6,000	5,966	(33)
	Domestic bonds	202,192	197,207	(4,985)
	Foreign securities	6,493	6,411	(82)
	Subtotal	214,685	209,585	(5,100)
Total		19,527,231	23,229,660	3,702,428

4) Available-for-sale securities

Acquisition cost or amortized cost, 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)	307,500	307,500	0
	Monetary receivables purchased	2,383	2,413	30
	Domestic bonds	2,707,745	2,908,221	200,475
	Domestic stocks	3,518,805	8,406,953	4,888,147
	Foreign securities	9,373,675	11,217,569	1,843,893
	Other securities	1,883,085	2,080,403	197,318
	Subtotal	17,793,196	24,923,063	7,129,867
Balance sheet amount does not exceed acquisition cost or amortized cost	Cash and deposits (negotiable certificates of deposit)	20,000	19,999	(0)
	Monetary receivables purchased	36,649	36,445	(203)
	Domestic bonds	238,136	232,455	(5,681)
	Domestic stocks	647,287	558,503	(88,783)
	Foreign securities	7,226,482	6,941,846	(284,635)
	Other securities	485,015	474,932	(10,083)
	Subtotal	8,653,571	8,264,182	(389,389)
Total		26,446,768	33,187,245	6,740,477

* Securities totaling ¥676,159 million, whose fair value is extremely difficult to determine are not included.

¥69 million in impairment losses was recognized for securities with a fair value during the fiscal year ended March 31, 2018.

Regarding stocks (including foreign stocks) with fair values, impairment losses are recognized for stocks whose fair value has declined significantly from the acquisition price based on the average fair value in the month preceding the balance sheet date, in principle. However, in the case of a security that meets certain criteria, such as a security for which the fair value declines substantially and the decline in the fair value in the month preceding the balance sheet date is substantial, impairment losses are recognized based on the fair value on the balance sheet date.

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 ratio of the average fair value in the month preceding the balance sheet date to the acquisition cost is 50% or less.

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

1. Average fair value in the month preceding the balance sheet date is between 50% and 70% of its acquisition cost.

2. The historical fair value, the business conditions of the issuing company, and other aspects are subject to certain requirements.

(5) Scheduled repayment amounts for the main monetary claims and liabilities and redemption amounts for securities with maturities are as follows:

(Million Yen)

	1 year or under	Over 1 year under 5 years	Over 5 years under 10 years	Over 10 years
Cash and deposits (negotiable certificates of deposit):	327,500	—	—	—
Available-for-sale securities	327,500	—	—	—
Monetary receivables purchased:	23,000	5,834	29,718	219,569
Policy-reserve-matching bonds	—	5,682	29,564	203,911
Available-for-sale securities	23,000	152	153	15,658
Investments in securities:	781,713	4,530,832	9,885,634	25,364,253
Policy-reserve-matching bonds	349,492	1,260,776	4,444,311	13,134,690
Available-for-sale securities	432,221	3,270,055	5,441,322	12,229,562
Loans	920,137	2,586,756	1,629,408	1,709,831
Corporate bonds	—	—	—	1,028,889

* Assets, such as policy loans, which do not have a stated maturity date, are not included.
Also, ¥1,938 million in loans to legally or substantially bankrupt borrowers or borrowers who are not currently legally bankrupt, but have a high probability of bankruptcy is not included.

18. The balance sheet amount for investment and rental properties was ¥1,119,049 million, with a fair value of ¥1,295,288 million as of March 31, 2018.
The Company owns rental office buildings and commercial facilities, the fair value of which as of March 31, 2018, was the amount measured based mainly on the “Real Estate Appraisal Standards.”
The amount corresponding to asset retirement obligations that were included in the balance sheet amounts of investment and rental properties was ¥476 million as of March 31, 2018.

19. (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 ¥29,704 million as of March 31, 2018.

1) The balances of loans to bankrupt borrowers and delinquent loans were ¥1,501 million and ¥26,014 million, respectively, as of March 31, 2018.
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 the 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 and exclude loans to bankrupt borrowers and loans 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 March 31, 2018.
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. These loans exclude loans classified as loans to bankrupt borrowers and delinquent loans.

3) The balance of restructured loans was ¥2,188 million as of March 31, 2018.
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. These loans exclude 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 ¥13 million and ¥88 million, respectively, as of March 31, 2018.

20. The amount of accumulated depreciation of tangible fixed assets was ¥1,129,850 million as of March 31, 2018.

21. Separate account assets as provided for in Article 118, Paragraph 1 of the Insurance Business Act were ¥1,294,140 million as of March 31, 2018, and a corresponding liability is recorded in the same amount.

22. The total amounts of credits and debits to subsidiaries and affiliates were ¥64,630 million and ¥4,633 million, respectively as of March 31, 2018.

23. Changes in the reserve for dividends to policyholders for the fiscal year ended March 31, 2018, were as follows:

		Million Yen
		Year ended March 31, 2018
a.	Balance at the beginning of the current fiscal year	¥1,001,102
b.	Transfer to reserve from surplus in the previous fiscal year	¥184,086
c.	Dividends paid to policyholders	¥212,224
d.	Increase in interest	¥22,203
e.	Balance at the end of the current fiscal year (a+b-c+d)	¥995,167

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

The corporate bonds are callable at the discretion of the Company, subject to the approval of the regulatory authority and other conditions.

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
April 2015	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
April 2016	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
	Fifteenth anniversary date after the issue date and on each fifth anniversary date thereafter
November 2016	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
	Fifteenth anniversary date after the issue date and on each fifth anniversary date thereafter
April 2017	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
September 2017	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter

25. The Company assumed the following Yen-denominated subordinated debt on April 27, 2018:

Principal Amount	¥100.0 billion
Interest rate	A fixed rate of 1.05% per annum before April 27, 2028, and a fixed rate with step-up thereafter (reset every five years).
Repayment date	Three bank business days preceding April 27, 2048 (The loan is callable on three bank business days preceding (i) April 27, 2028, and (ii) April 27 every five years thereafter until the loan is fully redeemed at the discretion of the Company, subject to prior approval by the regulatory authority.)
Use of funds	General working capital

26. Assets pledged as collateral in the form of investments in securities, land, and buildings as of March 31, 2018, were ¥1,295,180 million, ¥252 million, and ¥47 million, respectively. The total amount of liabilities covered by the aforementioned assets was ¥567,775 million as of March 31, 2018.
These amounts included ¥239,784 million of the sale of securities under repurchase agreements and ¥237,046 million in payables under repurchase agreements, as well as ¥370,155 million of investments in securities deposited and ¥330,722 million of cash received as collateral under securities lending transactions secured by cash, as of March 31, 2018.

27. ¥50,000 million of foundation funds were offered pursuant to Article 60 of the Insurance Business Act during the fiscal year ended March 31, 2018.

28. The Company redeemed ¥50,000 million of foundation funds and credited the same amount to reserve for redemption of foundation funds as prescribed in Article 56 of the Insurance Business Act for the fiscal year ended March 31, 2018.

29. The total amount of stocks and investments in subsidiaries and affiliates was ¥959,448 million as of March 31, 2018.

On March 1, 2018, the Company agreed with Massachusetts Mutual Life Insurance Company and MassMutual International LLC (hereinafter, "MMI") to acquire approximately 85.1% of the issued and outstanding shares of MassMutual Life Insurance Company (hereinafter, "MassMutual Japan") from MMI.

(1) Purpose of the stock acquisition

The purpose of the stock acquisition is to build a structure that can accommodate a wide range of customers' needs in the financial institution bancassurance market in order to continuously expand policyholders' profit by expanding the profit base of group business.

(2) Overview of MassMutual Japan

a. Company Name:	MassMutual Life Insurance Company
b. Business:	Life insurance business
c. Head Office:	Shinagawa-ku, Tokyo (Tokyo Head Office) Fukuoka-shi, Fukuoka (Fukuoka Head Office)
d. Premium Income:	¥322.9 billion (Year ended March 31, 2017)

(3) The stock acquisition schedule

The stock acquisition is scheduled to take place at or after the end of May 2018.

(4) The acquisition cost

The acquisition cost for the shares is expected to be approximately ¥104.2 billion and the acquisition will be funded by the Company's cash on hand.

(5) Ownership ratio after the acquisition

Approximately 85.1%

(6) Others

The acquisition of MassMutual Japan shares requires approvals of the Commissioner of the Financial Services Agency pursuant to Article 271-10, Paragraph 1 and Article 106, Paragraph 7 of the Insurance Business Act.

30. The amount of securities lent under lending agreements was ¥2,780,156 million as of March 31, 2018.

31. Assets that can be sold or resecured are marketable securities borrowed under lending agreements. These assets were held without being sold or resecured and totaled ¥520,816 million at fair value as of March 31, 2018.

32. The amount of commitments related to loans and loans outstanding was ¥333,205 million as of March 31, 2018.

33. Of the maximum borrowing amount from the Life Insurance Policyholders Protection Corporation of Japan, which is provided for in Article 37-4 of the Order for Enforcement of the Insurance Business Act, the amount applied to the Company was estimated to be ¥80,139 million as of March 31, 2018.
The amount contributed to the aforementioned corporation was recorded within operating expenses.

34. Information relating to retirement benefits is as follows:

(1) Summary of retirement benefit plans

In terms of defined benefit plans, the Company has a defined benefit corporate pension plan and a lump-sum retirement payment plan for non-sales personnel and sales management personnel, etc.
In terms of defined contribution plans, the Company has a defined contribution pension plan.
The Company also has a defined benefit plan for sales representatives, etc., in the form of a lump-sum retirement payment plan and an in-house pension plan.

(2) Defined benefit plan

1) Reconciliation of retirement benefit obligations at the beginning and end of the fiscal year

		Million Yen
		Year ended March 31, 2018
a.	Retirement benefit obligations at the beginning of the year	¥651,278
b.	Service costs	¥26,098
c.	Interest cost	¥3,907
d.	Actuarial losses accrued during the year	¥2,622
e.	Retirement benefit payments	¥(43,870)
f.	Retirement benefit obligations at the end of the year (a+b+c+d+e)	¥640,036

2) Reconciliation of pension plan assets at the beginning and end of the fiscal year

		Million Yen
		Year ended March 31, 2018
a.	Pension plan assets at the beginning of the year	¥260,869
b.	Expected return on plan assets	¥3,521
c.	Actuarial gains accrued during the year	¥2,496

d.	Contributions by business proprietor	¥6,598
e.	Retirement benefit payments	¥(17,817)
f.	Pension plan assets at the end of the year (a+b+c+d+e)	¥255,668

3) Reconciliation of retirement benefit obligations, pension plan assets, and accrued retirement benefits on the nonconsolidated balance sheet

		Million Yen
		Year ended March 31, 2018
a.	Retirement benefit obligations for funded plans	¥281,697
b.	Pension plan assets	¥(255,668)
		¥26,028
c.	Retirement benefit obligations for nonfunded plans	¥358,339
d.	Unrecognized actuarial gains	¥(23,254)
e.	Accrued retirement benefits (a+b+c+d)	¥361,114

4) Losses (gains) relating to retirement benefits

		Million Yen
		Year ended March 31, 2018
a.	Service costs	¥26,098
b.	Interest cost	¥3,907
c.	Expected return on plan assets	¥(3,521)
d.	Amortization of actuarial losses for the period	¥8,649
e.	Benefit cost for defined benefit plans (a+b+c+d)	¥35,133

5) Pension plan assets consist of the following main asset categories:

a.	General account of Nippon Life	51.8%
b.	Domestic bonds	20.4%
c.	Foreign securities	14.6%
d.	Cash and deposits	8.0%
e.	Domestic stocks	5.1%
f.	Total (a+b+c+d+e)	100.0%

6) Calculation method for long-term expected rate of return on plan assets

To determine the long-term expected rate of return on pension plan assets, the Company takes into consideration present and forecasted allocation of the pension plan assets, and present and long-term rates of return that are expected from the portfolio of assets that comprise the pension plan assets.

7) Matters relating to the basis for actuarial calculations

The main items in the basis for actuarial calculations as of March 31, 2018, are as follows:

a.	Discount rate	0.6%
b.	Long-term expected rate of return on plan assets	1.4%

(3) Defined contribution plans

The Company contributed ¥2,182 million to defined contribution plans during the fiscal year ended March 31, 2018.

35. (1) Total deferred tax assets were ¥1,422,159 million and total deferred tax liabilities were ¥1,954,549 million as of March 31, 2018. Among deferred tax assets, the deduction for the valuation allowance was ¥45,025 million. The major components resulting in deferred tax assets were policy reserves and other reserves of ¥840,473 million, reserve for price fluctuations in investments in securities of ¥357,732 million, accrued retirement benefits of ¥100,750 million. The major component resulting in deferred tax liabilities was net unrealized gains on available-for-sale securities of ¥1,873,322 million.

(2) The statutory tax rate was 28.2% for the fiscal year ended March 31, 2018. The main factors for the difference between the statutory tax rate and the effective income tax rate were a decrease of 24.6% due to the amount of reserve for dividends to policyholders.

36. 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 book value and the revalued amount for land revaluation is recognized as a deferred tax liability within the liability section. The valuation differences, excluding tax, 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, respectively, of the Order for Enforcement of the Act on Revaluation of Land.

37. The amount of policy reserves provided for the portion of reinsurance (hereafter, “policy reserves for ceded reinsurance”) as defined in Article 71, Paragraph 1 of the Ordinance for Enforcement of the Insurance Business Act was ¥293 million as of March 31, 2018.

38. The amount per Article 30, Paragraph 2 of the Ordinance for Enforcement of the Insurance Business Act was ¥4,823,655 million as of March 31, 2018.

6. Nonconsolidated Statements of Income

(Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
Ordinary income:	6,338,509	6,452,675
Revenues from insurance and reinsurance:	4,488,421	4,647,334
Insurance premiums	4,487,627	4,646,209
Reinsurance revenue	793	1,125
Investment income:	1,652,609	1,661,965
Interest, dividends, and other income:	1,407,350	1,365,628
Interest on deposits and savings	420	76
Interest on securities and dividends	1,183,986	1,127,836
Interest on loans	130,059	141,124
Real estate rental income	80,271	84,499
Other income	12,612	12,092
Gain on sales of securities	179,682	254,013
Gain on redemptions of securities	14,941	5,805
Reversal of allowance for doubtful accounts	471	742
Other investment income	596	702
Gain from separate accounts, net	49,566	35,072
Other ordinary income:	197,478	143,375
Income from annuity riders	10,897	9,442
Income from deferred benefits	90,531	106,290
Reversal of reserve for outstanding claims	62,044	—
Other ordinary income	34,004	27,642

6. Nonconsolidated Statements of Income (Continued)

(Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
Ordinary expenses:	5,928,048	5,994,211
Benefits and other payments:	3,663,124	3,529,231
Death and other claims	1,032,798	1,018,393
Annuity payments	802,214	836,311
Health and other benefits	649,240	658,966
Surrender benefits	926,376	801,780
Other refunds	251,106	212,024
Reinsurance premiums	1,388	1,754
Provision for policy reserves:	1,112,934	1,267,952
Provision for reserve for outstanding claims	—	31,116
Provision for policy reserves	1,090,730	1,214,378
Provision for interest on reserve for dividends to policyholders	22,203	22,458
Investment expenses:	324,200	388,005
Interest expenses	21,923	18,996
Loss from assets held in trust, net	3,276	1,976
Loss on sales of securities	102,833	118,770
Loss on valuation of securities	11,235	27,738
Loss on redemptions of securities	23,359	32,958
Loss on derivative financial instruments, net	105,877	119,127
Foreign exchange losses, net	9,589	1,209
Provision for allowance for investment loss	2,918	25,219
Depreciation of rental real estate and other assets	14,826	15,337
Other investment expenses	28,360	26,670
Operating expenses	600,571	572,159
Other ordinary expenses:	227,217	236,861
Deferred benefit payments	117,190	126,767
Taxes	46,058	44,541
Depreciation	42,576	47,578
Provision for retirement benefits	2,483	—
Other ordinary expenses	18,908	17,974

6. Nonconsolidated Statements of Income (Continued)

(Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
Ordinary profit	410,461	458,464
Extraordinary gains:	16,492	38,895
Gain on disposals of fixed assets	16,492	38,895
Extraordinary losses:	176,850	191,348
Loss on disposals of fixed assets	6,412	14,630
Impairment losses	2,062	4,328
Provision for reserve for price fluctuations in investments in securities	165,399	169,411
Loss on reduction entry of real estate	—	2
Contributions for assisting social public welfare	2,977	2,977
Surplus before income taxes	250,102	306,011
Income taxes — current	104,789	86,280
Income taxes — deferred	(97,030)	(48,873)
Total income taxes	7,758	37,406
Net surplus	242,344	268,604

Notes to the Nonconsolidated Statement of Income for the Fiscal Year Ended March 31, 2018

1. The total income and expenses from transactions with subsidiaries and affiliates is ¥52,836 million and ¥33,088 million, respectively, for the fiscal year ended March 31, 2018.

2. Gain on sales of securities includes gains on sales of domestic bonds, including national government bonds, domestic stocks, and foreign securities of ¥12,476 million, ¥130,988 million, and ¥36,217 million, respectively, for the fiscal year ended March 31, 2018.

3. Loss on sales of securities includes losses on sales of domestic bonds, including national government bonds, domestic stocks, and foreign securities of ¥571 million, ¥7,706 million, and ¥94,555 million, respectively, for the fiscal year ended March 31, 2018.

4. Loss on valuation of securities includes losses on the valuation of domestic stocks and foreign securities of ¥395 million and ¥10,839 million, respectively, for the fiscal year ended March 31, 2018.

5. Provision for policy reserves for ceded reinsurance that was deducted from the calculation of provision for policy reserves was ¥17 million for the fiscal year ended March 31, 2018.

6. (1) Loss from assets held in trust, net includes net valuation losses of ¥3,267 million for the fiscal year ended March 31, 2018.

   (2) Loss on derivative financial instruments, net includes net valuation losses of ¥24,062 million for the fiscal year ended March 31, 2018.

7. 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 fiscal year ended March 31, 2018.

3) Breakdown of asset groups that recognized impairment losses for the fiscal year ended March 31, 2018, is as follows:

	Million Yen		
Purpose of use	Land	Buildings	Total
Idle property	¥1,431	¥630	¥2,062
Total	¥1,431	¥630	¥2,062

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 3.0%. Net realizable values are determined based on appraisals performed in accordance with the “Real Estate Appraisal Standards” or posted land prices.

7. Nonconsolidated Statements of Changes in Net Assets

Year Ended March 31, 2017

(Million Yen)

	Foundation funds and others												
				Surplus									
					Other surplus reserves								
	Foundation funds	Reserve for redemption of foundation funds	Reserve for revaluation	Legal reserve for deficiencies	Equalized reserve for dividends to policyholders	Contin-gency 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	Unappro-priated surplus	Total surplus	Total foundation funds and others
Beginning balance	200,000	1,100,000	651	15,163	50,000	71,917	305	50,187	—	170	292,087	479,830	1,780,481
Cumulative effect of change in accounting policies											1,873	1,873	1,873
Beginning balance after reflecting accounting policy changes	200,000	1,100,000	651	15,163	50,000	71,917	305	50,187	—	170	293,960	481,703	1,782,355
Increase/decrease:													
Additions to reserve for dividends to policyholders											(229,857)	(229,857)	(229,857)
Additions to legal reserve for deficiencies				879							(879)	—	—
Additions to reserve for redemption of foundation funds		50,000									(50,000)	(50,000)	—
Interest on foundation funds											(1,698)	(1,698)	(1,698)
Net surplus											268,604	268,604	268,604
Redemption of foundation funds	(50,000)												(50,000)
Additions to reserve for social public welfare assistance							3,000				(3,000)	—	—
Reversal of reserve for social public welfare assistance							(2,977)				2,977	—	—
Additions to reserve for reduction entry of real estate								1,614			(1,614)	—	—
Reversal of reserve for reduction entry of real estate								(606)			606	—	—
Reversal of reserve for reduction entry of real estate to be purchased									5,643		(5,643)	—	—
Reversal of land revaluation losses											(28,117)	(28,117)	(28,117)
Net change, excluding foundation funds and others													
Net change	(50,000)	50,000	—	879	—	—	23	1,008	5,643	—	(48,623)	(41,068)	(41,068)
Ending balance	150,000	1,150,000	651	16,042	50,000	71,917	328	51,196	5,643	170	245,337	440,635	1,741,286

<u>7. Nonconsolidated Statements of Changes in Net Assets (Continued)</u>

Year Ended March 31, 2017

(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	4,722,733	(123,923)	(86,202)	4,512,608	6,293,089
Cumulative effect of change in accounting policies					1,873
Beginning balance after reflecting accounting policy changes	4,722,733	(123,923)	(86,202)	4,512,608	6,294,963
Increase/decrease:					
Additions to reserve for dividends to policyholders					(229,857)
Additions to legal reserve for deficiencies					—
Additions to reserve for redemption of foundation funds					—
Interest on foundation funds					(1,698)
Net surplus					268,604
Redemption of foundation funds					(50,000)
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					—
Reversal of reserve for reduction entry of real estate to be purchased					—
Reversal of land revaluation losses					(28,117)
Net change, excluding foundation funds and others	(137,434)	58,660	28,117	(50,656)	(50,656)
Net change	(137,434)	58,660	28,117	(50,656)	(91,725)
Ending balance	4,585,298	(65,262)	(58,084)	4,461,951	6,203,237

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

Year Ended March 31, 2018

(Million Yen)

	Foundation funds and others												
				Surplus									
					Other surplus reserves								
	Foundation funds	Reserve for redemption of foundation funds	Reserve for revaluation	Legal reserve for deficiencies	Equalized reserve for dividends to policyholders	Contin-gency 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	Unappro-priated surplus	Total surplus	Total foundation funds and others
Beginning balance	150,000	1,150,000	651	16,042	50,000	71,917	328	51,196	5,643	170	245,337	440,635	1,741,286
Increase/decrease:													
Issuance of foundation funds	50,000												50,000
Additions to reserve for dividends to policyholders											(184,086)	(184,086)	(184,086)
Additions to legal reserve for deficiencies				762							(762)	—	—
Additions to reserve for redemption of foundation funds		50,000									(50,000)	(50,000)	—
Interest on foundation funds											(1,198)	(1,198)	(1,198)
Net surplus											242,344	242,344	242,344
Redemption of foundation funds	(50,000)												(50,000)
Reversal of the 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							(2,977)				2,977	—	—
Additions to reserve for reduction entry of real estate								1,453			(1,453)	—	—
Reversal of reserve for reduction entry of real estate								(2,942)			2,942	—	—
Additions to reserve for reduction entry of real estate to be purchased									23,415		(23,415)	—	—
Reversal of reserve for reduction entry of real estate to be purchased									(5,636)		5,636	—	—
Reversal of land revaluation losses											2,905	2,905	2,905
Net change, excluding foundation funds and others													
Net change	—	50,000	—	762	(10,000)	—	23	(1,488)	17,778	—	2,889	9,965	59,965
Ending balance	150,000	1,200,000	651	16,804	40,000	71,917	351	49,708	23,422	170	248,227	450,600	1,801,251

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

Year Ended March 31, 2018

(Million Yen)

	Valuations, conversions, and others				Total net assets
	Net unrealized gains on available-for-sale securities	Deferred losses on derivatives under hedge accounting	Land revaluation losses	Total valuations, conversions, and others	
Beginning balance	4,585,298	(65,262)	(58,084)	4,461,951	6,203,237
Increase/decrease:					
Issuance of foundation funds					50,000
Additions to reserve for dividends to policyholders					(184,086)
Additions to legal reserve for deficiencies					—
Additions to reserve for redemption of foundation funds					—
Interest on foundation funds					(1,198)
Net surplus					242,344
Redemption of foundation funds					(50,000)
Reversal of the 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					2,905
Net change, excluding foundation funds and others	296,805	6,162	(2,905)	300,062	300,062
Net change	296,805	6,162	(2,905)	300,062	360,028
Ending balance	4,882,103	(59,099)	(60,989)	4,762,014	6,563,265

8. Details of Ordinary Profit (Core Operating Profit)

(Million Yen)

		Year ended March 31, 2018	Year ended March 31, 2017
Core operating profit (A)		668,249	634,972
Capital gains:		217,621	254,013
	Gain on proprietary trading securities	—	—
	Gain from assets held in trust, net	—	—
	Gain on trading securities	—	—
	Gain on sales of securities	179,682	254,013
	Gain on derivative financial instruments, net	—	—
	Foreign exchange gains, net	—	—
	Other capital gains	37,938	—
Capital losses:		244,536	282,954
	Loss on proprietary trading securities	—	—
	Loss from assets held in trust, net	3,276	1,976
	Loss on trading securities	—	—
	Loss on sales of securities	102,833	118,770
	Loss on valuation of securities	11,235	27,738
	Loss on derivative financial instruments, net	105,877	119,127
	Foreign exchange losses, net	9,589	1,209
	Other capital losses	11,724	14,131
Net capital losses (B)		(26,915)	(28,941)
Core operating profit, including net capital gains (A+B)		641,334	606,030
Nonrecurring gains:		165	494
	Reinsurance revenue	—	—
	Reversal of contingency reserve	—	—
	Reversal of specific allowance for doubtful accounts	165	494
	Other nonrecurring gains	—	—
Nonrecurring losses:		231,039	148,060
	Reinsurance premiums	—	—
	Provision for contingency reserve	139,929	122,841
	Provision for specific allowance for doubtful accounts	—	—
	Provision for allowance for specific overseas debts	—	—
	Write-offs of loans	—	—
	Other nonrecurring losses	91,110	25,219
Net nonrecurring losses (C)		(230,873)	(147,566)
Ordinary profit (A+B+C)		410,461	458,464

(Reference) Breakdown of “Other” items

(Million Yen)

		Year ended March 31, 2018	Year ended March 31, 2017
Core operating profit		(26,214)	14,131
	Amount of foreign exchange gains and losses related to foreign currency-denominated insurance products	—	7,508
	Interest income and expenses related to swap transactions for foreign currency-denominated insurance products and swap transactions for hedging purposes	11,724	6,622
	Impact of market exchange rate movements related to foreign currency-denominated insurance policies	(35,187)	—
	Impact of movements in surrender benefits related to market value adjustment	(2,750)	—
Other capital gains		37,938	—
	Amount of foreign exchange gains and losses related to foreign currency-denominated insurance products	—	—
	Interest income and expenses related to swap transactions for foreign currency-denominated insurance products and swap transactions for hedging purposes	—	—
	Impact of market exchange rate movements related to foreign currency-denominated insurance policies	35,187	—
	Impact of movements in surrender benefits related to market value adjustment	2,750	—
Other capital losses		11,724	14,131
	Amount of foreign exchange gains and losses related to foreign currency-denominated insurance products	—	7,508
	Interest income and expenses related to swap transactions for foreign currency-denominated insurance products and swap transactions for hedging purposes	11,724	6,622
	Impact of market exchange rate movements related to foreign currency-denominated insurance policies	—	—
	Impact of movements in surrender benefits related to market value adjustment	—	—
Other nonrecurring gains		—	—
	Reversal of allowance for investment loss	—	—
Other nonrecurring losses		91,110	25,219
	Provision for allowance for investment loss	2,918	25,219
	Provision for additional policy reserves	88,192	—

9. Nonconsolidated Proposed Appropriations of Surplus

(Thousands Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
Unappropriated surplus	248,227,021	245,337,320
Reversal from voluntary surplus reserve:	39,697,424	18,578,397
Reversal of equalized reserve for dividends to policyholders	30,000,000	10,000,000
Reversal of reserve for reduction entry of real estate	3,674,119	2,942,005
Reversal of reserve for reduction entry of real estate to be purchased	6,023,305	5,636,391
Total	287,924,446	263,915,718
Appropriations:	287,924,446	263,915,718
Reserve for dividends to policyholders	218,353,870	184,086,582
Net surplus:	69,570,576	79,829,135
Legal reserve for deficiencies	774,000	762,000
Reserve for redemption of foundation funds	50,000,000	50,000,000
Interest on foundation funds	790,000	1,198,000
Voluntary surplus reserve:	18,006,576	27,869,135
Reserve for social public welfare assistance	3,000,000	3,000,000
Reserve for reduction entry of real estate	3,802,405	1,453,954
Reserve for reduction entry of real estate to be purchased	11,204,171	23,415,180
Surplus carried forward	—	—

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

(Million Yen, %)

	As of March 31, 2018	As of March 31, 2017
Bankrupt and quasi-bankrupt loans	10,179	10,095
Doubtful loans	17,337	18,796
Substandard loans	2,188	3,171
Subtotal	29,705	32,063
[Percentage of total, %]	[0.29]	[0.31]
Normal loans	10,297,839	10,214,183
Total	10,327,545	10,246,246

Notes:
1. Bankrupt and quasi-bankrupt loans are nonperforming assets and similar loans that have fallen into bankruptcy due to 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 cannot be recovered or interest cannot be received according to the contract because of difficulties in the financial condition and business performance of the debtor who has not yet entered into bankruptcy.
3. Substandard loans include loans that are delinquent for over three months or restructured loans. Loans that are delinquent for over three months are loans with principal or interest being unpaid for over three months counting from the day after the due date based on the loan agreement (excluding 1. and 2. in the above notes). 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 the borrowers (excluding 1. and 2. in the above notes 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 above notes and where the debtor has no financial or business performance problems.

Supplemental information for borrower's 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 customer's 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 March 31, 2018 and 2017, were ¥102 million and ¥531 million, respectively.

11. Status of Risk-Monitored Loans

(Million Yen, %)

	As of March 31, 2018	As of March 31, 2017
Loans to bankrupt borrowers	1,501	1,764
Delinquent loans	26,014	27,122
Loans that are delinquent for over three months	—	—
Restructured loans	2,188	3,171
Total	29,704	32,058
[Percentage of total loans, %]	[0.40]	[0.41]

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.
   The amounts directly deducted from loans to bankrupt borrowers and delinquent loans were ¥13 million and ¥88 million, respectively, as of March 31, 2018, and ¥399 million and ¥132 million, respectively, as of March 31, 2017.
2. Loans to bankrupt borrowers are loans with principal or interest payments being overdue for a significant period of time and interest not being accrued, including the following: (a) loans to borrowers that are legally bankrupt through filings for proceedings under the Corporate Reorganization Act, Civil Rehabilitation Act, Bankruptcy Act, or Company Act; (b) loans to borrowers that have notes suspended from being traded; and (c) loans to borrowers that have filed for legal proceedings similar to the aforementioned proceedings based on overseas laws.
3. Delinquent loans are loans with interest not accrued and exclude loans to bankrupt borrowers and loans 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 counting from the day after the due date based on the loan agreement. Note that the account does not include 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 (excluding loans to bankrupt borrowers, delinquent loans, and loans that are delinquent for over three months from above).
6. Interest that is not accrued for loans of borrowers who are deemed to be bankrupt, quasi-bankrupt, or doubtful based on the results of asset self-assessment is not recorded as income.

12. Breakdown of Allowance for Doubtful Accounts

(Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017	Change
(1) Breakdown of allowance for doubtful accounts			
(A) General allowance for doubtful accounts	1,197	1,503	(305)
(B) Specific allowance for doubtful accounts	1,204	1,379	(175)
(C) Allowance for specific overseas debts	—	—	—
(2) Specific allowance for doubtful accounts			
(A) Provision	1,306	1,911	(604)
(B) Reversal	1,472	2,405	(933)
[excluding reversals with write-offs]			
(C) Net provision	(165)	(494)	328
(3) Allowance for specific overseas debts			
(A) Number of debtor countries	—	—	—
(B) Amounts of credit	—	—	—
(C) Provision	—	—	—
(D) Reversal	—	—	—
(4) Write-offs of loans	—	—	—

(Reference)

Status of Borrower Classification

(100 Million Yen, %)

	As of March 31, 2018		As of March 31, 2017	
	Money available	Percentage of whole	Money available	Percentage of whole
Loan balances (After direct write-offs of category IV)	74,683	100.0	77,495	100.0
Noncategorized	74,249	99.4	76,878	99.2
Category II	430	0.6	611	0.8
Category III	2	0.0	4	0.0
Category IV	—	—	—	—

Notes: 1. Specific allowances for doubtful accounts of Category III were as follows: ¥0.2 billion and ¥0.3 billion as of March 31, 2018 and 2017, respectively.
2. The amounts of direct write-offs of Category IV were as follows: ¥0.1 billion and ¥0.5 billion as of March 31, 2018 and 2017, respectively.

13. Solvency Margin Ratio

(Million Yen)

	As of March 31, 2018	As of March 31, 2017
Solvency margin gross amount (A):	13,584,981	12,596,032
Foundation funds (*kikin*) and other reserve funds:	4,790,201	4,454,276
Foundation funds and others	1,582,107	1,556,001
Reserve for price fluctuations in investments in securities	1,282,194	1,116,795
Contingency reserve	1,663,360	1,523,431
General allowance for doubtful accounts	1,197	1,503
Others	261,341	256,544
Net unrealized gains on available-for-sale securities (before tax) and deferred losses on derivatives under hedge accounting (before tax)× 90%	5,996,439	5,630,908
Net unrealized gains on real estate × 85%	259,736	210,229
Excess of continued Zillmerized reserve	1,476,998	1,415,384
Qualifying subordinated debt	1,028,889	840,825
Excess of continued Zillmerized reserve and qualifying subordinated debt not included in margin calculations	—	—
Deduction clause	(344)	(252)
Others	33,061	44,661
Total amount of risk (B): $\sqrt{(R_1+R_8)^2+(R_2+R_3+R_7)^2}+R_4$	2,959,907	2,811,478
Underwriting risk (R_1)	119,879	122,718
Underwriting risk of third-sector insurance (R_8)	79,238	78,064
Anticipated yield risk (R_2)	371,230	386,043
Minimum guarantee risk (R_7)	5,564	5,708
Investment risk (R_3)	2,514,457	2,353,474
Business management risk (R_4)	61,807	58,920
Solvency margin ratio $\frac{(A)}{(1/2)\times(B)}\times 100$	917.9%	896.0%

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.

(Reference)

Policy reserve valuation method and ratio for individual insurance and annuities

	As of March 31, 2018	As of March 31, 2017
Policies subject to the standard policy reserve	Net level premium method	Net level premium method
Policies not subject to the standard policy reserve	Net level premium method	Net level premium method
Ratio (excluding contingency reserve)	100.0%	100.0%

Notes: 1. Individual insurance and annuities are subject to the valuation method and ratio. Policy reserves for group insurance and annuities are not included in the above figures due to the absence of an accumulation method.
2. Regarding the valuation ratio, policies subject to the standard policy reserve represent the ratio in accordance with the method that the Prime Minister prescribed by means of Ordinance No. 48 issued by the Ministry of Finance in 1996. Policies not subject to the standard policy reserve represent the ratio for the insurance premiums reserve calculated by the net level premium method and unearned premium.

14. Status of Separate Accounts for the Fiscal Year Ended March 31, 2018

(1) Balance of Separate Account Assets

(Million Yen)

	As of March 31, 2018	As of March 31, 2017
Individual variable insurance	114,872	116,005
Individual variable annuities	43,478	41,905
Group annuities	1,135,789	1,157,881
Separate account total	1,294,140	1,315,792

(2) Status of Separate Accounts for Individual Variable Insurance

1) Policies in Force

	As of March 31, 2018		As of March 31, 2017	
	Number of policies	Amount of policies (million yen)	Number of policies	Amount of policies (million yen)
Variable insurance (defined term type)	2,273	2,610	1,195	5,570
Variable insurance (whole life type)	32,628	463,376	33,300	479,050
Total	34,901	465,987	34,495	484,621

2) Breakdown of Separate Account Assets' Year-End Balance (Individual Variable Insurance)

(Million Yen, %)

	As of March 31, 2018		As of March 31, 2017	
	Amount	Composition ratio	Amount	Composition ratio
Cash, deposits, and call loans	5,020	4.4	4,015	3.5
Investments in securities:	98,803	86.0	103,924	89.6
Domestic bonds	24,508	21.3	23,690	20.4
Domestic stocks	35,204	30.6	42,964	37.0
Foreign securities:	38,067	33.1	37,269	32.1
Foreign bonds	12,313	10.7	9,143	7.9
Foreign stocks and other securities	25,753	22.4	28,126	24.2
Other securities	1,022	0.9	—	—
Loans	—	—	—	—
Others	11,048	9.6	8,066	7.0
Allowance for doubtful accounts	—	—	—	—
Total	114,872	100.0	116,005	100.0

3) Investment Income and Expenses from Separate Accounts (Individual Variable Insurance)

(Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
	Amount	Amount
Interest, dividends, and other income	2,015	1,901
Gain on sales of securities	10,184	4,389
Gain on redemptions of securities	—	—
Gain on valuation of securities	(1,489)	3,238
Foreign exchange gains, net	223	—
Gain on derivative financial instruments, net	1,021	760
Other investment income	8	6
Loss on sales of securities	1,721	2,744
Loss on redemptions of securities	—	—
Loss on valuation of securities	(347)	(2,297)
Foreign exchange losses, net	231	89
Loss on derivative financial instruments, net	1,314	—
Other investment expenses	2	2
Net investment income	9,041	9,756

(3) Status of Separate Accounts for Individual Variable Annuities

1) Policies in Force

	As of March 31, 2018		As of March 31, 2017	
	Number of policies	Amount of policies (million yen)	Number of policies	Amount of policies (million yen)
Individual variable annuities	23,519	43,472	11,497	41,903

2) Breakdown of Separate Account Assets' Year-End Balance (Individual Variable Annuities)

(Million Yen, %)

	As of March 31, 2018		As of March 31, 2017	
	Amount	Composition ratio	Amount	Composition ratio
Cash, deposits, and call loans	—	—	—	—
Investments in securities:	42,021	96.6	40,573	96.8
Domestic bonds	8,997	20.7	10,422	24.9
Domestic stocks	—	—	—	—
Foreign securities:	—	—	—	—
Foreign bonds	—	—	—	—
Foreign stocks and other securities	—	—	—	—
Other securities	33,023	76.0	30,150	71.9
Loans	—	—	—	—
Others	1,456	3.4	1,332	3.2
Allowance for doubtful accounts	—	—	—	—
Total	43,478	100.0	41,905	100.0

3) Investment Income and Expenses from Separate Accounts (Individual Variable Annuities)

(Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
	Amount	Amount
Interest, dividends, and other income	3,787	4,318
Gain on sales of securities	298	708
Gain on redemptions of securities	—	—
Gain on valuation of securities	(641)	(2,780)
Foreign exchange gains, net	—	—
Gain on derivative financial instruments, net	—	—
Other investment income	0	0
Loss on sales of securities	7	29
Loss on redemptions of securities	—	—
Loss on valuation of securities	(41)	110
Foreign exchange losses, net	—	—
Loss on derivative financial instruments, net	—	—
Other investment expenses	0	0
Net investment income	3,477	2,105

15. Status of the Company, Subsidiaries, and Affiliates

(1) Selected Financial Data for Major Operations

(100 Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
Ordinary income	76,098	73,018
Ordinary profit	4,718	5,283
Net surplus attributable to the parent company	2,439	3,019
Comprehensive income (loss)	5,951	2,517

	As of March 31, 2018	As of March 31, 2017
Total assets	743,925	724,642
Solvency margin ratio	968.0%	933.9%

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

	As of March 31, 2018	
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		14
Changes in significant subsidiaries and affiliates during the period	Additions: 5 Removals:1	The TCW Group, Inc. and 4 other companies PanAgora Asset Management, Inc.

(3) Policies of Presenting the Consolidated Financial Statements for the Fiscal Year Ended March 31, 2018

1) Consolidated subsidiaries

The consolidated financial statements include the accounts of the Company and the Company's subsidiaries. Consolidated subsidiaries as of March 31, 2018, are listed as follows:

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)
Mitsui Life Insurance Company Limited (Japan)
Nippon Life Insurance Company of America (U.S.A.)
NLI Commercial Mortgage Fund, LLC (U.S.A.)
NLI Commercial Mortgage Fund II, LLC (U.S.A.)
NLI US Investments, Inc. (U.S.A.)
MLC Limited (Australia)

The major subsidiaries excluded from consolidation are Nippon Life Global Investors Americas, Inc., Nissay Trading Corporation, and Nissay Insurance Agency Co., Ltd.
The respective and aggregate effects of the companies, which are excluded from consolidation, based on total assets, revenues, net income, and surplus for the fiscal year ended March 31, 2018, are immaterial. This exclusion from consolidation does not prevent a reasonable assessment of the financial position of the Company and the Company's subsidiaries and the result of their operations.

2) Affiliates

Major affiliates accounted for under the equity method as of March 31, 2018, are listed as follows:

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

The TCW Group, Inc. and four other companies have been included within the scope of equity method accounting for the fiscal year ended March 31, 2018, due to the acquisition of equity interests by the Company.
In addition, PanAgora Asset Management, Inc. has been excluded from the scope of equity method accounting due to the sale of shares.
The subsidiaries not consolidated, such as Nippon Life Global Investors Americas, Inc., and Nissay Trading Corporation, along with affiliates other than those listed above, such as SL Towers Co., Ltd., are not accounted for under the equity method. The respective and aggregate effects of such companies on consolidated net income and surplus for the fiscal year ended March 31, 2018, are immaterial.

The numbers of consolidated subsidiaries and affiliates as of March 31, 2018, were as follows:

Consolidated subsidiaries	11
Subsidiaries not consolidated but accounted for under the equity method	0
Affiliates accounted for under the equity method	14

3) The fiscal year-end dates of consolidated subsidiaries

The fiscal year-end date of consolidated overseas subsidiaries is December 31. In preparing the consolidated financial statements, consolidated overseas subsidiaries are consolidated using financial statements based on the fiscal year end of accounts as of December 31, and necessary adjustments are made to reflect significant transactions that occurred between the Company's fiscal year-end date of March 31 and December 31.

4) Amortization of goodwill

Goodwill and the equivalent amount of goodwill from affiliates accounted for under the equity method are amortized under the straight-line method over 20 years.
However, for items that are immaterial, the total amount of goodwill is fully amortized as incurred.

(4) Consolidated Balance Sheets

(Million Yen)

	As of March 31, 2018	As of March 31, 2017
Assets:		
Cash and deposits	1,405,704	1,337,969
Call loans	471,113	270,000
Monetary receivables purchased	288,752	337,913
Assets held in trust	10,621	3,597
Investments in securities	60,106,713	58,262,185
Loans	8,630, 122	8,990,370
Tangible fixed assets	1,857,734	1,868,153
Land	1,232,389	1,253,286
Buildings	541,877	540,405
Lease assets	9,260	7,580
Construction in progress	43,376	40,311
Other tangible fixed assets	30,829	26,569
Intangible fixed assets	255,722	236,530
Software	92,569	86,168
Goodwill	52,674	53,309
Lease assets	—	6
Other intangible fixed assets	110,479	97,045
Reinsurance receivables	11,577	12,513
Other assets	1,299,200	1,104,003
Deferred tax assets	6,154	5,604
Customers' liability for acceptances and guarantees	52,928	39,935
Allowance for doubtful accounts	(3,828)	(4,483)
Total assets	74,392,516	72,464,294
Liabilities:		
Policy reserves and other reserves:	61,523,014	60,394,071
Reserve for outstanding claims	332,590	394,243
Policy reserves	60,130,178	58,930,878
Reserve for dividends to policyholders (mutual company)	995,167	1,001,102
Reserve for dividends to policyholders (limited company)	65,078	67,847
Reinsurance payables	6,566	9,590
Corporate bonds	1,108,889	920,825
Other liabilities	2,244,558	2,243,231
Accrued bonuses for directors and audit and supervisory board members	90	79
Net defined benefit liability	443,161	450,558
Accrued retirement benefits for directors and audit and supervisory board members	5,503	5,246
Reserve for program points	9,411	9,013
Reserve for price fluctuations in investments in securities	1,345,987	1,135,765
Deferred tax liabilities	625,202	620,563
Deferred tax liabilities for land revaluation	104,828	106,432
Acceptances and guarantees	52,928	39,935
Total liabilities	67,470,142	65,935,313

(4) Consolidated Balance Sheets (Continued)

(Million Yen)

	As of March 31, 2018	As of March 31, 2017
Net assets:		
Foundation funds	150,000	150,000
Reserve for redemption of foundation funds	1,200,000	1,150,000
Reserve for revaluation	651	651
Consolidated surplus	625,131	622,388
Total foundation funds and others	1,975,782	1,923,039
Net unrealized gains on available-for-sale securities	4,918,602	4,588,092
Deferred losses on derivatives under hedge accounting	(59,092)	(65,262)
Land revaluation losses	(60,989)	(58,084)
Foreign currency translation adjustments	28,706	30,549
Remeasurement of defined benefit plans	(18,632)	(24,556)
Total accumulated other comprehensive income	4,808,594	4,470,738
Noncontrolling interests	137,996	135,203
Total net assets	6,922,373	6,528,981
Total liabilities and net assets	74,392,516	72,464,294

Notes to the Consolidated Balance Sheets as of March 31, 2018

1. (1) Securities of the Company and 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 on the balance sheet date. The moving average method is used for calculating cost basis.

2) Held-to-maturity debt securities are valued using the moving average method, net of accumulated amortization (straight-line).

3) Policy-reserve-matching bonds are valued using the moving average method, net of accumulated amortization (straight-line), in accordance with the Industry Audit Committee Report No. 21, “Temporary Treatment of Accounting and Auditing Concerning Policy-Reserve-Matching Bonds in the Insurance Industry,” issued by the JICPA.

4) Investments in subsidiaries and affiliates that are not consolidated nor accounted for under the equity method (stocks issued by subsidiaries prescribed in Article 2, Paragraph 12 of the Insurance Business Act or subsidiaries prescribed in Article 13-5-2, Paragraph 3 of the Order for Enforcement of the Insurance Business Act and stocks issued by affiliates prescribed in Article 13-5-2, Paragraph 4 of the Order for Enforcement of the Insurance Business Act) are stated at cost using the moving average method.

5) Available-for-sale securities

a. Regarding securities with a fair value, stocks (including foreign stocks) are valued using the average fair value during the period of one month before the balance sheet date (cost basis is calculated using the moving average method). Other securities with a fair value are valued using the fair value on the balance sheet date (cost basis is calculated using the moving average method).

b. Regarding securities of which the 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 stated at cost using the moving average method, net of accumulated amortization (straight-line). Other securities without readily determinable fair values are stated at cost using the moving average method.

(2) Unrealized gains/losses, net of applicable taxes for 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 and subcategorized the following insurance policies:

   (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) Mitsui Life Insurance Company Limited

      1) Subcategory for whole life insurance and annuity insurance (8–27 years) (the component of future cash flows generated from whole life insurance (including whole life insurance with term rider) and annuity insurance for more than 7 years up to 27 years)
      2) Subcategory for insured contributory pension plans (up to 27 years) (the component of future cash flows generated from insured contributory pension plans for up to 27 years)
      3) Subcategory for foreign currency-denominated single payment endowment insurance (Australian dollars) (foreign currency-denominated single payment endowment insurance commencing on or after October 1, 2017)

3. Derivative financial instruments and derivative financial instruments within assets held in trust are stated at fair value.

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 price of less than ¥200,000 of the Company and certain consolidated subsidiaries are depreciated over a three-year period on a straight-line basis.

   b. Lease assets

      (i) Lease assets related to financial leases where ownership is transferred

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

(ii) Lease assets related to financial leases where ownership is not transferred
Straight-line method based on lease period.

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

5. Assets and liabilities denominated in foreign currencies are translated into Japanese yen using 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 recovery is not expected, are converted to Japanese yen using either the rate on the balance sheet date or the average one-month rate prior to the balance sheet date, whichever indicates a weaker yen. This translation difference is recorded as a loss on valuation of securities.
Moreover, 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, 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.
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 significant possibility of bankruptcy is recognized at the amounts deemed necessary considering an assessment of 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 (of a certain period) percentage of bad debt.

(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 records allowance amounts deemed necessary mainly in accordance 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 ¥251 million (including ¥117 million of credits secured and/or guaranteed) as of March 31, 2018.

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 the amount of retirement benefit obligations prepared for payment of employee retirement benefits, less pension plan assets, based on the projected amounts as of March 31,2018.

   (2) The accounting methods of the Company and certain consolidated subsidiaries used for retirement benefits are as follows:
   1) Attribution method for estimated retirement benefits: Benefit formula basis
   2) Period of amortizing actuarial gains/losses: 5 years
   3) Period of amortizing prior service costs: 5 years

9. Accrued retirement benefits for directors and audit and supervisory board members are recognized based on estimated payment amounts under internal rules.

10. A reserve for program points is recognized based on the amount projected to be incurred for expenses from the use of points granted to policyholders.

11. Reserve for price fluctuations in investments in securities is recognized based on Article 115 of the Insurance Business Act.

12. Regarding financial leases where the Company or a consolidated subsidiary is the lessor, and ownership is not transferred, if any, the Company recognizes income and expense at the time of receiving the lease fee as other ordinary income and other ordinary expenses, respectively.

13. Hedge accounting is applied by the Company and certain consolidated subsidiaries based on the following methods:
    1) The Company and certain consolidated subsidiaries mainly apply the following hedge accounting methods: The exceptional accounting treatment ("*Tokurei-shori*") for interest rate swaps is applied to hedge the cash flow volatility of certain loans denominated in Japanese yen and certain loans denominated in foreign currencies; deferred hedge accounting for interest rate swaps is applied 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*") for currency swaps are applied to hedge the cash flow volatility caused by foreign

exchange rate fluctuations on certain foreign currency-denominated bonds, certain foreign currency-denominated loans, and foreign currency-denominated subordinated corporate bonds issued by the Company and certain consolidated subsidiaries; fair value hedge accounting for foreign exchange forward contracts is applied 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 for equity forward contracts is applied to hedge the price fluctuation exposures on certain domestic stocks.

2) Hedging instruments and hedged items

(Hedging instruments)	(Hedged items)
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 performing a ratio analysis of fair value movement comparisons based on the hedging instruments and hedged items taken, which is in accordance with the internal risk management policies of the Company and certain consolidated subsidiaries.

14. Consumption taxes and local consumption taxes of the Company and certain consolidated subsidiaries are accounted for by the tax exclusion method. 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. (1) Policy reserves of the Company and consolidated subsidiaries of domestic life insurance companies are reserves set forth in accordance with Article 116 of the Insurance Business Act. Insurance premium reserves are recognized based on the following methodology. In accordance with Article 69, Paragraph 5 of the Ordinance for Enforcement of the Insurance Business Act, policy reserves include those that are reserved for certain individual annuity policies.

1) Reserves for contracts 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 contracts are calculated based on the net level premium method.

Matters concerning additional policy reserve amounts accumulated during the fiscal year ended March 31, 2018, are as follows:

a. The Company

Additional policy reserve amounts were included to cover a possible deficiency in the amount of the reserve for certain individual annuity policyholders. As a result, policy reserves increase by

¥88,192 million, while ordinary profit and surplus before income taxes decrease by ¥88,192 million, compared to amounts that would have been recorded had the additional policy reserve amounts not been included.

b. Mitsui Life Insurance Company Limited

Additional policy reserve amounts were included to cover a possible deficiency in the amount of the reserve for certain individual annuity policyholders. As a result, policy reserves increase by ¥53,265 million, while ordinary profit and surplus before income taxes decrease by ¥53,265 million, compared to amounts that would have been recorded had the additional policy reserve amounts not been included.

(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.

16. Regarding the investment of the general accounts of the Company and certain consolidated subsidiaries (except separate accounts as provided in Article 118, Paragraph 1 of the Insurance Business Act), in light of the characteristics of life insurance policies, the Company and certain consolidated subsidiaries have built a portfolio geared toward mid- to long-term investment and formulated an investment plan considering the outlook of the investment environment.

Based on this, in order to reliably pay benefits and other payments in the future, the Company and certain consolidated subsidiaries have positioned yen-denominated assets that can be expected to provide stable income, such as bonds and loans, as the core assets of the Company and certain consolidated subsidiaries and from the viewpoint of improving profit in the mid- to long-term, the Company and certain consolidated subsidiaries invest in stocks and foreign securities. Also, from the viewpoint of effective investment, the Company and certain consolidated subsidiaries mainly use derivative transactions for controlling asset investment risks. Specifically, the Company uses interest rate swaps for the interest rate-related investments of the Company and certain consolidated subsidiaries, foreign exchange forward contracts and currency options and swaps for the currency-related investments of the Company and certain consolidated subsidiaries, and equity forward contracts equity index futures and equity index options for the equity-related investments of the Company and certain consolidated subsidiaries, and hedge accounting is applied with respect to a portion thereof.

The Company and certain consolidated subsidiaries mainly apply the following hedge accounting methods: The exceptional accounting treatment ("*Tokurei-shori*") for interest rate swaps is applied to hedge the cash flow volatility of certain loans denominated in Japanese yen and certain loans denominated in foreign currencies; deferred hedge accounting for interest rate swaps is applied 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*") for currency swaps are applied to hedge the cash flow volatility caused by foreign exchange rate fluctuations on certain foreign currency-denominated bonds, certain foreign currency-denominated loans, and foreign currency-denominated subordinated corporate bonds issued by the Company and certain consolidated subsidiaries; fair value hedge accounting and deferred hedge accounting for foreign exchange forward contracts are applied to hedge the price fluctuation exposures related to foreign exchange rate fluctuations on certain foreign currency-denominated bonds and other instruments and certain foreign currency-denominated stocks; and fair value hedge accounting for equity forward contracts is applied to hedge the price fluctuation exposures on certain domestic stocks. The effectiveness of hedging activities is mainly evaluated by performing a ratio analysis of fair value movement comparisons based on the hedging instruments and hedging methods taken, which is in accordance with the internal risk management policies of the Company and certain consolidated subsidiaries.

Securities are mainly exposed to market risk and credit risk, loans are exposed to credit risk, and derivative transactions are exposed to market risk and credit risk. Market risk refers to the risk of incurring losses when the fair value of investment assets declines due to such factors as fluctuations in interest rates, exchange rates, or stock prices. Credit risk refers to the risk of incurring losses when the value of assets, primarily loans and bonds, declines due to deterioration of the financial condition of the party to whom credit has been extended. It includes country risk. These risks are managed according to rules and regulations regarding investment risks.

To manage market risk, the Company and certain consolidated subsidiaries have implemented investment limits based on the nature of the assets in order to avoid excessive losses from financing and investment transactions. In addition, the Company and certain consolidated subsidiaries monitor and regularly report on the status of compliance to the Risk Management Committee, the advisory body of the Management Committee, and have developed a system to control risk within acceptable levels in the event of a breach of the internal rules. Also, to control market risk in the portfolio of the Company and certain consolidated subsidiaries, the Company and certain consolidated subsidiaries use a statistical analysis method to rationally calculate the market value-at-risk of the portfolio as a whole and conduct appropriate asset allocation within acceptable boundaries of risk.

To manage credit risk, the Company and certain consolidated subsidiaries have built a thorough monitoring system involving the Assessment Management Department, which is independent of the departments handling investment and finance activities. The Company and certain consolidated subsidiaries also continue to build a sound portfolio through the establishment and monitoring of interest guidelines to ensure the returns the Company and certain consolidated subsidiaries obtain are commensurate with the risk, a system of internal ratings for classifying the creditworthiness of borrowers, and credit ceilings to ensure that credit risk is not excessively concentrated in a particular company, group, or country. In addition, the Company and certain consolidated subsidiaries calculate credit value-at-risk as a measurement of the magnitude of credit risk across the portfolio of the Company and certain consolidated subsidiaries as a whole, and monitor whether the magnitude of risk stays within an appropriate range.

17. (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):	383,500	383,500	—
Available-for-sale securities	383,500	383,500	—
Monetary receivables purchased:	288,752	301,191	12,439
Held-to-maturity debt securities	2,971	3,609	637
Policy-reserve-matching bonds	239,375	251,177	11,801
Available-for-sale securities	46,405	46,405	—
Assets held in trust:	10,621	10,621	—
Trading securities	10,421	10,421	—
Available-for-sale securities	200	200	—
Investments in securities:	59,009,134	63,125,983	4,116,849
Trading securities	1,590,075	1,590,075	—
Held-to-maturity debt securities	38,754	39,031	277
Policy-reserve-matching bonds	21,361,150	25,393,221	4,032,070
Investments in subsidiaries and affiliates	85,085	169,587	84,501
Available-for-sale securities	35,934,068	35,934,068	—
Loans (*3):	8,628,063	8,874,709	246,735
Policy loans	668,605	668,605	—
Industrial and consumer loans	7,959,458	8,206,193	246,735
Derivative financial instruments (*4):	124,314	124,314	—
Hedge accounting not applied	30,994	30,994	—
Hedge accounting applied	93,320	93,320	—
Corporate bonds (*3,*5)	(1,108,889)	(1,161,069)	(52,180)
Cash received as collateral under securities lending transactions (*5)	(575,412)	(575,412)	—
Loans payable (*3,*5)	(205,888)	(208,470)	(2,582)

(*1) For transactions for which an allowance for doubtful accounts was recorded, the amount of the allowance is deducted.

(*2) For securities for which impairment losses were recognized in t the fiscal year ended March 31, 2018, the fair value is the balance sheet amount after the impairment losses are deducted.

(*3) The fair values of derivative financial instruments that are interest rate swaps under exceptional accounting treatment (*"Tokurei-shori"*) or currency swaps under designated hedge accounting ("*Furiate-shori*") 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) Assets and liabilities generated by derivative financial instruments are offset and presented net. Net liabilities in total are presented in parentheses.

(*5) Corporate bonds, cash received as collateral under securities lending transactions, 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 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 on 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 information vendors.

2) Loans

a. Policy loans

Fair value is measured by the book value of the policy loans, as the fair value is deemed to approximate book value, due to expected repayment periods, interest rate requirements, and other characteristics. These loans have no repayment date either in form or in substance because stated due dates can be extended if the loan amount is within certain range of its surrender benefit.

b. Industrial and consumer loans

Fair value of variable interest rate loans is deemed to approximate 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 on the balance sheet date.

b. Fair value of equity options is measured mainly based on liquidation value or closing market price on the balance sheet date or valuations obtained from external information vendors.

c. Fair value of foreign exchange contracts, currency options, interest rate swaps, currency swaps, and forward contracts is measured mainly based on valuations obtained from external information vendors.

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 on the balance sheet date.

6) Cash received as collateral under securities lending transactions

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 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 mainly by discounting future cash flows to present value.

(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 were ¥1,097,579 million as of March 31, 2018.

(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 as of March 31, 2018. Valuation gains/losses included in profit and loss were gains of ¥55,422 million for derivative financial instruments within assets held in trust and investments in securities related to separate accounts for the current fiscal year.

2) Held-to-maturity debt securities

Balance sheet amounts, 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	2,971	3,609	637
	Domestic bonds	19,709	20,036	326
	Foreign securities	1,510	1,519	8
	Subtotal	24,191	25,164	972
Fair value does not exceed the balance sheet amount	Domestic bonds	6,148	6,143	(4)
	Foreign securities	11,385	11,332	(53)
	Subtotal	17,533	17,476	(57)
Total		41,725	42,640	914

3) Policy-reserve-matching bonds

Balance sheet amounts, 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	223,375	245,210	11,835
	Domestic bonds	21,034,072	25,070,184	4,036,111
	Foreign securities	78,681	81,096	2,415
	Subtotal	21,346,129	25,396,491	4,050,361
Fair value does not exceed the balance sheet amount	Monetary receivables purchased	6,000	5,966	(33)
	Domestic bonds	239,366	233,023	(6,343)
	Foreign securities	9,029	8,917	(112)
	Subtotal	254,396	247,907	(6,488)
Total		21,600,526	25,644,398	4,043,872

4) Available-for-sale securities

Acquisition cost or amortized cost, 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)	307,500	307,500	0
	Monetary receivables purchased	9,028	9,959	930
	Domestic bonds	3,638,120	3,867,815	229,694
	Domestic stocks	3,671,499	8,604,623	4,933,124
	Foreign securities	10,070,068	11,947,002	1,876,934
	Other securities	1,942,873	2,145,560	202,687
	Subtotal	19,639,090	26,882,463	7,243,372
Balance sheet amount does not exceed acquisition cost or amortized cost	Cash and deposits (negotiable certificates of deposit)	76,000	75,999	(0)
	Monetary receivables purchased	36,649	36,445	(203)
	Assets held in trust	200	200	—
	Domestic bonds	366,440	356,799	(9,641)
	Domestic stocks	869,622	750,093	(119,529)
	Foreign securities	8,078,281	7,742,435	(335,846)
	Other securities	531,266	519,738	(11,528)
	Subtotal	9,958,460	9,481,711	(476,749)
Total		29,597,551	36,364,174	6,766,622

* Securities totaling ¥770,147 million, whose fair value is extremely difficult to determine are not included.

¥157 million in impairment losses was recognized for securities with a fair value during the fiscal year ended March 31, 2018.

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 price based on the average fair value in the month preceding the balance sheet date, in principle. However, in the case of a security that meets certain criteria, such as a security for which the fair value declines substantially and the decline in the fair value in the month preceding the balance sheet date is substantial, impairment losses are recognized based on the fair value on the balance sheet date.

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 ratio of the average fair value in the month preceding the balance sheet date to the acquisition cost is 50% or less.

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

1. Average fair value in the month preceding the balance sheet date is between 50% and 70% of its acquisition cost.
2. The historical fair value, the business conditions of the issuing company, and other aspects are subject to certain requirements.

(5) Scheduled repayment amounts for the main monetary claims and liabilities and redemption amounts for securities with maturities are as follows:

(Million Yen)

	1 year or under	Over 1 year under 5 years	Over 5 years under 10 years	Over 10 years
Cash and deposits (negotiable certificates of deposit):	383,500	—	—	—
Available-for-sale securities	383,500	—	—	—
Monetary receivables purchased:	23,000	5,834	29,718	229,186
Held-to-maturity debt securities	—	—	—	2,971
Policy-reserve-matching bonds	—	5,682	29,564	203,911
Available-for-sale securities	23,000	152	153	22,303
Investment in securities:	898,346	4,922,007	10,686,740	28,274,456
Held-to-maturity debt securities	12,463	19,629	4,045	2,389
Policy-reserve-matching bonds	349,492	1,273,346	4,487,861	14,988,982
Available-for-sale securities	536,390	3,629,031	6,194,833	13,283,085
Loans (*1)	1,074,869	2,915,020	1,954,034	1,971,594
Corporate bonds	—	—	—	1,078,889
Cash received as collateral under securities lending transactions	575,412	—	—	—
Loans payable (*2)	39,408	51,093	15,381	—

(*1) Assets, such as policy loans, which do not have a stated maturity date, are not included.
Also, ¥4,100 million in loans to legally or substantially bankrupt borrowers or borrowers who are not currently legally bankrupt, but have a high probability of bankruptcy is not included.

(*2) Liabilities, such as subordinated loans payable, which do not have a stated maturity date, are not included.

18. The balance sheet amount for investment and rental properties was ¥1,247,234 million, with a fair value of ¥1,430,349 million as of March 31, 2018.

The Company and certain consolidated subsidiaries own rental office buildings and commercial facilities, the fair value of which as of March 31, 2018, was the amount measured based mainly on the "Real Estate Appraisal Standards."

The amount corresponding to asset retirement obligations that were included in the balance sheet amounts of investment and rental properties was ¥497 million as of March 31, 2018.

19. (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 ¥31,097 million as of March 31, 2018.

1) The balances of loans to bankrupt borrowers and delinquent loans were ¥1,511 million and ¥27,397 million, respectively, as of March 31, 2018.

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 the 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 and exclude loans to bankrupt borrowers and loans 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 March 31, 2018.

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. These loans exclude loans classified as loans to bankrupt borrowers and delinquent loans.

3) The balance of restructured loans was ¥2,188 million as of March 31, 2018.

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. These loans exclude 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 ¥15 million and ¥235 million, respectively, as of March 31, 2018.

20. The amount of accumulated depreciation of tangible fixed assets was ¥1,160,122 million as of March 31, 2018.

21. Separate account assets as provided for in Article 118, Paragraph 1 of the Insurance Business Act were ¥1,521,665 million as of March 31, 2018 and a corresponding liability is recorded in the same amount.

22. Changes in the reserve for dividends to policyholders (mutual company) for the fiscal year ended March 31, 2018, were as follows:

	Million Yen
	Year ended March 31, 2018
a. Balance at the beginning of the current fiscal year	¥1,001,102
b. Transfer to reserve from surplus in the previous fiscal year	¥184,086
c. Dividends paid to policyholders (mutual company)	¥212,224
d. Increase in interest	¥22,203
e. Balance at the end of the current fiscal year (a+b-c+d)	¥995,167

23. Changes in the reserve for dividends to policyholders (limited company) for the fiscal year ended March 31, 2018, were as follows:

	Million Yen
	Year ended March 31, 2018
a. Balance at the beginning of the current fiscal year	¥67,847
b. Dividends paid to policyholders (limited company)	¥20,053
c. Increase in interest	¥12
d. Provision for reserve for dividends to policyholders (limited company)	¥17,272
e. Balance at the end of the current fiscal year (a-b+c+d)	¥65,078

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

    The corporate bonds are callable at the discretion of the Company, subject to the approval of the regulatory authority and other conditions.

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
April 2015	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
April 2016	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
	Fifteenth anniversary date after the issue date and on each fifth anniversary date thereafter
July 2016	Each interest payment date on or after July 2021
	Each interest payment date on or after July 2026
November 2016	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
	Fifteenth anniversary date after the issue date and on each fifth anniversary date thereafter
April 2017	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter
September 2017	Tenth anniversary date after the issue date and on each fifth anniversary date thereafter

25. Other liabilities include subordinated loans payable of ¥100,000 million, which is subordinate to the fulfillment of all other debt obligations.

    The Company assumed the following Yen-denominated subordinated debt on April 27, 2018:

Principal Amount	¥100.0 billion
Interest rate	A fixed rate of 1.05% per annum before April 27, 2028, and a fixed rate with step-up thereafter (reset every five years).
Repayment date	Three bank business days preceding April 27, 2048 (The loan is callable on three bank business days preceding (i) April 27, 2028, and (ii) April 27 every five years thereafter until the loan is fully redeemed at the discretion of the Company, subject to prior approval by the regulatory authority.)
Use of funds	General working capital

26. Assets pledged as collateral in the form of investments in securities, lease receivables, land, and buildings as of March 31, 2018, were ¥1,562,278 million, ¥25,183 million, ¥252 million, and ¥47 million, respectively. The total amount of liabilities covered by the aforementioned assets was ¥836,716 million as of March 31, 2018.

    These amounts included ¥239,784 million of the sale of securities under repurchase agreements and ¥237,046 million in payables under repurchase agreements, as well as ¥587,521 million of investments in securities deposited and ¥575,412 million of cash received as collateral under securities lending transactions secured by cash, as of March 31, 2018.

27. ¥50,000 million of foundation funds were offered pursuant to Article 60 of the Insurance Business Act during the fiscal year ended March 31, 2018.

28. The Company redeemed ¥50,000 million of foundation funds and credited the same amount to reserve for redemption of foundation funds as prescribed in Article 56 of the Insurance Business Act for the fiscal year ended March 31, 2018.

29. The total amount of stocks and investments in nonconsolidated subsidiaries and affiliates was ¥412,517 million as of March 31, 2018.

30. Matters concerning transactions with noncontrolling interests and the acquisition of subsidiaries, etc., agreed during the fiscal year ended March 31, 2018, are as follows:

(1) Nissay Asset Management Corporation

On February 9, 2018, the Company acquired 10% of the shares of Nissay Asset Management Corporation (hereinafter, “Nissay Asset”) from Putnam Investments (hereinafter, “Putnam”), a U.S. asset management company, thereby converting Nissay Asset into a wholly owned subsidiary.

1) Overview of the transaction

a. Name and business of the acquiree

Name: Nissay Asset Management Corporation

Business: Asset management business

b. Business combination date

January 1, 2018 (deemed acquisition date)

c. Legal form of the business combination

Conversion into a wholly owned subsidiary through the acquisition of additional shares from a noncontrolling shareholder

d. Name of company after business combination

Nissay Asset Management Corporation

e. Other matters concerning the overview of the transaction

The Group has long worked to strengthen the asset management business. At this time, the Company has converted Nissay Asset into a wholly owned subsidiary by acquiring all of the Nissay Asset shares owned by Putnam, in order to reinforce and expand the asset management business.

2) Overview of accounting treatment that was applied

The Company has accounted for the transaction as a transaction with a noncontrolling shareholder within the category of transactions under common control. This accounting treatment is based on the “Accounting Standard for Business Combinations” (ASBJ* Statement No. 21) and the “Guidance on

Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10).

3) Acquisition cost and breakdown by type of consideration
Consideration for acquisition: payment in cash
¥15,065 million
Acquisition cost
¥15,065 million

4) Matters concerning changes in the Company's equity with respect to the transaction with the noncontrolling shareholder
a. Main reasons for changes in consolidated surplus:
Acquisition of additional shares of a subsidiary
b. Decrease in consolidated surplus due to the transaction with the noncontrolling shareholder:
¥8,940 million

(2) MassMutual Life Insurance Company
On March 1, 2018, the Company agreed with Massachusetts Mutual Life Insurance Company and MassMutual International LLC (hereinafter, "MMI") to acquire approximately 85.1% of the issued and outstanding shares of MassMutual Life Insurance Company (hereinafter, "MassMutual Japan") from MMI.

1) Purpose of the stock acquisition
The purpose of the stock acquisition is to build a structure that can accommodate a wide range of customers' needs in the financial institution bancassurance market in order to continuously expand policyholders' profit by expanding the profit base of group business.

2) Overview of MassMutual Japan

a. Company Name:	MassMutual Life Insurance Company
b. Business:	Life insurance business
c. Head Office:	Shinagawa-ku, Tokyo (Tokyo Head Office)
	Fukuoka-shi, Fukuoka (Fukuoka Head Office)
d. Premium Income:	¥322.9 billion (Year ended March 31, 2017)

3) The stock acquisition schedule
The stock acquisition is scheduled to take place at or after the end of May 2018.

4) The acquisition cost
The acquisition cost for the shares is expected to be approximately ¥104.2 billion and the acquisition will be funded by the Company's cash on hand.

5) Ownership ratio after the acquisition
   Approximately 85.1%

6) Others
   The acquisition of MassMutual Japan shares requires approvals of the Commissioner of the Financial Services Agency pursuant to Article 271-10, Paragraph 1 and Article 106, Paragraph 7 of the Insurance Business Act.

(3) Establishment of a life insurance subsidiary

At a meeting of the Board of Directors held on May 23, 2018, the Company passed a resolution to establish Nippon Life Insurance Preparrtory Company Ltd. (hereinafter, the "Preparatory Company") for the establishment of a new life insurance company (hereinafter, the "New Company").

1) Purpose of establishing the New Company
   The purpose of establishing the New Company is to flexibly and dynamically provide services to independent insurance agencies and related entities in order to more appropriately address diversifying customer needs and growing sale channels.
2) Overview of the Preparatory Company (pending for the New Company)

a. Company Name:	NIPPON LIFE INSUARANCE PREPARATORY COMPANY Ltd
b. The location of its head office:	Minato-ku, Tokyo
c. Capital stock:	¥10 billion

3) Schedule for the establishment
   The Preparatory Company is scheduled to be established on July 2, 2018.
4) Ownership ratio after the establishment of the Preparatory Company (pending for the New Company)
   100%
5) Others
   The establishment of the New Company requires the acquisition of approvals of the Commissioner of the Financial Services Agency pursuant to Article 271-10, Paragraph 1 and Article 106, Paragraph 7 of the Insurance Business Act by the Company and the acquisition of a life insurance business license pursuant to Article 3 of the Insurance Business Act by the Preparatory Company.

31. The amount of securities lent under lending agreements was ¥3,053,767 million as of March 31, 2018.

32. Assets that can be sold or resecured are marketable securities borrowed under lending agreements. These assets were held without being sold or resecured and totaled ¥520,816 million at fair value as of March 31, 2018.

33. The amount of commitments related to loans and loans outstanding was ¥265,022 million as of March 31, 2018.

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 certain consolidated subsidiaries was estimated to be ¥91,262 million as of March 31, 2018.

The amount contributed to the aforementioned corporation was recorded within operating expenses.

35. Information relating to retirement benefits is as follows:

(1) Summary of retirement benefit plans

In terms of defined benefit plans, the Company has a defined benefit corporate pension plan and a lump-sum retirement payment plan for non-sales personnel and sales management personnel, etc.

In terms of defined contribution plans, the Company has a defined contribution pension plan.

The Company also has a defined benefit plan for sales representatives, etc., in the form of a lump-sum retirement payment plan and an in-house pension plan.

Certain consolidated subsidiaries mainly have a lump-sum retirement payment plan as a defined benefit plan and a defined contribution pension plan as a defined contribution plan.

(2) Defined benefit plan

1) Reconciliation of retirement benefit obligations at the beginning and end of the fiscal year

	Million Yen
	Year ended March 31, 2018
a. Retirement benefit obligations at the beginning of the year	¥720,187
b. Service costs	¥28,304
c. Interest cost	¥4,352
d. Actuarial losses accrued during the year	¥3,681
e. Retirement benefit payments	¥(49,362)
f. Others	¥1
g. Retirement benefit obligations at the end of the year (a+b+c+d+e+f)	¥707,164

2) Reconciliation of pension plan assets at the beginning and end of the fiscal year

	Million Yen
	Year ended March 31, 2018
a. Pension plan assets at the beginning of the year	¥271,613
b. Expected return on plan assets	¥3,844
c. Actuarial gains accrued during the year	¥2,539
d. Contributions by business proprietor	¥7,302
e. Retirement benefit payments	¥(19,117)
f. Pension plan assets at the end of the year (a+b+c+d+e)	¥266,183

3) Reconciliation of net defined benefit liability at the beginning and end of the fiscal year under the simplified valuation method

	Million Yen
	Year ended March 31, 2018
a. Net defined benefit liability at the beginning of the year	¥1,984
b. Benefit costs	¥322
c. Retirement benefit payments	¥(126)
d. Net defined benefit liability at the end of the year (a+b+c)	¥2,180

4) Reconciliation of retirement benefit obligations, pension plan assets, and net defined benefit liability on the consolidated balance sheet

	Million Yen
	Year ended March 31, 2018
a. Retirement benefit obligations for funded plans	¥294,371
b. Pension plan assets	¥(266,183)
	¥28,188
c. Retirement benefit obligations for nonfund plans	¥414,973
d. Net defined benefit liability recorded in the consolidated balance sheet	¥443,161
e. Net defined benefit liability	¥443,161
f. Net defined benefit liability recorded in the consolidated balance sheet	¥443,161

5) Losses (gains) relating to retirement benefits

	Million Yen
	Year ended March 31, 2018
a. Service costs	¥28,304
b. Interest cost	¥4,352
c. Expected return on plan assets	¥(3,844)
d. Amortization of actuarial losses for the period	¥9,311
e. Benefit cost under the simplified valuation method	¥322
f. Others	¥1
g. Benefit cost for defined benefit plans (a+b+c+d+e+f)	¥38,447

6) Breakdown of items included in other comprehensive income.

The breakdown of items included in other comprehensive income (before tax) is as follows:

	Million Yen
	Year ended March 31, 2018
Actuarial losses	¥8,169
Total	¥8,169

7) Breakdown of items included in total accumulated other comprehensive income

The breakdown of items included in total accumulated other comprehensive income (before tax) is as follows:

	Million Yen
	Year ended March 31, 2018
Unrecognized actuarial losses	¥26,385
Total	¥26,385

8) Pension plan assets consist of the following:

a. General account of Nippon Life	50.2%
b. Domestic bonds	22.0%
c. Foreign securities	14.8%
d. Cash and deposits	7.7%
e. Domestic stocks	5.4%
f. Other	0.0%
g. Total (a+b+c+d+e+f)	100.0%

9) Calculation method for long-term expected rate of return on plan assets

To determine the long-term expected rate of return on pension plan assets, the Company takes into consideration present and forecasted allocation of the pension plan assets, and present and long-term rates of return that are expected from the portfolio of assets that comprise the pension plan assets.

10) Matters relating to the basis for actuarial calculations

The main items in the basis for actuarial calculations of the Company and certain consolidated subsidiaries as of March 31, 2018, are as follows:

a. Discount rate	0.6-0.7%
b. Long-term expected rate of return on plan assets	1.4-3.0%

(3) Defined contribution plans

The Company and its consolidated subsidiaries contributed ¥4,768 million to defined contribution plans during the fiscal year ended March 31, 2018.

36. (1) Total deferred tax assets were ¥1,562,626 million and total deferred tax liabilities were ¥2,080,903 million as of March 31, 2018. Among deferred tax assets, the deduction for the valuation allowance was ¥100,772 million. The major components resulting in deferred tax assets were policy reserves and other reserves of ¥873,955 million, reserve for price fluctuations in investments in securities of ¥375,549 million, and net defined benefit liability of ¥124,983 million. The major component resulting in deferred tax liabilities was net unrealized gains on available-for-sale securities of ¥1,902,132 million.

(2) The statutory tax rate was 28.2% for the fiscal year ended March 31, 2018. The main factor for the difference between the statutory tax rate and the effective income tax rate was a decrease of 24.3% due to the amount of reserve for dividends to policyholders (mutual company).

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

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

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

[Consolidated Statements of Income]

(Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
Ordinary income:	7,609,805	7,301,817
Revenues from insurance and reinsurance	5,422,050	5,236,045
Investment income:	1,871,287	1,805,215
Interest, dividends, and other income	1,496,565	1,458,328
Gain on trading securities	22,599	—
Gain on sales of securities	252,476	287,182
Gain on redemptions of securities	14,972	6,000
Foreign exchange gains, net	16,168	—
Reversal of allowance for doubtful accounts	584	1,351
Other investment income	1,806	1,919
Gain from separate accounts, net	66,115	50,432
Other ordinary income	316,467	260,555
Ordinary expenses:	7,137,979	6,773,431
Benefits and other payments:	4,407,378	4,151,681
Death and other claims	1,298,609	1,226,875
Annuity payments	907,776	936,713
Health and other benefits	812,819	824,505
Surrender benefits	1,085,916	932,899
Other refunds	260,653	217,639
Reinsurance premiums	41,602	13,048
Provision for policy reserves:	1,234,488	1,179,180
Provision for policy reserves for outstanding claims	—	30,975
Provision for policy reserves	1,212,272	1,125,720
Provision for interest on reserve for dividends to policyholders (mutual company)	22,203	22,458
Provision for interest on reserve for dividends to policyholders (limited company)	12	25
Investment expenses:	383,966	395,127
Interest expenses	24,392	22,388
Loss from assets held in trust, net	3,276	1,976
Loss on trading securities	—	5,371
Loss on sales of securities	126,883	123,761
Loss on valuation of securities	11,364	27,868
Loss on redemptions of securities	23,374	32,974
Loss on derivative financial instruments, net	144,785	116,229
Foreign exchange losses, net	—	16,441
Write-offs of loans	—	55
Depreciation of rental estate and other assets	17,460	17,834
Other investment expenses	32,428	30,224
Operating expenses	789,288	708,262
Other ordinary expenses	322,857	339,179
Ordinary profit	471,825	528,385

[Consolidated Statements of Income] (Continued)

(Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
Extraordinary gains:	21,711	39,856
Gain on disposals of fixed assets	21,711	39,856
Extraordinary losses:	223,222	196,275
Loss on disposals of fixed assets	7,781	16,018
Impairment losses	2,242	5,243
Provision for reserve for price fluctuations in investments in securities	210,222	172,034
Loss on reduction entry of real estate	—	2
Contributions for assisting social public welfare	2,977	2,977
Provision for reserve for dividends to policyholders (limited company)	17,272	18,161
Surplus before income taxes	253,042	353,805
Income taxes - current	129,514	99,889
Income taxes - deferred	(123,015)	(54,372)
Total income taxes	6,499	45,517
Net surplus	246,542	308,288
Net surplus attributable to noncontrolling interests	2,614	6,319
Net surplus attributable to the parent company	243,927	301,969

Notes to the Consolidated Statement of Income for the Fiscal Year Ended March 31, 2018

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 fiscal year ended March 31, 2018.

   3) Breakdown of asset groups that recognized impairment losses for fiscal year ended March 31, 2018, is as follows:

Purpose of use	Million Yen		
	Land	Buildings and others	Total
Leased property	¥39	¥65	¥105
Idle property	¥1,501	¥635	¥2,136
Total	¥1,540	¥701	¥2,242

   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 3.0%-3.9%. Net realizable values are determined based on appraisals performed in accordance with the “Real Estate Appraisal Standards” or posted land prices.

[Consolidated Statements of Comprehensive Income]

(Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
Net surplus	246,542	308,288
Other comprehensive income (loss):	348,566	(56,533)
Net unrealized gains (losses) on available-for-sale securities	333,542	(136,125)
Deferred gains on derivatives under hedge accounting	6,166	58,659
Foreign currency translation adjustments	5,436	14,750
Remeasurement of defined benefit plans	5,881	4,730
Share of other comprehensive income (loss) of associates accounted for under the equity method	(2,460)	1,450
Comprehensive income (loss):	595,109	251,754
Comprehensive income (loss) attributable to the parent company	584,689	242,367
Comprehensive income attributable to noncontrolling interests	10,419	9,387

Note to the Consolidated Statement of Comprehensive Income for the Fiscal Year Ended March 31, 2018

Breakdown of other comprehensive loss was as follows:

(1) Reclassification adjustments to profit or loss relating to other comprehensive loss

(Million Yen)

Net unrealized gains on available-for-sale securities:		
Losses arising during the year	502,586	
Reclassification adjustments to profit or loss	(47,681)	454,904
Deferred losses on derivatives under hedge accounting:		
Gains arising during the year	(1,892)	
Reclassification adjustments to profit or loss	10,489	8,597
Foreign currency translation adjustments:		
Gains arising during the year	5,436	
Reclassification adjustments to profit or loss	—	5,436
Remeasurement of defined benefit plans:		
Losses arising during the year	(1,123)	
Reclassification adjustments to profit or loss	9,293	8,169
Share of other comprehensive income (loss) of associates accounted for under the equity method:		
Gains arising during the year	(2,110)	
Reclassification adjustments to profit or loss	(349)	(2,460)
Amount before income tax effect		474,647
Income tax effect		(126,080)
Total other comprehensive loss		348,566

(2) Income tax effect relating to other comprehensive loss

(Million Yen)

	Before income tax effect	Income tax effect	After income tax effect
Net unrealized gains on available-for-sale securities	454,904	(121,361)	333,542
Deferred losses on derivatives under hedge accounting	8,597	(2,430)	6,166
Foreign currency translation adjustments	5,436	—	5,436
Remeasurement of defined benefit plans	8,169	(2,288)	5,881
Share of other comprehensive income of associates accounted for under the equity method	(2,460)	—	(2,460)
Total other comprehensive loss	474,647	(126,080)	348,566

(6) Consolidated Statements of Cash Flows

(Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
I. Cash flows from operating activities:		
Surplus before income taxes	253,042	353,805
Depreciation of rental real estate and other assets	17,460	17,834
Depreciation	48,769	53,632
Impairment losses	2,242	5,243
Amortization of goodwill	2,740	655
Net (decrease) increase in reserve for outstanding claims	(62,027)	30,950
Net increase in policy reserve	1,186,025	1,124,400
Provision for interest on reserve for dividends to policyholders (mutual company)	22,203	22,458
Provision for interest on reserve for dividends to policyholders (limited company)	12	25
Provision for reserve for dividends to policyholders (limited company)	17,272	18,161
Net decrease in allowance for doubtful accounts	(625)	(1,442)
Net increase (decrease) in accrued bonuses for directors and audit and supervisory board members	11	(7)
Net increase (decrease) in net defined benefit liability	771	(3,313)
Net increase in accrued retirement benefits for directors and audit and supervisory board members	257	37
Net increase in reserve for price fluctuations in investments in securities	210,222	172,034
Interest, dividends, and other income	(1,496,565)	(1,458,328)
Losses from assets held in trust, net	3,276	1,976
Net gains on investments in securities	(108,616)	(108,554)
Net losses on policy loans	107,863	119,409
Losses on derivative financial instruments, net	144,785	116,229
Interest expenses	24,392	22,388
Net foreign exchange (gains) losses	(16,268)	16,306
Net gains on tangible fixed assets	(13,858)	(23,604)
(Gains) losses on equity method investments	(1,359)	13,093
Gains from separate accounts	(66,115)	(50,432)
Net decrease (increase) in reinsurance receivables	1,414	(1,513)
Net increase in other assets (excluding those related to investing activities and financing activities)	(14,363)	(27,039)
Net (decrease) increase in reinsurance payables	(3,334)	1,904
Net increase (decrease) in other liabilities (excluding those related to investing activities and financing activities)	16,113	(8,829)
Others, net	(23,758)	(60,522)
Subtotal	251,984	346,961
Interest, dividends, and other income received	1,544,422	1,514,948
Interest paid	(23,503)	(22,055)
Dividends paid to policyholders (mutual company)	(181,027)	(181,208)
Dividends paid to policyholders (limited company)	(20,053)	(20,020)
Others, net	25,100	10,344
Income taxes paid	(90,613)	(102,103)
Net cash provided by operating activities	1,506,309	1,546,865

(6) Consolidated Statements of Cash Flows (Continued)

(Million Yen)

	Year ended March 31, 2018	Year ended March 31, 2017
II. Cash flows from investing activities:		
Net (increase) decrease in deposits	(302)	504
Purchases of monetary receivables purchased	(17,947)	(3,000)
Proceeds from sales and redemptions of monetary receivables purchased	53,602	115,125
Purchases of assets held in trust	(10,300)	(4,700)
Proceeds from decrease in assets held in trust	0	1,260
Purchases of securities	(9,174,638)	(10,727,182)
Proceeds from sales and redemptions of securities	7,997,940	8,800,478
Disbursements for loans	(1,505,039)	(1,256,954)
Proceeds from collections of loans	1,759,953	1,613,276
Net losses from the settlement of derivative financial instrument	(417,693)	(151,832)
Net increase in sales under repurchase agreements	244,920	—
Net (decrease) increase in cash received as collateral under securities lending transactions	(298,360)	39,684
Others, net	110,685	(28,552)
① Total of investing activities	(1,257,180)	(1,601,893)
[I + II①]	[249,128]	[(55,028)]
Purchases of tangible fixed assets	(54,186)	(54,472)
Proceeds from sales of tangible fixed assets	51,901	102,076
Payments for acquisition of subsidiary's shares with change of consolidation	—	(88,249)
Others, net	(51,526)	(41,186)
Net cash used in investing activities	(1,310,991)	(1,683,724)
III. Cash flows from financing activities:		
Proceeds from debt borrowing	153,893	253,867
Repayments of debt	(157,037)	(288,594)
Proceeds from issuance of corporate bonds	188,064	270,000
Proceeds from issuance of foundation funds	50,000	—
Redemption of foundation funds	(50,000)	(50,000)
Interest on foundation funds	(1,198)	(1,698)
Payment for acquisition of subsidiary's shares not resulting in change in scope of consolidation	(15,065)	—
Proceeds from sales of shares of subsidiaries not resulting in change in scope of consolidation	—	58,198
Others, net	2,264	19,619
Net cash provided by financing activities	170,921	261,392
IV. Effect of exchange rate changes on cash and cash equivalents	(12,427)	6,339
V. Net increase in cash and cash equivalents	353,812	130,873
VI. Cash and cash equivalents at the beginning of the year	1,541,468	1,410,595
VII. Net increase in cash and cash equivalents resulting from merger between the consolidated subsidiary and the nonconsolidated subsidiary	1,730	—
VIII. Cash and cash equivalents at the end of the year	1,897,011	1,541,468

* 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.

Note to the Consolidated Statement of Cash Flows for the Fiscal Year Ended March 31, 2018

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

Year Ended March 31, 2017 (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	200,000	1,100,000	651	630,790	1,931,441
Cumulative effect of change in accounting policies				1,882	1,882
Beginning balance after reflecting accounting policy changes	200,000	1,100,000	651	632,673	1,933,324
Increase/decrease:					
Additions to reserve for dividends to policyholders (mutual company)				(229,857)	(229,857)
Additions to reserve for redemption of foundation funds		50,000		(50,000)	—
Interest on foundation funds				(1,698)	(1,698)
Net surplus attributable to the parent company				301,969	301,969
Redemption of foundation funds	(50,000)				(50,000)
Reversal of land revaluation losses				(28,117)	(28,117)
Change in the parent's ownership interest due to transactions with noncontrolling interests				(2,580)	(2,580)
Net change, excluding foundation funds and others					
Net change	(50,000)	50,000	—	(10,284)	(10,284)
Ending balance	150,000	1,150,000	651	622,388	1,923,039

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

Year Ended March 31, 2017 (Million Yen)

	Accumulated other comprehensive income						Noncontrolling interests	Total net assets
	Net unrealized gains on available-for-sale securities	Deferred losses on derivatives under hedge accounting	Land revaluation losses	Foreign currency translation adjustments	Remeasur-ements of defined benefit plans	Total accumulated other comprehensive income		
Beginning balance	4,721,039	(123,921)	(86,202)	24,893	(29,637)	4,506,171	16,440	6,454,053
Cumulative effect of change in accounting policies							2	1,884
Beginning balance after reflecting accounting policy changes	4,721,039	(123,921)	(86,202)	24,893	(29,637)	4,506,171	16,442	6,455,938
Increase/decrease:								
Additions to reserve for dividends to policyholders (mutual company)								(229,857)
Additions to reserve for redemption of foundation funds								—
Interest on foundation funds								(1,698)
Net surplus attributable to the parent company								301,969
Redemption of foundation funds								(50,000)
Reversal of land revaluation losses								(28,117)
Change in the parent's ownership interest due to transactions with noncontrolling interests								(2,580)
Net change, excluding foundation funds and others	(132,947)	58,659	28,117	5,656	5,080	(35,433)	118,761	83,327
Net change	(132,947)	58,659	28,117	5,656	5,080	(35,433)	118,761	73,043
Ending balance	4,588,092	(65,262)	(58,084)	30,549	(24,556)	4,470,738	135,203	6,528,981

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

Year Ended March 31, 2018

(Million Yen)

	Foundation funds and others				
	Foundation funds	Reserve for redemption of foundation funds	Reserve for revaluation	Consolidated surplus	Total foundation funds and others
Beginning balance	150,000	1,150,000	651	622,388	1,923,039
Increase/decrease:					
Issuance of foundation funds	50,000				50,000
Additions to reserve for dividends to policyholders (mutual company)				(184,086)	(184,086)
Additions to reserve for redemption of foundation funds		50,000		(50,000)	—
Interest on foundation funds				(1,198)	(1,198)
Net surplus attributable to the parent company				243,927	243,927
Redemption of foundation funds	(50,000)				(50,000)
Reversal of land revaluation losses				2,905	2,905
Change in the parent’s ownership interest due to transactions with noncontrolling interests				(8,805)	(8,805)
Net change, excluding foundation funds and others					
Net change	—	50,000	—	2,742	52,742
Ending balance	150,000	1,200,000	651	625,131	1,975,782

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

Year Ended March 31, 2018

(Million Yen)

	Accumulated other comprehensive income						Noncontrolling interests	Total net assets
	Net unrealized gains on available-for-sale securities	Deferred losses on derivatives under hedge accounting	Land revaluation losses	Foreign currency translation adjustments	Remeasur-ements of defined benefit plans	Total accumulated other comprehensive income		
Beginning balance	4,588,092	(65,262)	(58,084)	30,549	(24,556)	4,470,738	135,203	6,528,981
Increase/decrease:								
Issuance of foundation funds								50,000
Additions to reserve for dividends to policyholders (mutual company)								(184,086)
Additions to reserve for redemption of foundation funds								—
Interest on foundation funds								(1,198)
Net surplus attributable to the parent company								243,927
Redemption of foundation funds								(50,000)
Reversal of land revaluation losses								2,905
Change in the parent’s ownership interest due to transactions with noncontrolling interests								(8,805)
Net change, excluding foundation funds and others	330,510	6,170	(2,905)	(1,842)	5,924	337,856	2,792	340,648
Net change	330,510	6,170	(2,905)	(1,842)	5,924	337,856	2,792	393,391
Ending balance	4,918,602	(59,092)	(60,989)	28,706	(18,632)	4,808,594	137,996	6,922,373

(8) Status of Nonperforming Assets According to Borrower's Classification (Consolidated)

(Million Yen, %)

	As of March 31, 2018	As of March 31, 2017
Bankrupt and quasi-bankrupt loans	10,209	10,077
Doubtful loans	18,706	18,967
Substandard loans	2,188	3,171
Subtotal	31,104	32,216
[Percent of total, %]	[0.26]	[0.27]
Normal loans	11,735,373	11,726,760
Total	11,766,477	11,758,976

Notes:
1. Bankrupt and quasi-bankrupt loans are nonperforming assets and similar loans that have fallen into bankruptcy due to 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 cannot be recovered or interest cannot be received according to the contract because of difficulties in the financial condition and business performance of the debtor who has not yet entered into bankruptcy.
3. Substandard loans include loans that are delinquent for over three months or restructured loans. Loans that are delinquent for over three months are loans with principal or interest being unpaid for over three months counting from the day after the due date based on the loan agreement (excluding 1. and 2. in the above notes). 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 the borrowers (excluding 1. and 2. in the above notes 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 above notes and where the debtor has no financial or business performance problems.

Supplemental information for borrower's 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 customer's 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 March 31, 2018 and 2017, were ¥251 million and ¥703 million, respectively.

(9) Status of Risk-Monitored Loans (Consolidated)

(Million Yen, %)

	As of March 31, 2018	As of March 31, 2017
Loans to bankrupt borrowers	1,511	1,771
Delinquent loans	27,397	27,267
Loans that are delinquent for over three months	—	—
Restructured loans	2,188	3,171
Total	31,097	32,210
[Percent of total loans, %]	[0.36]	[0.36]

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.
   The amounts directly deducted from loans to bankrupt borrowers and delinquent loans were ¥15 million and ¥235 million, respectively, as of March 31, 2018, and ¥442 million and ¥261 million, respectively, as of March 31, 2017
2. Loans to bankrupt borrowers are loans with principal or interest payments being overdue for a significant period of time and interest not being accrued, including the following: (a) loans to borrowers that are legally bankrupt through filings for proceedings under the Corporate Reorganization Act, Civil Rehabilitation Act, Bankruptcy Act, or Company Act; (b) loans to borrowers that have notes suspended from being traded; and (c) loans to borrowers that have filed for legal proceedings similar to the aforementioned proceedings based on overseas laws.
3. Delinquent loans are loans with interest not accrued and exclude loans to bankrupt borrowers and loans 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 counting from the day after the due date based on the loan agreement. Note that the account does not include 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 (excluding loans to bankrupt borrowers, delinquent loans, and loans that are delinquent for over three months from above).
6. Interest that is not accrued for loans of borrowers who are deemed to be bankrupt, quasi-bankrupt, or doubtful based on the results of asset self-assessment is not recorded as income.

(10) Consolidated Solvency Margin Ratio

(Million Yen)

	As of March 31, 2018	As of March 31, 2017
Solvency margin gross amount (A):	14,150,865	13,078,231
Foundation funds (*kikin*) and other reserve funds:	5,143,211	4,778,735
Foundation funds and others	1,852,172	1,838,692
Reserve for price fluctuations in investments in securities	1,345,987	1,135,765
Contingency reserve	1,680,761	1,544,254
Extraordinary contingency reserve	—	—
General allowance for doubtful accounts	2,114	2,624
Others	262,175	257,398
Net unrealized gains on available-for-sale securities (before tax) and deferred losses on derivatives under hedge accounting (before tax)× 90%	6,048,444	5,644,495
Net unrealized gains on real estate × 85%	272,410	217,473
Total amount of unrecognized actuarial gains/losses and unrecognized prior service cost	(25,843)	(34,071)
Excess of continued Zillmerized reserve	1,679,917	1,565,220
Qualifying subordinated debt	1,208,889	1,020,825
Excess of continued Zillmerized reserve and qualifying subordinated debt not included in margin calculations	—	—
Deduction clause	(249,989)	(190,878)
Others	73,824	76,431
Total amount of risk (B): $\sqrt{(\sqrt{R_1^2+R_5^2}+R_8+R_9)^2+(R_2+R_3+R_7)^2}+R_4+R_6$	2,923,568	2,800,770
Underwriting risk (R_1)	159,546	165,787
General underwriting risk (R_5)	—	—
Huge disaster risk (R_6)	—	—
Underwriting risk of third-sector insurance (R_8)	90,205	88,743
Underwriting risk related to small amount and short-term insurance providers (R_9)	—	—
Anticipated yield risk (R_2)	425,986	444,139
Minimum guarantee risk (R_7)	10,593	13,765
Investment risk (R_3)	2,414,061	2,271,347
Business management risk (R_4)	62,007	59,675
Solvency margin ratio $\dfrac{(A)}{(1/2)\times(B)} \times 100$	968.0%	933.9%

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.

(11) Segment Information

For the fiscal years ended March 31, 2018 and 2017, 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 report.