

2 Consolidated Financial Statements

JAPAN POST INSURANCE CO., LTD., AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

MARCH 31, 2018 AND 2017

	Millions of Yen		Millions of U.S. Dollars (Note 1)
	2018	2017	2018
ASSETS:			
Cash and deposits (Notes 3 and 25)	¥ 898,504	¥ 1,366,086	\$ 8,457
Call loans (Note 25)	265,000	150,000	2,494
Receivables under securities borrowing transactions (Note 25)	3,296,222	3,520,722	31,026
Monetary claims bought (Note 25)	176,069	27,561	1,657
Money held in trust (Notes 4 and 25)	2,814,873	2,127,042	26,495
Securities (Notes 4, 5 and 25)	60,130,909	63,485,289	565,991
Loans (Notes 6 and 25)	7,627,147	8,060,902	71,792
Tangible fixed assets (Note 7):			
Land	43,066	68,272	405
Buildings	32,888	44,664	310
Leased assets	2,194	2,047	21
Construction in progress	8,149	6,255	77
Other tangible fixed assets	14,617	16,022	138
Total tangible fixed assets	100,915	137,262	950
Intangible fixed assets:			
Software	163,246	185,498	1,537
Other intangible fixed assets	19	21	0
Total intangible fixed assets	163,265	185,520	1,537
Agency accounts receivable	33,715	50,888	317
Reinsurance receivables	3,227	2,293	30
Other assets (Note 6)	368,020	371,905	3,464
Deferred tax assets (Note 15)	954,085	851,942	8,980
Reserve for possible loan losses	(695)	(658)	(7)
Total assets	¥ 76,831,261	¥ 80,336,760	\$ 723,186
LIABILITIES:			
Policy reserves and others:			
Reserve for outstanding claims (Note 8)	¥ 548,196	¥ 577,376	\$ 5,160
Policy reserves (Notes 8 and 13)	67,777,297	70,175,234	637,964
Reserve for policyholder dividends (Note 10)	1,622,889	1,772,565	15,276
Total policy reserves and others	69,948,383	72,525,176	658,400
Reinsurance payables	6,033	4,774	57
Payables under securities lending transactions (Notes 5 and 25)	3,663,547	4,889,066	34,484
Other liabilities (Notes 6, 11 and 14)	229,514	213,565	2,160
Liability for retirement benefits (Note 12)	63,739	62,184	600
Reserve for management board benefit trust	172	76	2
Reserve for price fluctuations (Note 13)	916,743	788,712	8,629
Total liabilities	¥ 74,828,135	¥ 78,483,557	\$ 704,331
NET ASSETS (Note 16):			
Capital stock	¥ 500,000	¥ 500,000	\$ 4,706
Capital surplus	500,044	500,044	4,707
Retained earnings	595,846	527,358	5,608
Treasury stock	(466)	(521)	(4)
Total shareholders' equity	1,595,424	1,526,882	15,017
Net unrealized gains (losses) on available-for-sale securities	403,913	321,904	3,802
Net deferred gains (losses) on hedges	32	50	0
Accumulated adjustments for retirement benefits	3,755	4,366	35
Total accumulated other comprehensive income	407,701	326,321	3,838
Total net assets	2,003,126	1,853,203	18,855
Total liabilities and net assets	¥ 76,831,261	¥ 80,336,760	\$ 723,186

See accompanying notes to consolidated financial statements.

JAPAN POST INSURANCE CO., LTD., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED MARCH 31, 2018 AND 2017

	Millions of Yen		Millions of U.S. Dollars (Note 1)
	2018	2017	2018
ORDINARY INCOME:			
Insurance premiums and others (Note 19)	¥ 4,236,461	¥ 5,041,868	\$ 39,876
Investment income:			
Interest and dividend income	1,152,306	1,226,193	10,846
Gains on money held in trust	95,189	56,535	896
Gains on sales of securities	36,468	85,142	343
Gains on redemption of securities	53	33	0
Gains on foreign exchanges	284	–	3
Reversal of reserve for possible loan losses	–	11	–
Other investment income	226	21	2
Total investment income	1,284,529	1,367,937	12,091
Other ordinary income:			
Reversal of reserve for outstanding claims (Note 18)	29,180	57,790	275
Reversal of policy reserves (Note 18)	2,397,936	2,187,268	22,571
Other ordinary income	4,843	4,579	46
Total other ordinary income	2,431,960	2,249,639	22,891
Total ordinary income	7,952,951	8,659,444	74,858
ORDINARY EXPENSES:			
Insurance claims and others:			
Insurance claims (Note 20)	5,625,043	6,487,267	52,947
Annuity payments	394,681	371,216	3,715
Benefits	68,686	57,111	647
Surrender benefits	545,281	433,053	5,133
Other refunds	235,529	185,982	2,217
Reinsurance premiums	20,796	15,692	196
Total insurance claims and other	6,890,020	7,550,323	64,853
Provision for interest on policyholder dividends	7	25	0
Investment expenses:			
Interest expenses	1,450	2,218	14
Losses on sales of securities	65,733	124,734	619
Losses on redemption of securities	5,964	7,480	56
Losses on derivative financial instruments	30,301	20,599	285
Losses on foreign exchanges	–	3,362	–
Provision for reserve for possible loan losses	1	–	0
Other investment expenses	2,623	2,018	25
Total investment expenses	106,074	160,414	998
Operating expenses (Note 17)	533,461	560,423	5,021
Other ordinary expenses	114,154	108,502	1,074
Total ordinary expenses	7,643,717	8,379,689	71,948
Ordinary profit	309,233	279,755	2,911

	Millions of Yen		Millions of U.S. Dollars (Note 1)
	2018	2017	2018
EXTRAORDINARY GAINS (Note 21)	86,053	–	810
EXTRAORDINARY LOSSES (Note 22)	130,372	6,892	1,227
Provision for reserve for policyholder dividends (Note 23)	117,792	152,679	1,109
Income before income taxes	147,122	120,182	1,385
Income taxes (Note 15):			
Current	176,428	136,749	1,661
Deferred	(133,793)	(105,163)	(1,259)
Total income taxes	42,634	31,586	401
Net income	¥ 104,487	¥ 88,596	\$ 983
Net income attributable to non-controlling interests	–	–	–
Net income attributable to Japan Post Insurance	104,487	88,596	983

	Yen		U.S. Dollars
	¥	¥	\$
Per share of common stock (Note 30):			
Basic net income	174.21	147.71	1.64
Diluted net income	–	–	–

See accompanying notes to consolidated financial statements.

JAPAN POST INSURANCE CO., LTD., AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED MARCH 31, 2018 AND 2017

	Millions of Yen		Millions of U.S. Dollars (Note 1)
	2018	2017	2018
Net income	¥ 104,487	¥ 88,596	\$ 983
Other comprehensive income (Note 24):			
Net unrealized gains (losses) on available-for-sale securities	82,009	(83,507)	772
Net deferred gains (losses) on hedges	(17)	(90)	(0)
Adjustments for retirement benefits	(611)	(655)	(6)
Total other comprehensive income (loss)	81,380	(84,254)	766
Comprehensive income	¥ 185,868	¥ 4,342	\$ 1,750
Total comprehensive income attributable to:			
Japan Post Insurance	185,868	4,342	1,750
Non-controlling interests	-	-	-

See accompanying notes to consolidated financial statements.

JAPAN POST INSURANCE CO., LTD., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED MARCH 31, 2018 AND 2017

	Millions of Yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
BALANCE, APRIL 1, 2016	¥ 500,000	¥ 500,044	¥ 472,362	¥ –	¥ 1,472,406
Changes in the fiscal year:					
Cash dividends			(33,600)		(33,600)
Net income attributable to Japan Post Insurance			88,596		88,596
Purchases of treasury stock				(538)	(538)
Disposals of treasury stock				17	17
Net changes in items other than shareholders' equity in the fiscal year					
Net changes in the fiscal year	–	–	54,996	(521)	54,475
BALANCE, MARCH 31, 2017	500,000	500,044	527,358	(521)	1,526,882
Changes in the fiscal year:					
Cash dividends			(36,000)		(36,000)
Net income attributable to Japan Post Insurance			104,487		104,487
Purchases of treasury stock				–	–
Disposals of treasury stock				54	54
Net changes in items other than shareholders' equity in the fiscal year					
Net changes in the fiscal year	–	–	68,487	54	68,542
BALANCE, MARCH 31, 2018	¥ 500,000	¥ 500,044	¥ 595,846	¥ (466)	¥ 1,595,424

	Millions of Yen				
	Accumulated other comprehensive income				Total net assets
	Net unrealized gains (losses) on available-for-sale securities	Net deferred gains (losses) on hedges	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	
BALANCE, APRIL 1, 2016	¥ 405,412	¥ 140	¥ 5,022	¥ 410,575	¥ 1,882,982
Changes in the fiscal year:					
Cash dividends					(33,600)
Net income attributable to Japan Post Insurance					88,596
Purchases of treasury stock					(538)
Disposals of treasury stock					17
Net changes in items other than shareholders' equity in the fiscal year	(83,507)	(90)	(655)	(84,254)	(84,254)
Net changes in the fiscal year	(83,507)	(90)	(655)	(84,254)	(29,778)
BALANCE, MARCH 31, 2017	321,904	50	4,366	326,321	1,853,203
Changes in the fiscal year:					
Cash dividends					(36,000)
Net income attributable to Japan Post Insurance					104,487
Purchases of treasury stock					–
Disposals of treasury stock					54
Net changes in items other than shareholders' equity in the fiscal year	82,009	(17)	(611)	81,380	81,380
Net changes in the fiscal year	82,009	(17)	(611)	81,380	149,922
BALANCE, MARCH 31, 2018	¥ 403,913	¥ 32	¥ 3,755	¥ 407,701	¥ 2,003,126

Millions of U.S. Dollars (Note 1)

Shareholders' equity

	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
BALANCE, MARCH 31, 2017	\$ 4,706	\$ 4,707	\$ 4,964	\$ (5)	\$ 14,372
Changes in the fiscal year:					
Cash dividends			(339)		(339)
Net income attributable to Japan Post Insurance			983		983
Purchases of treasury stock				–	–
Disposals of treasury stock				1	1
Net changes in items other than shareholders' equity in the fiscal year					
Net changes in the fiscal year	–	–	645	1	645
BALANCE, MARCH 31, 2018	\$ 4,706	\$ 4,707	\$ 5,608	\$ (4)	\$ 15,017

Millions of U.S. Dollars (Note 1)

Accumulated other comprehensive income

	Net unrealized gains (losses) on available-for-sale securities	Net deferred gains (losses) on hedges	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Total net assets
BALANCE, MARCH 31, 2017	\$ 3,030	\$ 0	\$ 41	\$ 3,072	\$ 17,444
Changes in the fiscal year:					
Cash dividends					(339)
Net income attributable to Japan Post Insurance					983
Purchases of treasury stock					–
Disposals of treasury stock					1
Net changes in items other than shareholders' equity in the fiscal year	772	(0)	(6)	766	766
Net changes in the fiscal year	772	(0)	(6)	766	1,411
BALANCE, MARCH 31, 2018	\$ 3,802	\$ 0	\$ 35	\$ 3,838	\$ 18,855

See accompanying notes to consolidated financial statements.

JAPAN POST INSURANCE CO., LTD., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED MARCH 31, 2018 AND 2017

	Millions of Yen		Millions of U.S. Dollars (Note 1)
	2018	2017	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	¥ 147,122	¥ 120,182	\$ 1,385
Depreciation and amortization	61,321	46,819	577
Impairment loss	2,003	–	19
Net change in reserve for outstanding claims	(29,180)	(57,790)	(275)
Net change in policy reserves	(2,397,936)	(2,187,268)	(22,571)
Provision for interest on policyholder dividends	7	25	0
Provision for reserve for policyholder dividends	117,792	152,679	1,109
Net change in reserve for possible loan losses	37	(114)	0
Net change in liability for retirement benefits	1,554	1,381	15
Net change in reserve for management board benefit trust	96	76	1
Net change in reserve for price fluctuations	128,031	6,444	1,205
Interest and dividend income (accrual basis)	(1,152,306)	(1,226,193)	(10,846)
Net (gains) losses on securities	35,175	47,039	331
Interest expenses (accrual basis)	1,450	2,218	14
Net (gains) losses on foreign exchanges	(284)	3,362	(3)
Net (gains) losses on tangible fixed assets	(85,747)	183	(807)
Net change in agency accounts receivable	17,173	30,304	162
Net change in reinsurance receivables	(933)	(924)	(9)
Net change in other assets (excluding those related to investing activities and financing activities)	37,643	141,332	354
Net change in reinsurance payables	1,259	1,396	12
Net change in other liabilities (excluding those related to investing activities and financing activities)	4,810	(1,914)	45
Other, net	(63,709)	(30,292)	(600)
Subtotal	(3,174,619)	(2,951,050)	(29,882)
Interest and dividend received (cash basis)	1,178,908	1,315,932	11,097
Interest paid (cash basis)	(1,567)	(2,142)	(15)
Policyholder dividends paid	(267,178)	(316,351)	(2,515)
Income taxes paid	(134,029)	(137,326)	(1,262)
Net cash used in operating activities	¥ (2,398,486)	¥ (2,090,939)	\$ (22,576)

	Millions of Yen		Millions of U.S. Dollars (Note 1)
	2018	2017	2018
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of call loans	¥ (8,090,000)	¥ (26,495,000)	\$ (76,148)
Proceeds from redemption of call loans	7,975,000	26,705,000	75,066
Net change in receivables under securities borrowing transactions	224,499	(512,131)	2,113
Purchases of monetary claims bought	(429,999)	(1,616,999)	(4,047)
Proceeds from sale and redemption of monetary claims bought	281,242	2,018,804	2,647
Purchases of money held in trust	(495,300)	(215,000)	(4,662)
Proceeds from decrease in money held in trust	30,000	–	282
Purchases of securities	(5,116,144)	(8,424,473)	(48,156)
Proceeds from sale and redemption of securities	8,298,957	8,107,266	78,115
Payments for loans	(911,162)	(1,065,448)	(8,576)
Proceeds from collection of loans	1,344,889	1,982,969	12,659
Net change in payables under securities lending transactions	(1,225,519)	1,240,587	(11,535)
Other, net	(588)	(43,843)	(6)
Total of net cash provided by investment transactions	1,885,875	1,681,731	17,751
Total of net cash used in operating activities and investment transactions	(512,611)	(409,207)	(4,825)
Purchases of tangible fixed assets	(6,332)	(3,219)	(60)
Proceeds from sales of tangible fixed assets	115,849	–	1,090
Purchases of intangible fixed assets	(27,107)	(49,347)	(255)
Other, net	(759)	(152)	(7)
Net cash provided by investing activities	1,967,525	1,629,012	18,520
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of lease obligations	(636)	(519)	(6)
Purchases of treasury stock	–	(538)	–
Dividends paid	(35,984)	(33,564)	(339)
Net cash used in financing activities	(36,620)	(34,622)	(345)
Effect of exchange rate changes on cash and cash equivalents	–	–	–
Net change in cash and cash equivalents	(467,581)	(496,549)	(4,401)
Cash and cash equivalents at the beginning of the year	1,366,086	1,862,636	12,858
Cash and cash equivalents at the end of the year (Note 3)	¥ 898,504	¥ 1,366,086	\$ 8,457

See accompanying notes to consolidated financial statements.

JAPAN POST INSURANCE CO., LTD., AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2018 AND 2017

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements of JAPAN POST INSURANCE Co., Ltd. (the "Company"), have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations concerning preparation of consolidated financial statements, Ordinance for Enforcement of Insurance Business Act and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. Intercompany balances and transactions have been eliminated.

In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements to present them in a form that is more familiar to readers outside Japan.

All Japanese yen figures in the consolidated financial statements have been rounded down to the nearest million yen, except for per share information. Accordingly, the total of each account may not be equal to the combined total of individual items.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and mainly operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.24 to US\$1, the approximate rate of exchange as of March 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation and Equity Method

1) Scope of consolidation

Under Japanese GAAP, a company is required to consolidate any subsidiary when the company substantially controls the operations of the subsidiary, even if it is not majority owned. Control is defined as the power to govern the decision-making body of an enterprise. The consolidated financial statements for all periods presented include the accounts of the Company and a subsidiary, JAPAN POST INSURANCE SYSTEM SOLUTIONS Co., Ltd. (collectively, the "Group"). There are no non-consolidated subsidiaries.

2) Application of the equity method

There are no non-consolidated subsidiaries and affiliates accounted for under the equity method. In addition, there are no non-consolidated subsidiaries that are not accounted for under the equity method.

The Company has 2 (0 in 2017) affiliates including Japan Post Investment Corporation that are not accounted for by the equity method. These companies are excluded from the scope of the equity method

because their net income (loss), retained earnings, and others are immaterial, and the exclusion of these companies from the scope of companies accounted for by the equity method does not hinder a reasonable understanding of the Group's financial position and results of operations.

3) Fiscal year-end date of the consolidated subsidiary

The fiscal year-end date of the consolidated subsidiary is the same as the consolidated balance sheet date.

(2) Securities

Securities including cash and deposits, as well as monetary claims bought, which are equivalent to securities, and securities invested in money held in trust, are recorded based on the following:

1) Held-to-maturity bonds

Held-to-maturity bonds are carried at amortized cost, and the cost of these securities sold is calculated using the moving-average method. Amortization is calculated using the straight-line method.

2) Policy-reserve-matching bonds

In accordance with "Temporary Treatment of Accounting and Auditing Concerning Policy-Reserve-Matching Bonds in the Insurance Industry" (Japanese Institute of Certified Public Accountants ("JICPA") Industry Audit Committee Report No. 21), policy-reserve-matching bonds are carried at amortized cost and the cost of these securities sold is calculated using the moving-average method. Amortization is calculated using the straight-line method.

3) Investments in non-consolidated subsidiaries and affiliates that are not accounted for by the equity method

Investments in non-consolidated subsidiaries and affiliates that are not accounted for by the equity method are carried at cost and the cost of these securities sold is calculated using the moving-average method.

4) Available-for-sale securities

A) Available-for-sale securities at fair value

Available-for-sale securities at fair value are carried at their fiscal year-end market price, of which the average market prices during the final month of the fiscal year are used to value stocks. The cost of securities sold is calculated using the moving-average method.

B) Available-for-sale securities for which the fair values are deemed extremely difficult to determine

Government and corporate bonds (including foreign bonds) without a market price for which the premium or discount represents the interest adjustments are carried at the amortized cost (the straight-line method) using the moving-average method. Other securities are carried at cost using the moving-average method.

Net unrealized gains (losses) on available-for-sale securities, net of income taxes, are included in net assets.

(3) Derivative Transactions

All derivative transactions are valued at fair value.

(4) Hedge Accounting

1) Methods for hedge accounting

The Group applies fair value hedge accounting for foreign currency exchange contracts to hedge foreign exchange fluctuation risk for a portion of its foreign-currency-denominated bonds, as well as the exceptional treatment and deferred hedge accounting for interest rate swaps to hedge variability in cash flows on a portion of loans in accordance with the "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 10). The exceptional method is used for interest rate swap contracts that are used as hedges and meet certain hedging criteria. Under this method, the net amount to be paid or received under the contract is added to or deducted from the interest on the loans for which the swap contract was executed.

2) Hedging instruments and hedged items

- (i) Hedging instrument: Foreign currency exchange contracts
Hedged item: Foreign-currency-denominated bonds
- (ii) Hedging instrument: Interest rate swaps
Hedged item: Loans

3) Hedging policies

Foreign currency exchange contracts are used to hedge fluctuations in the foreign currency exchange rates of foreign-currency-denominated bonds within a predetermined range. Interest rate swap contracts are used to hedge fluctuations in interest rates of loans within a certain range.

4) Assessment of hedge effectiveness

Hedge effectiveness is assessed by comparing the aggregate changes in quotations or cash flows of hedged items and hedging instruments. The evaluation of hedge effectiveness is omitted in cases of foreign exchange contracts where there is a high correlation between hedged items and hedging instruments, or interest rate swap contracts that applied the exceptional treatment for interest rate swaps.

(5) Depreciation

1) Tangible fixed assets (excluding leased assets)

Depreciation of tangible fixed assets is calculated using the straight-line method based on the following useful lives:

Buildings	:	2-60 years
Other tangible fixed assets:		2-20 years

2) Intangible fixed assets (excluding leased assets)

The capitalized development costs of software intended for internal use are amortized over the expected useful life of mainly 5 years using the straight-line method.

3) Leased assets

The Group mainly leases vehicles under finance lease arrangements that do not transfer the ownership of leased property to the lessee.

Finance lease transactions that do not transfer ownership are depreciated to a residual value of zero using the straight-line method over the lease term.

(6) Reserve for Possible Loan Losses

Reserve for possible loan losses is provided pursuant to the Company's standards for self-assessment of asset quality, and general allowance is provided using a rate based on historical collectability experience. In addition, specific allowances, which are determined based on individual collectability of accounts, are recorded.

All loans and claims are assessed initially by the relevant departments based on internal rules for self-assessment of asset quality. The asset evaluation department, which is independent from the relevant departments, reviews these self-assessments. The above reserves and allowances are recorded based on the results of these assessments.

For loans and guaranteed loans that were extended to borrowers that have filed for bankruptcy, including legal bankruptcy or civil rehabilitation, or that are considered substantially bankrupt, an allowance is provided for in the amount of loans, net of collateral value or the amounts expected to be recoverable under guarantees. The reserve for possible loan losses also includes amounts set aside for other assets subject to valuation allowance. The amounts written off for loans and other assets during the years ended March 31, 2018 and 2017, were ¥65 million (\$1 million) and ¥214 million, respectively.

(7) Policy Reserves

Policy reserves are reserves provided in accordance with Article 116 of the Insurance Business Act. Insurance premium reserves are recorded based on the following methodology:

- 1) Reserves for contracts subject to the standard policy reserves are calculated in accordance with the method prescribed by the Commissioner for 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.

Pursuant to Article 69, Paragraph 5, of the Ordinance for Enforcement of the Insurance Business Act, additional policy reserves are accumulated, in preparation for future performance of obligations, over a 10-year period from the fiscal year ended March 31, 2011, for a portion of reinsurance contracts from the Management Organization for Postal Savings and Postal Life Insurance (hereinafter the "Management Organization"), which is an independent administrative institution. As a result, the amounts of provision for the additional policy reserves for the years ended March 31, 2018 and 2017, were ¥180,903 million (\$1,703 million) and ¥180,359 million, respectively.

In addition, pursuant to Article 69, Paragraph 5 of the Ordinance for Enforcement of the Insurance Business Act, additional policy reserves are accumulated at the year ended March 31, 2018, in preparation for future performance of obligations for lump-sum payment annuities. As a result, the amount of provision for the additional policy reserves for the year ended March 31, 2018, was ¥17,025 million (\$160 million), and the ordinary profit and income before income taxes decreased by the same amount respectively, compared with the case where the accumulation is not made.

The Management Organization was established in October 2007 to support the privatization of Japan Post by succeeding from Japan Post postal savings such as fixed amount or term postal savings deposited by and Postal Life Insurance Contracts concluded by September 2007 to ensure that such postal savings and Postal Life Insurance are managed appropriately and to fulfill the relevant liabilities without fail.

The Company has entered into reinsurance contracts comprising outsourcing agreements for the administrative operation of the Postal Life Insurance and reinsurance contracts for insurance liabilities based on former Postal Life Insurance Contracts, for Postal Life Insurance Contracts concluded by September 2007 that have been assumed by the Management Organization.

In addition, based on the master plan by the Postal Service Privatization Act, with respect to the amount equivalent to that lent to policyholders of the Postal Life Insurance Contracts and to Japanese local governments and others succeeded from Japan Post Corporation, the Company has lent loans to the Management Organization under the same loan conditions as those of the contracts between Japan Post and its counterparties.

(8) Retirement Benefits

In calculating the projected benefit obligation, the benefit formula basis is used to attribute the expected benefit to the respective service period.

The actuarial difference is amortized using the straight-line method over a period of 14 years, which is less than the estimated average remaining service period for employees from the fiscal year following the respective fiscal year in which the difference is incurred.

Prior service cost is amortized using the straight-line method over a period of 14 years, which is less than the estimated average remaining service lives for employees in the fiscal year of incurrence.

(9) Reserve for Management Board Benefit Trust

To provide for the granting of shares and others of the Company to executive officers of the Company in accordance with the stock benefit rules, reserve for management board benefit trust is provided in the projected amount of stock benefit obligations.

(10) Reserve for Price Fluctuations

Reserve for price fluctuations in security investments is calculated based on Article 115 of the Insurance Business Act.

(11) Translation of Significant Assets and Liabilities Denominated in Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the fiscal year-end.

(12) Consolidated Statement of Cash Flows

Cash and cash equivalents consists of "Cash and deposits" in the consolidated balance sheets.

(13) Consumption Taxes

All figures are net of consumption taxes.

(14) Additional Information

1) Adoption of the implementation guidance on the recoverability of deferred tax assets

Effective from the year ended March 31, 2017, the Company has adopted the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

2) Transactions for granting shares and others of the Company to executive officers of the Company through a trust

The Company has introduced a trust-based performance-linked stock compensation system for executive officers of the Company from the year ended March 31, 2017.

The Company has adopted the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, etc., through Trusts" (Practical Issues Task Force ("PITF") No. 30, March 26, 2015) with respect to the accounting treatment of the aforementioned trust agreement.

A) Outline of the transaction

In accordance with the predetermined stock benefit rules, the Company shall grant its executive officers a certain number of points depending on the performance for the fiscal year, and later shall have the Board Benefit Trust (BBT) grant executive officers who meet the requirement for eligibility at the time of their retirement a number of shares of the Company equivalent to the number of such points accumulated up to their retirement, as well as the amount of money equivalent to a certain portion of such number of shares, as calculated by the fair value at the time of their retirement.

Shares to be granted to executive officers, including the portion of shares to be granted in the future, are managed separately as trust assets through purchases by the trust bank from the stock market using the fund held in trust in advance by the Company.

B) Shares of the Company held in trust

Shares of the Company held in trust are recorded as treasury stock under the category of net assets at book value in the trust (excluding accompanying expenses). The book value of such treasury stock at the end of the year ended March 31, 2018 and 2017, was ¥466 million (\$4 million) and ¥521 million, respectively, while the number of such treasury stock was 198 thousand shares and 221 thousand shares, respectively.

3. RECONCILIATIONS OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2018 and 2017, and cash and deposits in the consolidated balance sheets as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Cash and deposits	¥ 898,504	¥ 1,366,086	\$ 8,457
Cash and cash equivalents at the end of the year	¥ 898,504	¥ 1,366,086	\$ 8,457

4. SECURITIES

(1) Securities

Securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Japanese government bonds	¥ 39,589,896	¥ 42,732,364	\$ 372,646
Japanese local government bonds	8,513,583	9,226,804	80,135
Japanese corporate bonds	5,472,945	5,698,945	51,515
Stocks	195,395	58,321	1,839
Foreign bonds	4,347,564	4,351,731	40,922
Other	2,011,524	1,417,122	18,934
Total	¥ 60,130,909	¥ 63,485,289	\$ 565,991

Investments in affiliates in the amount of ¥495 million (\$5 million) were included in "Stocks" as of March 31, 2018. There were no investments in affiliates as of March 31, 2017.

Securities lent under lending agreements in the amount of ¥4,477,886 million (\$42,149 million) and ¥4,341,253 million were included in "Securities" in the consolidated balance sheets as of March 31, 2018 and 2017, respectively.

The Group has the right to sell or pledge securities received as collateral for transactions such as borrowing agreements and exchange settlements. The fair value of such securities held in hand was ¥3,521,489 million (\$33,147 million) and ¥3,532,340 million as of March 31, 2018 and 2017, respectively.

(2) Policy-Reserve-Matching Bonds

The consolidated balance sheet amount and fair value of policy-reserve-matching bonds as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Consolidated balance sheet amount	¥ 10,676,330	¥ 12,517,334	\$ 100,493
Fair value	11,769,615	13,697,410	110,783

The outline of the risk management policy of policy-reserve-matching bonds was as follows:

The Company categorizes its insurance products into the following sub-groups based on the attributes of each product to manage risks arising from fluctuations in the interest rates of assets and liabilities, and adopts a management policy whereby the duration gap between policy-reserve-matching bonds and policy reserves by sub-groups are reconciled within a certain range and the duration gap is periodically checked.

- Postal Life Insurance Contracts (insurance policies with a remaining period within 20 years)
- Japan Post Insurance life insurance contracts (general) (all insurance policies)
- Japan Post Insurance life insurance contracts (lump-sum payment annuity) (excluding some insurance types)

The sub-group covering Japan Post Insurance life insurance contracts (general) was formerly a sub-group consisting of insurance policies with a remaining period within 20 years; however, effective from the year ended March 31, 2017, the said sub-group has been changed to a sub-group consisting of all general insurance policies due to a recent increase in policy reserves for contracts with a remaining period of more than 20 years. This change has no effect on profit or loss.

(3) Fair Value Information on Securities and Policy-Reserve-Matching Bonds
1) Held-to-maturity bonds

(Millions of Yen)

March 31	2018				
	Consolidated balance sheet amount	Fair value	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
Bonds	¥ 38,392,055	¥ 44,508,572	¥ 6,116,516	¥ 6,158,096	¥ (41,579)
Japanese government bonds	29,289,869	34,915,893	5,626,024	5,661,940	(35,915)
Japanese local government bonds	6,847,288	7,199,958	352,669	355,924	(3,254)
Japanese corporate bonds	2,254,897	2,392,719	137,822	140,231	(2,409)
Foreign securities	98,000	100,160	2,160	2,160	–
Foreign bonds	98,000	100,160	2,160	2,160	–
Total	¥ 38,490,055	¥ 44,608,732	¥ 6,118,677	¥ 6,160,256	¥ (41,579)

(Millions of Yen)

March 31	2017				
	Consolidated balance sheet amount	Fair value	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
Bonds	¥ 40,343,881	¥ 46,417,557	¥ 6,073,676	¥ 6,146,805	¥ (73,129)
Japanese government bonds	30,440,345	35,952,917	5,512,572	5,575,863	(63,290)
Japanese local government bonds	7,464,729	7,879,829	415,100	420,514	(5,414)
Japanese corporate bonds	2,438,806	2,584,809	146,003	150,427	(4,424)
Foreign securities	98,000	101,136	3,136	3,136	–
Foreign bonds	98,000	101,136	3,136	3,136	–
Total	¥ 40,441,881	¥ 46,518,693	¥ 6,076,812	¥ 6,149,942	¥ (73,129)

(Millions of U.S. Dollars)

March 31	2018				
	Consolidated balance sheet amount	Fair value	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
Bonds	\$ 361,371	\$ 418,944	\$ 57,573	\$ 57,964	\$ (391)
Japanese government bonds	275,695	328,651	52,956	53,294	(338)
Japanese local government bonds	64,451	67,771	3,320	3,350	(31)
Japanese corporate bonds	21,225	22,522	1,297	1,320	(23)
Foreign securities	922	943	20	20	–
Foreign bonds	922	943	20	20	–
Total	\$ 362,293	\$ 419,886	\$ 57,593	\$ 57,984	\$ (391)

2) Policy-reserve-matching bonds

(Millions of Yen)

		2018				
March 31		Consolidated balance sheet amount	Fair value	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
Bonds		¥ 10,676,330	¥ 11,769,615	¥ 1,093,285	¥ 1,103,904	¥ (10,618)
Japanese government bonds		9,884,662	10,942,829	1,058,167	1,068,439	(10,271)
Japanese local government bonds		561,453	587,254	25,801	26,148	(346)
Japanese corporate bonds		230,214	239,531	9,316	9,316	(0)
Total		¥ 10,676,330	¥ 11,769,615	¥ 1,093,285	¥ 1,103,904	¥ (10,618)

(Millions of Yen)

		2017				
March 31		Consolidated balance sheet amount	Fair value	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
Bonds		¥ 12,517,334	¥ 13,697,410	¥ 1,180,075	¥ 1,204,445	¥ (24,370)
Japanese government bonds		11,869,126	13,012,106	1,142,980	1,166,866	(23,886)
Japanese local government bonds		515,707	543,841	28,134	28,619	(484)
Japanese corporate bonds		132,501	141,461	8,960	8,960	–
Total		¥ 12,517,334	¥ 13,697,410	¥ 1,180,075	¥ 1,204,445	¥ (24,370)

(Millions of U.S. Dollars)

		2018				
March 31		Consolidated balance sheet amount	Fair value	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
Bonds		\$ 100,493	\$ 110,783	\$ 10,291	\$ 10,391	\$ (100)
Japanese government bonds		93,041	103,001	9,960	10,057	(97)
Japanese local government bonds		5,285	5,528	243	246	(3)
Japanese corporate bonds		2,167	2,255	88	88	(0)
Total		\$ 100,493	\$ 110,783	\$ 10,291	\$ 10,391	\$ (100)

3) Available-for-sale securities

(Millions of Yen)

	2018				
	Consolidated balance sheet amount	Cost	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
March 31					
Bonds	¥ 4,508,040	¥ 4,474,163	¥ 33,877	¥ 55,126	¥ (21,248)
Japanese government bonds	415,365	424,274	(8,909)	–	(8,909)
Japanese local government bonds	1,104,842	1,107,388	(2,546)	495	(3,041)
Japanese corporate bonds	2,987,833	2,942,499	45,333	54,630	(9,297)
Stocks	190,659	180,384	10,274	13,802	(3,527)
Foreign securities	4,249,564	4,238,918	10,645	124,782	(114,136)
Foreign bonds	4,137,485	4,129,047	8,437	122,573	(114,136)
Foreign other securities	112,079	109,870	2,208	2,208	–
Other ¹	2,607,593	2,620,442	(12,849)	9,319	(22,169)
Total	¥ 11,555,857	¥ 11,513,909	¥ 41,948	¥ 203,030	¥ (161,081)

(Millions of Yen)

	2017				
	Consolidated balance sheet amount	Cost	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
March 31					
Bonds	¥ 4,796,899	¥ 4,758,489	¥ 38,409	¥ 71,613	¥ (33,204)
Japanese government bonds	422,893	444,229	(21,335)	181	(21,517)
Japanese local government bonds	1,246,368	1,250,422	(4,054)	1,331	(5,386)
Japanese corporate bonds	3,127,637	3,063,837	63,800	70,100	(6,299)
Stocks	54,081	50,206	3,874	4,205	(331)
Foreign securities	4,253,731	4,224,600	29,130	175,028	(145,898)
Foreign bonds	4,248,732	4,219,602	29,130	175,028	(145,898)
Foreign other securities	4,998	4,998	–	–	–
Other ²	1,794,684	1,803,149	(8,465)	6,498	(14,964)
Total	¥ 10,899,395	¥ 10,836,447	¥ 62,948	¥ 257,346	¥ (194,398)

(Millions of U.S. Dollars)

	2018				
	Consolidated balance sheet amount	Cost	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
March 31					
Bonds	\$ 42,433	\$ 42,114	\$ 319	\$ 519	\$ (200)
Japanese government bonds	3,910	3,994	(84)	–	(84)
Japanese local government bonds	10,399	10,423	(24)	5	(29)
Japanese corporate bonds	28,123	27,697	427	514	(88)
Stocks	1,795	1,698	97	130	(33)
Foreign securities	40,000	39,899	100	1,175	(1,074)
Foreign bonds	38,945	38,865	79	1,154	(1,074)
Foreign other securities	1,055	1,034	21	21	–
Other ¹	24,544	24,665	(121)	88	(209)
Total	\$ 108,771	\$ 108,376	\$ 395	\$ 1,911	\$ (1,516)

Notes:

- "Other" includes negotiable certificates of deposit (cost: ¥420,000 million (\$3,953 million), consolidated balance sheet amount: ¥420,000 million (\$3,953 million)) presented as "Cash and deposits" in the consolidated balance sheets, and monetary claims bought (cost: ¥173,907 million (\$1,637 million), consolidated balance sheet amount: ¥176,069 million (\$1,657 million)) as of March 31, 2018.
- "Other" includes negotiable certificates of deposit (cost: ¥350,000 million, consolidated balance sheet amount: ¥350,000 million) presented as "Cash and deposits" in the consolidated balance sheets, and monetary claims bought (cost: ¥25,149 million, consolidated balance sheet amount: ¥27,561 million) as of March 31, 2017.
- Bonds among available-for-sale securities denominated in foreign currencies, in the event of significant yen appreciation causing a significant drop in their yen values, are subject to recognition of losses on valuation. Although the existence of "significant yen appreciation" was determined based on the exchange rate at the end of each period so far, the Company has decided to make such determination based on the average exchange rate during the final month of the period from the year ended March 31, 2017. As investments in bonds denominated in foreign currencies are on the rise, this change intends to present business results more appropriately reflecting the Company's investment policy to ensure stable profits over the medium to long term period.
There was no recognition of losses on valuation for the year ended March 31, 2017, and no impact due to such change.

4) Available-for-sale securities sold for the years ended March 31, 2018 and 2017

(Millions of Yen)

	2018		
	Sales	Gains	Losses
March 31			
Bonds	¥ 16,223	¥ 1	¥ (334)
Japanese local government bonds	—	—	—
Japanese corporate bonds	16,223	1	(334)
Stocks	37,437	4,692	(1,152)
Foreign securities	1,385,474	31,774	(64,156)
Foreign bonds	1,385,474	31,774	(64,156)
Other securities	24,909	—	(90)
Total	¥ 1,464,045	¥ 36,468	¥ (65,733)

(Millions of Yen)

	2017		
	Sales	Gains	Losses
March 31			
Bonds	¥ 202,108	¥ 1,384	¥ (147)
Japanese local government bonds	55,716	126	(138)
Japanese corporate bonds	146,392	1,258	(8)
Stocks	4,703	352	(53)
Foreign securities	2,488,583	83,406	(124,533)
Foreign bonds	2,488,583	83,406	(124,533)
Other securities	—	—	—
Total	¥ 2,695,395	¥ 85,142	¥ (124,734)

(Millions of U.S. Dollars)

	2018		
	Sales	Gains	Losses
March 31			
Bonds	\$ 153	\$ 0	\$ (3)
Japanese local government bonds	—	—	—
Japanese corporate bonds	153	0	(3)
Stocks	352	44	(11)
Foreign securities	13,041	299	(604)
Foreign bonds	13,041	299	(604)
Other securities	234	—	(1)
Total	\$ 13,781	\$ 343	\$ (619)

(4) Money Held in Trust

Money Held in Trust Classified as Other than Trading, Held-to-Maturity and Policy-Reserve-Matching

(Millions of Yen)

	2018				
	Consolidated balance sheet amount	Cost	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
March 31					
Specified money held in trust	¥ 2,755,347	¥ 2,238,862	¥ 516,484	¥ 555,532	¥ (39,047)

(Millions of Yen)

	2017				
	Consolidated balance sheet amount	Cost	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
March 31					
Specified money held in trust	¥ 2,127,042	¥ 1,746,326	¥ 380,716	¥ 400,483	¥ (19,767)

(Millions of U.S. Dollars)

	2018				
	Consolidated balance sheet amount	Cost	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
March 31					
Specified money held in trust	\$ 25,935	\$ 21,074	\$ 4,861	\$ 5,229	\$ (368)

Note:

For the year ended March 31, 2018

The Group recognized losses on valuation of ¥561 million (\$5 million).

With respect to stocks in money held in trust managed as trust assets, losses on valuation are recognized for those with a significant decline in fair values below their cost and remote likelihood of fair values recovering to the cost.

A significant decline in fair values is determined based on the following criteria.

- Stocks with fair values declining by 50% or more of their cost
- Stocks with fair values declining by 30% or more, but less than 50% of their cost, and with market prices remaining lower than a certain level

For the year ended March 31, 2017

The Group recognized losses on valuation of ¥1,066 million.

With respect to stocks in money held in trust managed as trust assets, losses on valuation are recognized for those with a significant decline in fair values below their cost and remote likelihood of fair values recovering to the cost.

A significant decline in fair values is determined based on the following criteria.

- Stocks with fair values declining by 50% or more of their cost
- Stocks with fair values declining by 30% or more, but less than 50% of their cost, and with market prices remaining lower than a certain level

In the past, the Company recognized losses on valuation of the stocks with fair values other than trading securities, if the fair values decline by 30% or more of the cost, based on the judgment that their fair values "declined significantly." Lately, however, given an increase in the stock investment balance, the Company has decided to change the method of recognizing losses on valuation from the year ended March 31, 2017, to present business results more appropriately reflecting the Company's investment policy of long-term investments. In the new method, in principle, losses on valuation will be recognized for stocks with fair values declining by 50% or more of their cost. For stocks with fair values declining by 30% or more, but less than 50%, losses on valuation will be recognized after determining whether the decline of the fair value falls under a "significant decline" in light of trends of market prices, when there is remote likelihood of fair values recovering to the cost.

As a result of adopting the aforementioned method, losses on valuation decreased by ¥94 million compared with the figures based on the previous method.

5. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Assets pledged as collateral:			
Securities	¥ 3,117,013	¥ 4,184,239	\$ 29,339
Liabilities corresponding to assets pledged as collateral:			
Payables under securities lending transactions	3,663,547	4,889,066	34,484

All of the above securities were pledged as collateral for securities lending transactions with cash collateral.

In addition to the above, the following was pledged as collateral for the transactions such as transactions under securities lending secured by securities and exchange settlements.

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Securities	¥ 209,920	¥ 15,489	\$ 1,976

6. LOANS

There were no bankrupt loans, non-interest accrual loans, past due loans for three months or more or restructured loans as of March 31, 2018 and 2017. Definitions for each of the respective loans are as follows:

Bankrupt loans refer to non-accrual loans, excluding the balances already written off, which meet the conditions prescribed in Article 96, Paragraph 1, Item 3-(a) to (e) and Item 4, of the Order for Enforcement of the Corporation Tax Act (Ordinance No. 97 in 1965). The interest accruals of such loans are suspended because the principal or interest on such loans is unlikely to be collected due to delinquency in payments for them for a considerable period of time or other reasons.

Non-interest accrual loans are those loans for which interest payments have been suspended to assist and support the borrowers in the restructuring of their business.

Past due loans for three months or more are loans for which principal or interest payments are delinquent for three months or more under the term of the loans from the day following the contractual due date, excluding those classified as bankrupt loans and non-accrual loans.

Restructured loans are loans for which certain concessions favorable to borrowers, such as interest reduction or exemption, postponement of principal or interest payments, debt waiver or other arrangements, have been made to assist and support the borrowers in the restructuring of their business. This category excludes loans classified as bankrupt loans, non-interest accrual loans and past due loans for three months or more.

The amounts of unused commitments as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Amount of unused commitments	¥ 3,000	¥ –	\$ 28

With respect to loans (loans to the Management Organization) maturing at the end of the year ended March 31, 2018, the due dates for these loans were set on the next business day following the date of maturity based on internal rules since the end of the year ended March 31, 2018 fell on a bank holiday. Of the loans to the Management Organization, those repaid in advance are recorded in "Other liabilities (suspense receipt)" as the due date had not arrived. Loans (loans to the Management Organization) maturing at the fiscal year-end, relevant accrued interests recorded in "Other assets (accrued income)," and advances repaid of such loans recorded in "Other liabilities (suspense receipt)" as of March 31, 2018 were ¥413,259 million (\$3,890 million), ¥64,718 million (\$609 million), and ¥11,913 million (\$112 million), respectively. There were no such account balances as of March 31, 2017.

7. TANGIBLE FIXED ASSETS

Accumulated depreciation as of March 31, 2018 and 2017, was as follows:

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Accumulated depreciation	¥ 32,715	¥ 75,722	\$ 308

8. REINSURANCE

The reserve for outstanding claims for reinsured part defined in Article 71, Paragraph 1, of the Ordinance for Enforcement of the Insurance Business Act, which is referred to in Article 73, Paragraph 3, of the Ordinance (hereinafter the "reserve for outstanding claims–ceded"), as of March 31, 2018 and 2017, was as follows:

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Reserve for outstanding claims–ceded	¥ 515	¥ 399	\$ 5

The policy reserves for reinsured part defined in Article 71, Paragraph 1, of the said Ordinance (hereinafter "policy reserves–ceded") as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Policy reserves–ceded	¥ 946	¥ 768	\$ 9

9. OBLIGATIONS TO THE LIFE INSURANCE POLICYHOLDERS PROTECTION CORPORATION OF JAPAN

The Company estimated future contributions to Life Insurance Policyholders Protection Corporation in the amounts of ¥31,569 million (\$297 million) and ¥28,868 million, as of March 31, 2018 and 2017, respectively, pursuant to Article 259 of the Insurance Business Act. These obligations are recognized as operating expenses when they are made.

10. RESERVE FOR POLICYHOLDER DIVIDENDS

Changes in reserve for policyholder dividends for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
Years ended March 31			
Balance at the beginning of the year	¥ 1,772,565	¥ 1,936,494	\$ 16,685
Policyholder dividends paid	(267,178)	(316,351)	(2,515)
Interest accrual	7	25	0
Reduction due to the acquisition of additional annuity	(297)	(283)	(3)
Provision for reserve for policyholder dividends	117,792	152,679	1,109
Balance at the end of the year	¥ 1,622,889	¥ 1,772,565	\$ 15,276

11. LEASE OBLIGATIONS AND OTHER INTEREST-BEARING DEBT

Lease obligations and other interest-bearing debt as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Millions of U.S. Dollars	Average interest rate	Due
	2018	2017	2018	2018	
March 31					
Lease obligations	¥ 2,364	¥ 2,202	\$ 22	–	March 2025
Other interest-bearing debt:					
Payables under securities lending transactions	3,663,547	4,889,066	34,484	0.03%	–
Total	¥ 3,665,912	¥ 4,891,269	\$ 34,506	–	–

Notes:

1. Lease obligations are included in "Other liabilities" in the consolidated balance sheets.
2. The average interest rate of lease obligations is not presented above because interest is included in the total amount of lease payments.
3. The interest rates of payables under securities lending transactions are calculated using the weighted-average method based on the balance at the fiscal year-end.
4. Payables under securities lending transactions are scheduled to be settled within one year.

The repayment schedule on lease obligations as of March 31, 2018, was as follows:

	Millions of Yen	Millions of U.S. Dollars
	2018	2018
March 31		
Within 1 year	¥ 614	\$ 6
Due after 1 year through 2 years	549	5
Due after 2 years through 3 years	464	4
Due after 3 years through 4 years	333	3
Due after 4 years through 5 years	223	2
Due after 5 years	179	2
Total	¥ 2,364	\$ 22

12. RETIREMENT BENEFITS

(1) Outline of Retirement Benefits

The Group has adopted lump-sum severance indemnity plans as unfunded defined benefit plans.

In addition, starting from October 1, 2015, the Company has joined the retirement pension plan based on the Act for Partial Amendment of the Act on National Public Officers' Retirement Allowance, etc., for the Purpose of Review over the Levels of the Retirement Benefits for National Public Officers (Act No. 96 of 2012) and introduced a new pension system to replace the discontinued occupational portion (third-tier portion) of the mutual pension, and the pension contribution amount required for the Company for the years ended March 31, 2018 and 2017, was ¥360 million (\$3 million) and ¥345 million, respectively.

(2) Defined Benefit Plans

1) Changes in retirement benefit obligations

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
Years ended March 31			
Balance at the beginning of the year	¥ 62,184	¥ 60,803	\$ 585
Service cost	4,075	3,993	38
Interest cost	431	421	4
Actuarial differences	298	281	3
Benefits paid	(3,292)	(3,342)	(31)
Other	42	27	0
Balance at the end of the year	¥ 63,739	¥ 62,184	\$ 600

2) Balance of retirement benefit obligations and reconciliations of liability for retirement benefits recorded on the consolidated balance sheets

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Unfunded retirement benefit obligations	¥ 63,739	¥ 62,184	\$ 600
Liability for retirement benefits recorded on the consolidated balance sheets	¥ 63,739	¥ 62,184	\$ 600

3) Retirement benefit costs

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
Years ended March 31			
Service cost	¥ 4,075	¥ 3,993	\$ 38
Interest cost	431	421	4
Amortization of actuarial differences	(239)	(259)	(2)
Amortization of prior service cost	(369)	(369)	(3)
Other	175	166	2
Retirement benefit expenses of defined benefit plans	¥ 4,072	¥ 3,952	\$ 38

4) Adjustments for retirement benefits (before tax effect)

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
Years ended March 31			
Prior service cost	¥ (308)	¥ (369)	\$ (3)
Actuarial differences	(537)	(541)	(5)
Total	¥ (846)	¥ (911)	\$ (8)

5) Accumulated adjustments for retirement benefits (before tax effect)

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Unrecognized prior service cost	¥ 4,095	¥ 4,404	\$ 39
Unrecognized actuarial differences	1,122	1,660	11
Total	¥ 5,218	¥ 6,064	\$ 49

6) Actuarial assumptions

The principal actuarial assumptions used for the years ended March 31, 2018 and 2017, were as follows:

Years ended March 31	2018	2017
Discount rate	0.3% – 0.7%	0.3% – 0.7%

13. RESERVES RELATED TO REINSURANCE CONTRACTS

Policy reserves, excluding contingency reserve, related to reinsurance contracts with the Management Organization are provided at amounts calculated based on the statement of calculation procedures for the Company's insurance premiums and policy reserves. Such amount is set not to fall below the amount calculated based on the statement of calculation procedures for the Postal Life Insurance policy reserves in accordance with the Act on Management Organization for Postal Savings and Postal Life Insurance (Act No. 101 of 2005). In addition, contingency reserve and reserve for price fluctuations are provided for the category of the reinsurance.

The policy reserves, excluding contingency reserve, contingency reserve and reserve for price fluctuations mentioned above as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Policy reserves (excluding contingency reserve)	¥ 38,351,137	¥ 42,010,637	\$ 360,986
Contingency reserve	1,665,082	1,838,804	15,673
Reserve for price fluctuations	665,523	648,432	6,264

14. DEPOSITS FROM THE MANAGEMENT ORGANIZATION

"Other liabilities" in the consolidated balance sheets include deposits from the Management Organization. Deposits from the Management Organization refer to the amounts equivalent to the reserve for outstanding claims and reserve for losses on compensation for damages related to litigation or conciliation of the Management Organization, which were deposited at the time of privatization based on the outsourcing agreements with the Management Organization for the administrative operation of the Postal Life Insurance Policy.

Deposits from the Management Organization as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Deposits from the Management Organization	¥ 46,329	¥ 50,481	\$ 436

15. DEFERRED TAX ASSETS AND LIABILITIES

Significant components of deferred tax assets and liabilities as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Deferred tax assets:			
Policy reserves	¥ 832,310	¥ 736,401	\$ 7,834
Reserve for price fluctuations	207,552	165,422	1,954
Reserve for outstanding claims	44,659	42,646	420
Liability for retirement benefits	17,881	17,456	168
Unrealized losses on available-for-sale securities	56,264	59,950	530
Other	17,450	20,737	164
Subtotal	1,176,118	1,042,615	11,070
Valuation allowance	(3,907)	(4,482)	(37)
Total deferred tax assets	1,172,211	1,038,133	11,034
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(209,916)	(181,710)	(1,976)
Other	(8,208)	(4,481)	(77)
Total deferred tax liabilities	(218,125)	(186,191)	(2,053)
Net deferred tax assets (liabilities)	¥ 954,085	¥ 851,942	\$ 8,980

The Company and its domestic subsidiary are subject to Japanese national and local income taxes, which, in aggregate, would result in a statutory tax rate of approximately 28.24% for the years ended March 31, 2018 and 2017.

Reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2018 was omitted as the difference was less than 5% of the statutory tax rate.

Reconciliation of the effective income tax rate reflected in the accompanying consolidated statements of income to the statutory tax rate for the year ended March 31, 2017 was as follows:

Year ended March 31	2017
Statutory tax rate	28.24%
Change in valuation allowance	(2.61)
Other	0.65
Effective income tax rate	26.28%

16. NET ASSETS

(1) Type and Number of Shares Issued

	Thousands of shares			March 31, 2018
	April 1, 2017	Increase	Decrease	
Year ended March 31, 2018				
Shares issued:				
Common stock	600,000	–	–	600,000
Total	600,000	–	–	600,000
Treasury stock				
Common stock	221	–	23	198
Total	221	–	23	198

Notes:

- The number of treasury stock of common stock at the beginning and the end of the year ended March 31, 2018, was shares of the Company held in the BBT, and was 221 thousand shares and 198 thousand shares, respectively.
- The decrease of 23 thousand shares of treasury stock of common stock was attributable to the granting of shares via the BBT.

	Thousands of shares			March 31, 2017
	April 1, 2016	Increase	Decrease	
Year ended March 31, 2017				
Shares issued:				
Common stock	600,000	–	–	600,000
Total	600,000	–	–	600,000
Treasury stock				
Common stock	–	228	7	221
Total	–	228	7	221

Notes:

- The number of treasury stock of common stock at the end of the year ended March 31, 2017, was 221 thousand shares of the Company held in the BBT.
- The increase of 228 thousand shares of treasury stock of common stock was attributable to purchases by the BBT.
- The decrease of 7 thousand shares of treasury stock of common stock was attributable to the granting of shares via the BBT.

(2) Information on Dividends**1) Dividends paid****Dividend paid for the year ended March 31, 2018**

Resolution	Type of shares	Total amount (Millions of Yen)	Total amount (Millions of U.S. Dollars)	Per share amount (Yen)	Per share amount (U.S. Dollars)	Record date	Effective date
Board of Directors' meeting held on May 15, 2017	Common stock	¥ 36,000	\$ 339	¥ 60.00	\$ 0.56	March 31, 2017	June 22, 2017

Notes:

- Total amount of dividends includes ¥13 million (\$0 million) of dividends paid to shares of the Company held in the BBT.
- The amount of dividends per share includes a commemorative dividend of ¥2 (\$0.02) per share, in celebration of the 100th anniversary of the establishment of Postal Life Insurance Services.

Dividend paid for the year ended March 31, 2017

Resolution	Type of shares	Total amount (Millions of Yen)	Per share amount (Yen)	Record date	Effective date
Board of Directors' meeting held on May 13, 2016	Common stock	¥ 33,600	¥ 56.00	March 31, 2016	June 23, 2016

2) Dividends for which the effective date falls after the end of the fiscal year**Dividends for which the effective date falls after the end of the year ended March 31, 2018**

Resolution	Type of shares	Total amount (Millions of Yen)	Total amount (Millions of U.S. Dollars)	Source of dividends	Per share amount (Yen)	Per share amount (U.S. Dollars)	Record date	Effective date
Board of Directors' meeting held on May 15, 2018	Common stock	¥ 40,800	\$ 384	Retained earnings	¥ 68.00	\$ 0.64	March 31, 2018	June 19, 2018

Notes:

- Total amount of dividends includes ¥13 million (\$0 million) of dividends paid to shares of the Company held in the BBT.
- The amount of dividends per share includes a special dividend of ¥4 (\$0.04) per share.

17. OPERATING EXPENSES

Operating expenses for the years ended March 31, 2018 and 2017, consisted of the following:

Years ended March 31	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
Sales activity expenses	¥ 177,274	¥ 201,199	\$ 1,669
Sales administration expenses	17,692	20,618	167
General administration expenses	338,494	338,605	3,186
Total	¥ 533,461	¥ 560,423	\$ 5,021

18. REVERSAL OF RESERVE FOR OUTSTANDING CLAIMS AND REVERSAL OF POLICY RESERVES

The amounts of provision for reserve for outstanding claims–ceded that are added to the calculation of reversal of reserve for outstanding claims for the years ended March 31, 2018 and 2017, were ¥116 million (\$1 million) and ¥84 million, respectively.

The amounts of provision for policy reserves–ceded that are added to the calculation of reversal of policy reserves for the years ended March 31, 2018 and 2017, were ¥177 million (\$2 million) and ¥210 million, respectively.

19. INSURANCE PREMIUMS AND OTHERS

Insurance premiums assumed based on reinsurance contracts with the Management Organization included in insurance premiums and others for the years ended March 31, 2018 and 2017, were as follows:

Years ended March 31	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
Insurance premiums	¥ 755,221	¥ 1,002,816	\$ 7,109

20. INSURANCE CLAIMS

Insurance claims based on reinsurance contracts with the Management Organization included in insurance claims for the years ended March 31, 2018 and 2017, were as follows:

Years ended March 31	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
Insurance claims	¥ 5,124,383	¥ 6,413,751	\$ 48,234

21. EXTRAORDINARY GAINS

Extraordinary gains for the years ended March 31, 2018 and 2017, consisted of the following:

Years ended March 31	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
Gains on sales of fixed assets	¥ 86,053	¥ —	\$ 810
Total	¥ 86,053	¥ —	\$ 810

Note: Gains on sales of fixed assets such as land of ¥86,053 million (\$810 million) were recorded for the year ended March 31, 2018, and the amount equivalent thereto was included in provision for reserve for price fluctuations.

22. EXTRAORDINARY LOSSES

Extraordinary losses for the years ended March 31, 2018 and 2017, consisted of the following:

Years ended March 31	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
Losses on sales and disposal of fixed assets	¥ 337	¥ 448	\$ 3
Losses on impairment of fixed assets	2,003	—	19
Provision for reserve for price fluctuations	128,031	6,444	1,205
Total	¥ 130,372	¥ 6,892	\$ 1,227

Note: As mentioned in Note 21 "EXTRAORDINARY GAINS," provision for reserve for price fluctuations included the amount equivalent to gains on sale of fixed assets such as land of ¥86,053 million (\$810 million) for the year ended March 31, 2018.

23. PROVISION FOR RESERVE FOR POLICYHOLDER DIVIDENDS

Provision for reserve for policyholder dividends, which is provided for the Management Organization based on gains or losses and others arising in the category of reinsurance due to the reinsurance contracts with the Management Organization, for the years ended March 31, 2018 and 2017, was as follows:

Years ended March 31	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
Provision for reserve for policyholder dividends	¥ 96,174	¥ 137,061	\$ 905

24. OTHER COMPREHENSIVE INCOME

The amount reclassified and the tax effect amounts related to other comprehensive income for the years ended March 31, 2018 and 2017, were as follows:

Years ended March 31	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
Net unrealized gains (losses) on available-for-sale securities:			
Amount arising during the fiscal year	¥ 124,111	¥ (147,188)	\$ 1,168
Reclassification adjustments	(10,210)	29,325	(96)
Before tax-effect adjustments	113,901	(117,862)	1,072
Tax effect	(31,892)	34,355	(300)
Net unrealized gains (losses) on available-for-sale securities	82,009	(83,507)	772
Net deferred gains (losses) on hedges:			
Amount arising during the fiscal year	(24)	(91)	(0)
Reclassification adjustments	–	(34)	–
Before tax-effect adjustments	(24)	(125)	(0)
Tax effect	6	35	0
Net deferred gains (losses) on hedges	(17)	(90)	(0)
Adjustments for retirement benefits:			
Amount arising during the fiscal year	(237)	(281)	(2)
Reclassification adjustments	(609)	(629)	(6)
Before tax-effect adjustments	(846)	(911)	(8)
Tax effect	235	255	2
Adjustments for retirement benefits	(611)	(655)	(6)
Total other comprehensive income (loss)	¥ 81,380	¥ (84,254)	\$ 766

25. FINANCIAL INSTRUMENTS

(1) Policy for Handling Financial Instruments

The Company promotes matching between assets and liabilities using yen-denominated interest-bearing assets, taking into consideration the characteristics of liabilities so as to maintain sound management and ensure payments for insurance claims and others. The Company endeavors to invest in yen-denominated bonds such as Japanese local government bonds and Japanese corporate bonds, of which the yield is expected to be relatively higher than that of Japanese government bonds, as well as in risk assets including foreign bonds and stocks from the perspective of improving profitability as well as to strengthen the risk management system.

Derivative transactions are identified as a key hedging method against foreign exchange fluctuation risk and interest rate risk to our investment assets, and these are not used for speculative purposes.

(2) Features and Risks of Financial Instruments

Financial assets owned by the Company consist mainly of securities and loans, and are managed by using an asset liability management (ALM) framework. Such securities are exposed to credit risk of their issuing bodies as well as market price fluctuation risk and interest rate risk. In addition, foreign-currency-denominated bonds are exposed to foreign exchange risk. Moreover, the Company owns loans with floating interest rates, which are exposed to interest rate risk.

Derivative transactions that the Company uses are mainly foreign exchange contracts and interest rate swaps. These are used to hedge interest rate risk and foreign exchange fluctuation risk limited to the purpose of hedging and are not meant for speculative purposes. The market-related risk of derivative transactions is therefore

reduced and limited.

(3) Risk Management Framework for Financial Instruments

1) Management of market risk

Market risk is the risk of losses resulting from fluctuation in the value of assets and liabilities held that include off-balance sheet assets and liabilities due to fluctuations in various market risk factors such as interest rates, foreign exchange rates and stock prices. Market risk is categorized into interest rate risk and market price fluctuation risk for its management. Interest rate risk is the risk of losses resulting from fluctuation in the value of interest-bearing assets denominated in yen and insurance liabilities due to fluctuations in yen interest rates, and the risk arises as the Company has a certain limit in matching assets with liabilities, as an insurance company with a mission to offer universal service products including endowment insurance and whole life insurance. Market price fluctuation risk is any market risk other than interest rate risk.

Among the company-wide risks including market risk, the Company identifies those that can be quantified and manages the company-wide risks by comparing the capital amount and the company-wide integrated risk amount calculated based on the amount of the quantified risks.

2) Management of credit risk

Credit risk is the risk of losses resulting from a decline or elimination in the value of assets including off-balance-sheet assets due to deterioration in the financial conditions of borrowers and other reasons.

To control investment and lending to borrowers with high credit risk, the Company manages its investment

and lending by prescribing credit eligibility rules based on internal rating. Moreover, to prevent concentration of credit risk on a particular borrower, group or industry, the Company establishes credit limits corresponding to internal rating and standards of credit shares by industry.

The results of their activities are reported to the risk management committee regularly.

(4) Additional Notes Concerning the Fair Value of Financial Instruments

The fair value of a financial instrument includes prices based on market quotations as well as rationally calculated prices for those for which the market prices are not

readily available. In calculating prices, certain premises and assumptions are adopted, and the use of different assumptions could lead to changes in pricing.

The contract amounts of derivative transactions in Note 26 "DERIVATIVE TRANSACTIONS" do not indicate the market risk related to derivative transactions.

(5) Fair Values of Financial Instruments

Amounts carried on the consolidated balance sheets, fair values and the difference between them as of March 31, 2018 and 2017, were as follows. Financial instruments for which the fair values are extremely difficult to determine are not included in the table below.

(Millions of Yen)

March 31

1) Cash and deposits	
Available-for-sale securities (negotiable certificates of deposit)	
2) Call loans	
3) Receivables under securities borrowing transactions	
4) Monetary claims bought	
Available-for-sale securities	
5) Money held in trust ¹	
6) Securities	
Held-to-maturity bonds	
Policy-reserve-matching bonds	
Available-for-sale securities	
7) Loans	
Policy loans	
Industrial and commercial loans ²	
Loans to the Management Organization ²	
Reserve for possible loan losses ³	
Total assets	
Payables under securities lending transactions	
Total liabilities	
Derivative transactions ⁴	
Hedge accounting not applied	
Hedge accounting applied	
Total derivative transactions	

2018		
Consolidated balance sheet amount	Fair value	Net unrealized gains (losses)
¥ 898,504	¥ 898,504	¥ -
420,000	420,000	-
265,000	265,000	-
3,296,222	3,296,222	-
176,069	176,069	-
176,069	176,069	-
2,755,347	2,755,347	-
60,126,174	67,338,137	7,211,962
38,490,055	44,608,732	6,118,677
10,676,330	11,769,615	1,093,285
10,959,788	10,959,788	-
7,627,086	8,216,144	589,057
135,314	135,314	-
919,051	985,547	66,556
6,572,781	7,095,282	522,500
(60)	-	-
¥ 75,144,405	¥ 82,945,425	¥ 7,801,020
¥ 3,663,547	¥ 3,663,547	¥ -
¥ 3,663,547	¥ 3,663,547	¥ -
¥ 1	¥ 1	¥ -
1,270	1,270	-
¥ 1,271	¥ 1,271	¥ -

(Millions of Yen)

	2017		
	Consolidated balance sheet amount	Fair value	Net unrealized gains (losses)
March 31			
1) Cash and deposits	¥ 1,366,086	¥ 1,366,086	¥ -
Available-for-sale securities (negotiable certificates of deposit)	350,000	350,000	-
2) Call loans	150,000	150,000	-
3) Receivables under securities borrowing transactions	3,520,722	3,520,722	-
4) Monetary claims bought	27,561	27,561	-
Available-for-sale securities	27,561	27,561	-
5) Money held in trust ¹	2,127,042	2,127,042	-
6) Securities	63,481,050	70,737,937	7,256,887
Held-to-maturity bonds	40,441,881	46,518,693	6,076,812
Policy-reserve-matching bonds	12,517,334	13,697,410	1,180,075
Available-for-sale securities	10,521,834	10,521,834	-
7) Loans	8,060,843	8,767,861	707,018
Policy loans	118,141	118,141	-
Industrial and commercial loans ²	873,720	941,241	67,580
Loans to the Management Organization ²	7,069,040	7,708,478	639,438
Reserve for possible loan losses ³	(59)	-	-
Total assets	¥ 78,733,306	¥ 86,697,213	¥ 7,963,906
Payables under securities lending transactions	¥ 4,889,066	¥ 4,889,066	¥ -
Total liabilities	¥ 4,889,066	¥ 4,889,066	¥ -
Derivative transactions ⁴			
Hedge accounting not applied	¥ -	¥ -	¥ -
Hedge accounting applied	(4,585)	(4,585)	-
Total derivative transactions	¥ (4,585)	¥ (4,585)	¥ -

(Millions of U.S. Dollars)

	2018		
	Consolidated balance sheet amount	Fair value	Net unrealized gains (losses)
March 31			
1) Cash and deposits	\$ 8,457	\$ 8,457	\$ -
Available-for-sale securities (negotiable certificates of deposit)	3,953	3,953	-
2) Call loans	2,494	2,494	-
3) Receivables under securities borrowing transactions	31,026	31,026	-
4) Monetary claims bought	1,657	1,657	-
Available-for-sale securities	1,657	1,657	-
5) Money held in trust ¹	25,935	25,935	-
6) Securities	565,947	633,830	67,884
Held-to-maturity bonds	362,293	419,886	57,593
Policy-reserve-matching bonds	100,493	110,783	10,291
Available-for-sale securities	103,161	103,161	-
7) Loans	71,791	77,336	5,545
Policy loans	1,274	1,274	-
Industrial and commercial loans ²	8,651	9,277	626
Loans to the Management Organization ²	61,867	66,785	4,918
Reserve for possible loan losses ³	(1)	-	-
Total assets	\$ 707,308	\$ 780,736	\$ 73,428
Payables under securities lending transactions	\$ 34,484	\$ 34,484	\$ -
Total liabilities	\$ 34,484	\$ 34,484	\$ -
Derivative transactions ⁴			
Hedge accounting not applied	\$ 0	\$ 0	\$ -
Hedge accounting applied	12	12	-
Total derivative transactions	\$ 12	\$ 12	\$ -

Notes:

1. Money held in trust classified as other than trading, held-to-maturities and policy-reserve-matching.
2. In the column of "Net unrealized gains (losses)," the difference between the consolidated balance sheet amount after deduction of reserve for possible loan losses and the fair value is provided.
3. Reserve for possible loan losses corresponding to loans has been deducted.
4. Net receivables and payables arising from derivative transactions are stated at net values, and if the values are negative, they are indicated in parentheses.

The calculation methods for fair values of financial instruments are as follows:

Assets

- 1) Cash and deposits
Deposits (including negotiable certificates of deposit) mature within the short term (one year), and their fair value approximates book value.
- 2) Call loans and 3) Receivables under securities borrowing transactions
These are settled within the short term (one year), and their fair value approximates book value.
- 4) Monetary claims bought
The fair value of monetary claims bought accounted for as securities in the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10) is calculated in a similar manner to the method described in 5) "Securities" below.
- 5) Money held in trust
The fair value of money held in trust is based on the price quoted by the exchange for stocks and the net asset value for mutual funds.
Money held in trust is provided in Note 4 (4) "Money Held in Trust" in accordance with the purpose of the holdings.
- 6) Securities
The fair value of bonds is primarily based on the price published by industry associations such as the reference statistical price published by the Japan Securities Dealers Association, or the price offered by the financial institutions, while the fair value of stocks is based on the price

quoted by the exchange. The fair value of mutual funds is based on the net asset value.

Securities are described in Note 4 "SECURITIES" in accordance with the purpose of keeping in possession.

7) Loans

For policy loans and those included in loans to the Management Organization of Postal Life Insurance Contracts, book values are used as fair values because amounts are limited to the values of the corresponding cash surrender value, and their fair value approximates book value considering their short maturities and interest conditions.

For industrial and commercial loans with floating interest rates, for which the future cash flows follow market interest rates, their fair value approximates book value.

For industrial and commercial loans with fixed interest rates or loans to the Management Organization (excluding policy loans), fair value is based on a net discounted present value of future cash flows.

Liabilities

Payables under securities lending transactions

These are settled within the short term (one year), and their fair value approximates book value.

Derivatives

Notes on the fair value of derivatives are presented in Note 26 "DERIVATIVE TRANSACTIONS." Interest rate swaps subject to exceptional treatment for interest rate swaps are jointly disclosed with hedged industrial and commercial loans. Therefore, their fair values are included in the relevant industrial and commercial loans.

The consolidated balance sheet amounts of financial instruments for which the fair values are deemed extremely difficult to determine are as shown below:

	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
March 31			
Money held in trust ¹	¥ 59,526	¥ -	\$ 560
Securities	4,735	4,239	45
Unlisted stocks ²	4,735	4,239	45
Total	¥ 64,262	¥ 4,239	\$ 605

Notes:

1. Trust asset components such as unlisted stocks, for which the fair values are deemed extremely difficult to determine, are not included in 5) Money held in trust.
2. Unlisted stocks are not included in "6) Securities" because there are no available market prices and it is extremely difficult to determine their fair values.

Redemption schedules of major monetary claims and securities with maturities were as follows:

(Millions of Yen)

	2018			
	Within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31				
Deposits	¥ 897,386	¥ -	¥ -	¥ -
Call loans	265,000	-	-	-
Receivables under securities borrowing transactions	3,296,222	-	-	-
Monetary claims bought	150,000	-	-	23,907
Securities	4,235,024	10,500,429	11,459,469	30,640,041
Held-to-maturity bonds	3,072,072	5,198,477	6,621,172	23,072,436
Bonds	3,072,072	5,100,477	6,621,172	23,072,436
Japanese government bonds	1,696,700	651,800	5,303,600	21,118,900
Japanese local government bonds	1,045,003	3,470,038	1,156,002	1,170,076
Japanese corporate bonds	330,369	978,639	161,570	783,460
Foreign securities	-	98,000	-	-
Policy-reserve-matching bonds	584,069	3,427,934	2,031,881	4,386,900
Bonds	584,069	3,427,934	2,031,881	4,386,900
Japanese government bonds	533,500	3,161,100	1,827,400	4,118,400
Japanese local government bonds	31,738	202,373	183,764	142,300
Japanese corporate bonds	18,831	64,461	20,717	126,200
Available-for-sale securities with maturities	578,882	1,874,017	2,806,415	3,180,705
Bonds	537,446	1,407,950	1,339,523	1,172,491
Japanese government bonds	-	-	-	425,200
Japanese local government bonds	148,049	336,629	616,026	-
Japanese corporate bonds	389,397	1,071,321	723,496	747,291
Foreign securities	41,436	466,066	1,466,892	2,001,483
Other securities	-	-	-	6,729
Loans	1,402,165	3,187,531	2,003,161	1,034,345
Total	¥ 10,245,799	¥ 13,687,960	¥ 13,462,631	¥ 31,698,294

(Millions of Yen)

	2017			
	Within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31				
Deposits	¥ 1,364,622	¥ -	¥ -	¥ -
Call loans	150,000	-	-	-
Receivables under securities borrowing transactions	3,520,722	-	-	-
Monetary claims bought	-	-	-	25,149
Securities	6,649,154	12,516,396	10,831,362	31,028,793
Held-to-maturity bonds	3,083,603	6,945,392	5,525,129	24,331,730
Bonds	3,083,603	6,847,392	5,525,129	24,331,730
Japanese government bonds	1,835,700	2,157,400	3,121,600	22,776,200
Japanese local government bonds	788,814	3,823,086	1,808,457	1,037,670
Japanese corporate bonds	459,089	866,906	595,072	517,860
Foreign securities	-	98,000	-	-
Policy-reserve-matching bonds	2,863,055	3,206,932	2,680,153	3,638,100
Bonds	2,863,055	3,206,932	2,680,153	3,638,100
Japanese government bonds	2,844,400	3,009,200	2,356,000	3,533,100
Japanese local government bonds	18,655	150,462	267,414	77,200
Japanese corporate bonds	-	47,270	56,739	27,800
Available-for-sale securities with maturities	702,495	2,364,070	2,626,079	3,058,963
Bonds	692,495	1,746,447	1,218,189	1,081,599
Japanese government bonds	20,000	-	-	425,200
Japanese local government bonds	140,508	463,130	637,891	-
Japanese corporate bonds	531,987	1,283,317	580,298	656,399
Foreign securities	10,000	617,623	1,407,890	1,974,363
Other securities	-	-	-	3,000
Loans	993,472	3,454,804	2,383,943	1,229,022
Total	¥ 12,677,972	¥ 15,971,200	¥ 13,215,305	¥ 32,282,966

(Millions of U.S. Dollars)

	2018			
	Within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31				
Deposits	\$ 8,447	\$ -	\$ -	\$ -
Call loans	2,494	-	-	-
Receivables under securities borrowing transactions	31,026	-	-	-
Monetary claims bought	1,412	-	-	225
Securities	39,863	98,837	107,864	288,404
Held-to-maturity bonds	28,916	48,931	62,323	217,173
Bonds	28,916	48,009	62,323	217,173
Japanese government bonds	15,970	6,135	49,921	198,785
Japanese local government bonds	9,836	32,662	10,881	11,014
Japanese corporate bonds	3,110	9,212	1,521	7,374
Foreign securities	-	922	-	-
Policy-reserve-matching bonds	5,498	32,266	19,125	41,292
Bonds	5,498	32,266	19,125	41,292
Japanese government bonds	5,022	29,754	17,201	38,765
Japanese local government bonds	299	1,905	1,730	1,339
Japanese corporate bonds	177	607	195	1,188
Available-for-sale securities with maturities	5,449	17,639	26,416	29,939
Bonds	5,059	13,253	12,608	11,036
Japanese government bonds	-	-	-	4,002
Japanese local government bonds	1,394	3,169	5,798	-
Japanese corporate bonds	3,665	10,084	6,810	7,034
Foreign securities	390	4,387	13,807	18,839
Other securities	-	-	-	63
Loans	13,198	30,003	18,855	9,736
Total	\$ 96,440	\$ 128,840	\$ 126,719	\$ 298,365

Redemption schedules of payables under securities lending transactions were as follows:

(Millions of Yen)

	2018					
	Within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
March 31						
Payables under securities lending transactions	¥ 3,663,547	¥ -	¥ -	¥ -	¥ -	¥ -

(Millions of Yen)

	2017					
	Within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
March 31						
Payables under securities lending transactions	¥ 4,889,066	¥ -	¥ -	¥ -	¥ -	¥ -

(Millions of U.S. Dollars)

	2018					
	Within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
March 31						
Payables under securities lending transactions	\$ 34,484	\$ -	\$ -	\$ -	\$ -	\$ -

26. DERIVATIVE TRANSACTIONS

(1) Derivative Transactions to Which the Hedge Accounting Method Is Not Applied

(Millions of Yen)

March 31		2018			
		Contract amount	Contract amount due after 1 year	Fair value	Net valuation gains (losses)
Over-the-counter transactions	Forward foreign exchange				
	Sold	¥ 185	¥ –	¥ 1	¥ 1
	U.S. dollars	185	–	1	1
Total					¥ 1

(Millions of U.S. dollars)

March 31		2018			
		Contract amount	Contract amount due after 1 year	Fair value	Net valuation gains (losses)
Over-the-counter transactions	Forward foreign exchange				
	Sold	\$ 2	\$ –	\$ 0	\$ 0
	U.S. dollars	2	–	0	0
Total					\$ 0

Note: Fair value is calculated using forward foreign exchange rates at the fiscal year-end.

There were no derivative transactions to which the hedge accounting method was not applied as of March 31, 2017.

(2) Derivative Transactions to Which the Hedge Accounting Method Is Applied

1) Currency-related derivatives

(Millions of Yen)

March 31			2018		
			Contract amount	Contract amount due after 1 year	Fair value
Hedge accounting method	Type of derivative	Major hedged item			
Fair value hedge accounting	Forward foreign exchange				
	Sold	Foreign currency-denominated bonds	¥ 2,704,514	¥ –	¥1,222
	U.S. dollars		1,696,376	–	(3,992)
	Euros		657,080	–	3,116
	Australian dollars		224,994	–	1,794
Other	126,062		–	304	
Total					¥1,222

(Millions of Yen)

March 31			2017		
			Contract amount	Contract amount due after 1 year	Fair value
Hedge accounting method	Type of derivative	Major hedged item			
Fair value hedge accounting	Forward foreign exchange				
	Sold	Foreign currency-denominated bonds	¥ 2,438,390	¥ –	¥ (4,657)
	U.S. dollars		1,603,918	–	(5,630)
	Euros		834,472	–	973
	Australian dollars		–	–	–
Other	–		–	–	
Total					¥ (4,657)

(Millions of U.S. Dollars)

March 31			2018		
Hedge accounting method	Type of derivative	Major hedged item	Contract amount	Contract amount due after 1 year	Fair value
Fair value hedge accounting	Forward foreign exchange	Foreign currency-denominated bonds			
	Sold		\$ 25,457	\$ -	\$ 12
	U.S. dollars		15,967	-	(38)
	Euros		6,185	-	29
	Australian dollars		2,118	-	17
	Other		1,187	-	3
		Total			\$ 12

Note: Fair value is calculated using forward foreign exchange rates at the fiscal year-end.

2) Interest rate-related derivatives

(Millions of Yen)

March 31			2018		
Hedge accounting method	Type of derivative	Major hedged item	Contract amount	Contract amount due after 1 year	Fair value
Deferred hedge method	Interest rate swaps:	Loans			
	Receivable fixed rate / Payable floating rate		¥ 11,750	¥ 6,150	¥ 47
Exceptional treatment for interest rate swaps	Interest rate swaps:	Loans			
	Receivable fixed rate / Payable floating rate		39,750	30,100	- ²
		Total			¥ 47

(Millions of Yen)

March 31			2017		
Hedge accounting method	Type of derivative	Major hedged item	Contract amount	Contract amount due after 1 year	Fair value
Deferred hedge method	Interest rate swaps:	Loans			
	Receivable fixed rate / Payable floating rate		¥ 11,750	¥ 11,750	¥ 71
Exceptional treatment for interest rate swaps	Interest rate swaps:	Loans			
	Receivable fixed rate / Payable floating rate		46,050	39,750	- ²
		Total			¥ 71

(Millions of U.S. Dollars)

March 31			2018		
Hedge accounting method	Type of derivative	Major hedged item	Contract amount	Contract amount due after 1 year	Fair value
Deferred hedge method	Interest rate swaps:	Loans			
	Receivable fixed rate / Payable floating rate		\$ 111	\$ 58	\$ 0
Exceptional treatment for interest rate swaps	Interest rate swaps:	Loans			
	Receivable fixed rate / Payable floating rate		374	283	- ²
		Total			\$ 0

Notes:

1. Fair value is calculated using discounted present value.

2. Interest rate swap amounts measured by the exceptional treatment for interest rate swaps are disclosed with the loans that are subject to the hedge. Therefore, such fair value is included in the fair value of the relevant loans.

27. LEASE TRANSACTIONS

Operating Leases

As lessee

Future lease payments under non-cancelable operating leases as of March 31, 2018 and 2017, were as follows:

March 31	Millions of Yen		Millions of U.S. Dollars
	2018	2017	2018
Due within 1 year	¥ 5,016	¥ 5,044	\$ 47
Due after 1 year	74	211	1
Total	¥ 5,090	¥ 5,256	\$ 48

28. SEGMENT INFORMATION

(1) Segment Information

The Group has only one segment, namely, the life insurance business in Japan.

(2) Information on Losses on Impairment of Fixed Assets by Reportable Segment

This information is not presented for the year ended March 31, 2018 as the Group has only one segment. No losses on impairment of fixed assets were recorded for the year ended March 31, 2017.

(3) Supplemental Information

1) Information by product and service

The Group's products and services are placed under one category for the years ended March 31, 2018 and 2017.

2) Information by geographic region

Ordinary income in Japan exceeded 90% of ordinary income in the consolidated statements of income, and the balance of tangible fixed assets in Japan exceeded 90% of the total balance on the consolidated balance sheets for the years ended March 31, 2018 and 2017.

3) Information by major customer

No customer accounted for 10% or more of ordinary income in the consolidated statements of income for the years ended March 31, 2018 and 2017.

29. RELATED PARTY TRANSACTIONS

(1) Related Party Transactions

Transactions of the Company with related parties for the years ended March 31, 2018 and 2017, were as follows:

2018										
Type	Company name	Location	Capital	Business	Percentage of voting rights	Relationship	Transaction	Transaction amount	Account	Year-end balance
Parent company	JAPAN POST HOLDINGS Co., Ltd.	Chiyoda-ku, Tokyo	¥3,500,000 million (\$32,944 million)	Holding company	Directly owned 89%	Group management Interlocking officers	Payments of brand royalty fees ¹	¥3,194 million (\$30 million)	Accounts payable—other	¥287 million (\$3 million)
Subsidiary of parent company	JAPAN POST Co., Ltd.	Chiyoda-ku, Tokyo	¥400,000 million (\$3,765 million)	Postal and logistics business Post office business	—	Insurance agency Interlocking officers	Payments for commission of agency services ²	¥372,265 million (\$3,504 million)	Agency accounts payable	¥39,153 million (\$369 million)
2017										
Type	Company name	Location	Capital	Business	Percentage of voting rights	Relationship	Transaction	Transaction amount	Account	Year-end balance
Parent company	JAPAN POST HOLDINGS Co., Ltd.	Chiyoda-ku, Tokyo	¥3,500,000 million	Holding company	Directly owned 89%	Group management Interlocking officers	Payments of brand royalty fees ¹	¥3,259 million	Accounts payable—other	¥293 million
Subsidiary of parent company	JAPAN POST Co., Ltd.	Chiyoda-ku, Tokyo	¥400,000 million	Postal and logistics business Post office business	—	Insurance agency Interlocking officers	Payments for commission of agency services ²	¥392,768 million	Agency accounts payable	¥43,812 million

Notes:

- Based on the concept that the benefits of brand value enjoyed by the Company from maintaining its membership in Japan Post Group are reflected in the Company's performance, brand royalty fees are calculated by multiplying the amount of insurance policies in force as of the end of the previous fiscal year, which is a financial indicator whereupon such benefits have been reflected, by a fixed rate.
- The Company makes payments including commission of insurance solicitation calculated by multiplying the insurance amounts and the insurance premiums of each contract by the commission rates set for each class of insurance, and the commission of maintenance and collection calculated by multiplying the unit prices set for outsourcing services, such as the collection of insurance premiums and payments for insurance money, by the volume of work.
- Transaction amount does not include consumption taxes. Year-end balance includes consumption taxes.

(2) Parent Company

JAPAN POST HOLDINGS Co., Ltd. (Listed on the Tokyo Stock Exchange)

30. PER SHARE DATA

March 31

Net assets per share

Yen		U.S. Dollars
2018	2017	2018
¥ 3,339.65	¥ 3,089.81	\$ 31.43

Years ended March 31

Net income per share

Yen		U.S. Dollars
2018	2017	2018
¥ 174.21	¥ 147.71	\$ 1.64

Notes:

- Diluted net income per share is not presented for the years ended March 31, 2018 and 2017 as potential common stock did not exist.
- Net income per share is calculated based on the following:

Years ended March 31

Net income

Amount not attributable to common stockholders

Net income attributable to common stock

Millions of Yen		Millions of U.S. Dollars
2018	2017	2018
¥ 104,487	¥ 88,596	\$ 983
–	–	–
¥ 104,487	¥ 88,596	\$ 983

Years ended March 31

Average number of common stock during the fiscal year

- Net assets per share is calculated based on the following:

March 31

Net assets

Amount deducted from net assets

Net assets attributable to common stock at the fiscal year-end

Thousands of shares			
2018	2017		
599,793	599,804		

Millions of Yen		Millions of U.S. Dollars
2018	2017	2018
¥ 2,003,126	¥ 1,853,203	\$ 18,855
–	–	–
¥ 2,003,126	¥ 1,853,203	\$ 18,855

March 31

Number of common stock at the fiscal year-end used for the calculation of net assets per share

- The Company established the Board Benefit Trust (BBT), whereby shares of the Company held in trust, which was recorded as treasury stock under the category of shareholders' equity, were included in treasury stock to be deducted from the calculation of the average number of shares during the fiscal year, for the purpose of calculating net income per share. In addition, they were included in treasury stock to be deducted from the calculation of the total number of shares issued at the end of the fiscal year, for the purpose of calculating net assets per share.

The average number of treasury stock during the fiscal year that were deducted from the calculation of net income per share for the years ended March 31, 2018 and 2017, was 206,599 shares and 195,660 shares, respectively. The number of treasury stock at the end of the fiscal year that were deducted from the calculation of net assets per share as of March 31, 2018 and 2017, was 198,100 shares and 221,200 shares, respectively.

31. SUBSEQUENT EVENTS

None.

Independent Auditor's Report



Independent Auditor's Report

To the Board of Directors of JAPAN POST INSURANCE Co., Ltd.:

We have audited the accompanying consolidated financial statements of JAPAN POST INSURANCE Co., Ltd. and its consolidated subsidiary, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JAPAN POST INSURANCE Co., Ltd. and its consolidated subsidiary as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

August 10, 2018
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.