

# CONSOLIDATED FINANCIAL SUMMARY

(for the fiscal year 2002 ended March 31, 2003)

May 22, 2003

Name of Company: **Daido Life Insurance Company**  
 Stock Listings: Tokyo, Osaka  
 Security Code No.: 8799  
 Head Office: Osaka, Japan  
 URL: <http://www.daido-life.co.jp>  
 Date of Board Meeting for Settlement of Accounts: May 22, 2003  
 Application of U.S. Accounting Standards: No

## 1. Consolidated Operating Results for the FY2002 ended March 31, 2003

### (1) Results of Operations

Note: Amounts of less than one million yen are omitted, and percentages have been rounded to the nearest per cent.

|                             | Ordinary Revenue   | % change | Ordinary Profit | % change | Net Income     | % change |
|-----------------------------|--------------------|----------|-----------------|----------|----------------|----------|
| FY 2002 ended Mar. 31, 2003 | ¥1,185,256 million | (10.0)   | ¥41,807 million | (5.1)    | ¥6,383 million | (33.1)   |
| FY 2001 ended Mar. 31, 2002 | ¥1,316,283 million | 3.1      | ¥44,037 million | (47.7)   | ¥9,541 million | -        |

|                             | Net Income per Share | Net Income per Share (Fully Diluted) | Ratio of Net Income to Shareholders' Equity | Ratio of Ordinary Profit to Total Assets | Ratio of Ordinary Profit to Ordinary Revenue |
|-----------------------------|----------------------|--------------------------------------|---|--|--|
| FY 2002 ended Mar. 31, 2003 | ¥4,204.50            | ¥ -                                  | 3.7%  | 0.7%                                     | 3.5%   |
| FY 2001 ended Mar. 31, 2002 | ¥6,361.14            | ¥ -                                  | 5.6%  | 0.7%                                     | 3.3%   |

Notes: 1. Equity in net income of affiliated companies: ¥(3,085) million for the year ended March 31, 2003 and ¥195 million for the year ended March 31, 2002, respectively.

2. Average number of outstanding shares during the year (consolidated): the year ended March 31, 2003: 1,500,000, the year ended March 31, 2002: None

3. Changes in method of accounting: None

4. % change for ordinary revenue, ordinary profit and net income is presented in comparison with the previous fiscal year.

5. Daido Life was a mutual company through March 31, 2002. Please refer to P.3, 4 of this material for computations of net income, net income per share and ratio of net income to shareholders' equity.

### (2) Financial Conditions

|                      | Total Assets       | Shareholders' Equity | Shareholders' Equity Ratio | Shareholders' Equity per Share |
|----------------------|--------------------|----------------------|----------------------------|--------------------------------|
| As of March 31, 2003 | ¥6,035,905 million | ¥179,060 million     | 3.0%                       | ¥119,322.62                    |
| As of March 31, 2002 | ¥6,010,457 million | ¥166,991 million     | 2.8%                       | ¥111,327.38                    |

Notes: 1. Number of outstanding shares at the end of the term (consolidated): as of March 31, 2003: 1,500,000, as of March 31, 2002: None

2. Daido Life was a mutual company through March 31, 2002. Please refer to P.3, 4 for computations of shareholders' equity, shareholders' equity ratio and shareholders' equity per share.

### (3) Results of Cash Flows

|                             | Cash Flows from Operating Activities | Cash Flows from Investing Activities | Cash Flows from Financing Activities | Cash and Cash Equivalents at End of Term |
|-----------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| FY 2002 ended Mar. 31, 2003 | ¥124,736 million                     | ¥(80,021) million                    | ¥24,437 million                      | ¥464,008 million                         |
| FY 2001 ended Mar. 31, 2002 | ¥100,838 million                     | ¥(160,061) million                   | ¥(37,042) million                    | ¥396,477 million                         |

- (4) Scope of Consolidation and Application of Equity Method:
- |   |      |
|---|------|
| Number of consolidated subsidiaries:  | 6    |
| Number of non-consolidated subsidiaries accounted for by the equity method: | None |
| Number of affiliates accounted for by the equity method:                    | 9    |
- (5) Change in Scope of Consolidation and Application of Equity Method:
- |  |   |
|--|---|
| Number of companies newly consolidated:                            | 3 |
| Number of company excluded from consolidation:                     | 9 |
| Number of companies newly accounted for by the equity method:      | 3 |
| Number of companies excluded from the equity method of accounting: | 3 |

**2. Forecast for the Year Ending March 31, 2004 (April 1, 2003 - March 31, 2004)**

|                                  | Ordinary Revenue   | Ordinary Profit | Net Income      |
|----------------------------------|--------------------|-----------------|-----------------|
| First half ending Sept. 30, 2003 | ¥587,000 million   | ¥31,000 million | ¥10,000 million |
| FY 2003 ending Mar. 31, 2004     | ¥1,127,000 million | ¥66,000 million | ¥19,000 million |

*Note: Projected net income per share for the year ending March 31, 2004 is ¥12,600.00.*

*The above forecasts for the year ending March 31, 2004 reflect the Company's current analysis of existing information and trends. Actual results may differ from expectations based of risks and uncertainties that may affect the Company's businesses. For further details, please refer to "Financial Review - Forecast for the Year Ending March 31, 2004."*

As of April 1, 2002, Daido Life converted itself from a mutual company to a joint stock corporation.

In the case of mutual life insurance companies, provision for reserve for policyholder dividends constitutes dispositions of net surplus. However, in the case of life insurance companies that are joint stock corporations, such provision is treated as an expense in its income statements.

### ***Fiscal Year Ended March 31, 2002***

For the fiscal year ended March 31, 2002, the company sets up the allowance for policyholder dividends in preparation for policyholder dividends to be paid after demutualization, a sum corresponding to the reserve for policyholder dividend of a mutual company was recorded as the allowance for policyholder dividend, and the provision for allowance for policyholder dividend was accounted for as an expense.

Accompanying the demutualization, instead of a share allotment, from April 1, 2002, a portion of policyholders will be paid cash (Note). The amount paid (hereinafter, the amount paid upon demutualization) was included within the equity of the mutual company but was deducted from equity and reclassified into accrued liabilities simultaneously with the demutualization and subsequently not included in the shareholders' equity of the joint stock corporation.

Because of this, figures and ratios are calculated as follows.

#### **Net income**

net income [¥9,541 million] :(a)

#### **Net income per share**

net income [¥9,541 million](a) / number of outstanding shares at time of demutualization [1,500,000 shares]

#### **Ratio of net income to shareholders' equity**

net income [¥9,541 million](a) / {(total equity at start of fiscal year [¥201,252 million] - provision for reserve for policyholder dividend (carried forward)[¥33,249 million] + total equity at end of fiscal year[172,551 million]) / 2} x 100

#### **Shareholders' equity**

total equity at end of fiscal year [¥172,551 million] - amount paid upon demutualization [¥5,560 million] :(b)

#### **Shareholders' equity ratio**

shareholders' equity(b) / (total liabilities at end of fiscal year [¥5,836,472 million] + minority interests at end of fiscal year [¥1,433 million] + total equity at end of fiscal year [¥172,551 million] ) x 100

#### **Shareholders' equity per share**

shareholders' equity(b) / number of outstanding shares at time of demutualization [1,500,000 shares]

### ***Fiscal Year Ended March 31, 2003***

Accompanying the demutualization, instead of a share allotment, from April 1, 2002, a portion of policyholders will be paid cash (Note). The amount paid (hereinafter, the amount paid upon demutualization) was included within the equity of the mutual company but was deducted from equity and reclassified into accrued liabilities simultaneously with the demutualization and subsequently not included in the shareholders' equity of the joint stock corporation.

Because of this, ratio of net income to shareholders' equity is calculated as follows.

#### **Ratio of net income to shareholders' equity**

net income [¥6,383 million] / {(total equity at start of fiscal year [¥172,551 million] - amount paid upon demutualization [¥5,560 million] + total equity at end of fiscal year[179,060 million]) / 2} x 100

*Note: If policyholders are prohibited by laws or regulations from receiving any share allotments, the company should make monetary compensation to such policyholders who had reported the fact to the company by April 30, 2001 in accordance with the Article 89 of the Insurance Business Law. In accordance with the Article 12 of the implementation order for the Insurance Business Law, the amount of monetary compensation is equivalent in proportion to the amount of their relative contribution to the company's net assets. Amounts paid to policyholders (totaling to ¥5,560 million) were calculated by multiplying the number of total shares to be allotted to policyholders if they could receive the share allotments (21,272.6071944) by the purchase price for new listing made by underwriters (¥261,387). The amount has been reclassified into accrued liabilities and paid the day after the demutualization (April 1, 2002)*

(References)

## I. Subsidiaries and Affiliates

The Company consists of Daido Life Insurance Company, 6 subsidiaries and 9 affiliates.

|  |
|--|
| <b>Daido Life Insurance Company</b>  |
| <b><i>Insurance and Insurance-Related Business</i></b> (3 companies)                             |
| <b>Insurance</b>   |
| # T&D Financial Life Insurance Company (Life insurance company)                                  |
| <b>Insurance-Related</b>   |
| * Daido Management Service Co., Ltd. (Insurance agent)   |
| # T&D Confirm Ltd. (Policyholder confirmation)   |
| <b><i>Investment-Related Business</i></b> (6 companies)  |
| <b>Investment Advisory</b>   |
| # T&D Asset Management (U.S.A.) Inc. (Investment advisory services)                              |
| # T&D Asset Management Co., Ltd. (Investment advisory and investment trust services)             |
| # Sinopia T&D Asset Management Co., Ltd. (Investment advisory services)                          |
| <b>Other</b>   |
| # T&D Taiyo Daido Lease Co., Ltd. (Leasing)  |
| # T&D Asset Management Cayman Inc. (Partnership for management and administration)               |
| # Alternative Investment Capital Limited. (Investment advisory services of private equity funds) |
| <b><i>Administration-Related Business</i></b> (5 companies)                                      |
| <b>Administration-Related</b>  |
| * Daido Life Customer Services Co., Ltd. (Back office services)                                  |
| <b>General Affairs and Calculation-Related</b>   |
| * Zenkoku Business Center Co., Ltd. (Premium collection)   |
| * Nihon System Shuno, Inc. (Premium collection)  |
| * Daiko Building Service Co., Ltd. (Building cleaning)   |
| # T&D Information Systems, Ltd. (Computer processing)  |
| <b><i>Other Businesses</i></b> (1 companies)   |
| <b>Others</b>  |
| * Daido Kosan Co., Ltd. (Sales of products and maintenance of land and buildings)                |

Notes: Companies marked by \* represent consolidated subsidiaries, and companies marked by # represent affiliated companies accounted for by the equity method.

## **II. Management Principles and Goals**

### ***1. Basic Management Principles***

Daido Life has a corporate vision that emphasizes two goals -“to be the first choice of small and medium-sized enterprises (SMEs) as the most reliable life insurance company in all aspects” and “to achieve sustainable growth its corporate value through the development of its core business”. The Company’s core business involves the marketing of individual term life insurance products in the SME market through tie-ups with affinity groups.

Based on its corporate vision, the Company is striving to inspire its customers’ trust and respond to the expectations of its shareholders by implementing the following three management policies:

- a. maintaining and increasing the soundness of management, appropriately managing risk, and taking other measures required to build a solid corporate base that encourages customers to select the Company;
- b. consistently providing products and services that offer the best value for customers, based on a basic corporate posture that encourages the seeking of new challenges and a rapid response to these challenges; and
- c. recognizing that the quality of any organization depends on the quality of the people within it and therefore developing and posting employees with high levels of specialized knowledge and exceptional ethical standards who inspire customers’ trust.

### ***2. Basic Profit Distribution Principles***

Because the life insurance industry is engaged in business operations that have a strong influence on the general level of public welfare, the Company believes it to be important that it maintains strong operating bases.

The Company’s basic profit distribution policy has the fundamental goal of distributing a stable level of dividends to shareholders while strengthening capital base with due consideration to ensuring operating stability.

### ***3. Medium-Term Strategy***

The medium-term management plan that the Company began implementing from April

2003, calls for selectively concentrating corporate resources and undertaking strategic differentiation to further strengthen the Company's unique business model of focusing on the SME market.

The medium-term management plan is promoting the following five strategies:

- a. concentrating on its core business to expand its market share (*market-channel strategy*),
- b. addressing customer needs to strengthen the competitiveness of products and services (*products and services strategy*),
- c. developing its asset management business to increase profit (*asset management business strategy*),
- d. strengthening profit management and risk management capabilities to establish an even more solid operating base (*profit management and risk management strategy*), and
- e. strengthening management systems of the T&D Life Group and employing various alliances to upgrade capabilities for providing financial services (*alliance strategy*).

#### **4. Management Goals**

In its ongoing efforts to achieve the long-term enhancement of corporate value, the Company places priority on the following three goals.

##### **(1) Policy amount**

To achieve a steady increase in policy amount in force - the Company's fundamental source of corporate value - the Company will strive to achieve total policy amount in force of individual insurance and annuities of ¥39,630.0 billion by March 31, 2004.

##### **(2) Financial soundness**

Maintaining financial soundness is vital to be a life insurance company that is worthy of the trust of its customers. Hence, the Company will strive to maintain a solvency margin ratio (one of the primary indicators of insurance companies' financial soundness) of 800% or above by March 31, 2004.

### (3) Profitability and capital efficiency

To maintain and improve profitability and capital efficiency, the Company will strive to achieve core profit (*kiso rieki*, a measure of underlying profitability from core insurance operations on a non-consolidated basis) of ¥88.0 billion, consolidated ROE of 10% or above, and non-consolidated adjusted ROE\* of 12% or above for the fiscal year ending March 31, 2004.

Furthermore, since the fiscal year ended March 31, 2002, the Company has been disclosing its embedded value\*\*, a measure of life insurance companies' corporate value that is gathering increased attention in Europe and Canada. The Company is also considering adopting additional indicators of capital efficiency based on embedded value.

Notes:

\* Non-consolidated adjusted ROE = [adjusted book value at fiscal year-end - adjusted book value at beginning of that fiscal year (after deduction of appropriation of retained earnings paid out in cash) - (externally) raised capital in that fiscal year] / (average balance of adjusted book value) x 100

In which:

Adjusted book value = total equity (excluding net unrealized gains on securities)  
+ quasi-equity liabilities (reserve for price fluctuations, contingency reserve and unallotted portion of reserve for policyholder dividends)  
+ net unrealized gains on securities (after-tax, excluding held-to-maturity bonds and bonds due in one year or more within "available-for-sale securities" which are meant to be held to maturity)  
+ net unrealized gains (losses) on real estate (after-tax)  
- deferred tax assets for quasi-equity liabilities

And:

Average balance of adjusted book value = [adjusted book value at beginning of fiscal year (after deduction of appropriation of retained earnings paid out in cash) + adjusted book value at fiscal year-end] / 2

\*\* The sum of adjusted book value calculated from the balance sheet and existing business value calculated from existing policies in force

## ***5. Basic Policy on Corporate Governance and Progress of Initiatives***

### **Basic policy on corporate governance**

The Company's corporate vision encompasses the goals "to be the first choice of SMEs as the most reliable life insurance company in all respects" and "to achieve sustainable growth in its corporate value through the development of its core business." In the pursuit of these visions, the Company considers the enhancement of fairness and transparency in management and properly recognizing and managing risks that may emerge through dramatic changes in the environment surrounding the insurance industry to be vital management tasks.

The Company also strives to improve its disclosure and investor relations activities. The Company believes that, by obtaining proper evaluation from shareholders, fully respecting their opinions, while reflecting such opinions in management, it could substantially enhance its corporate governance.

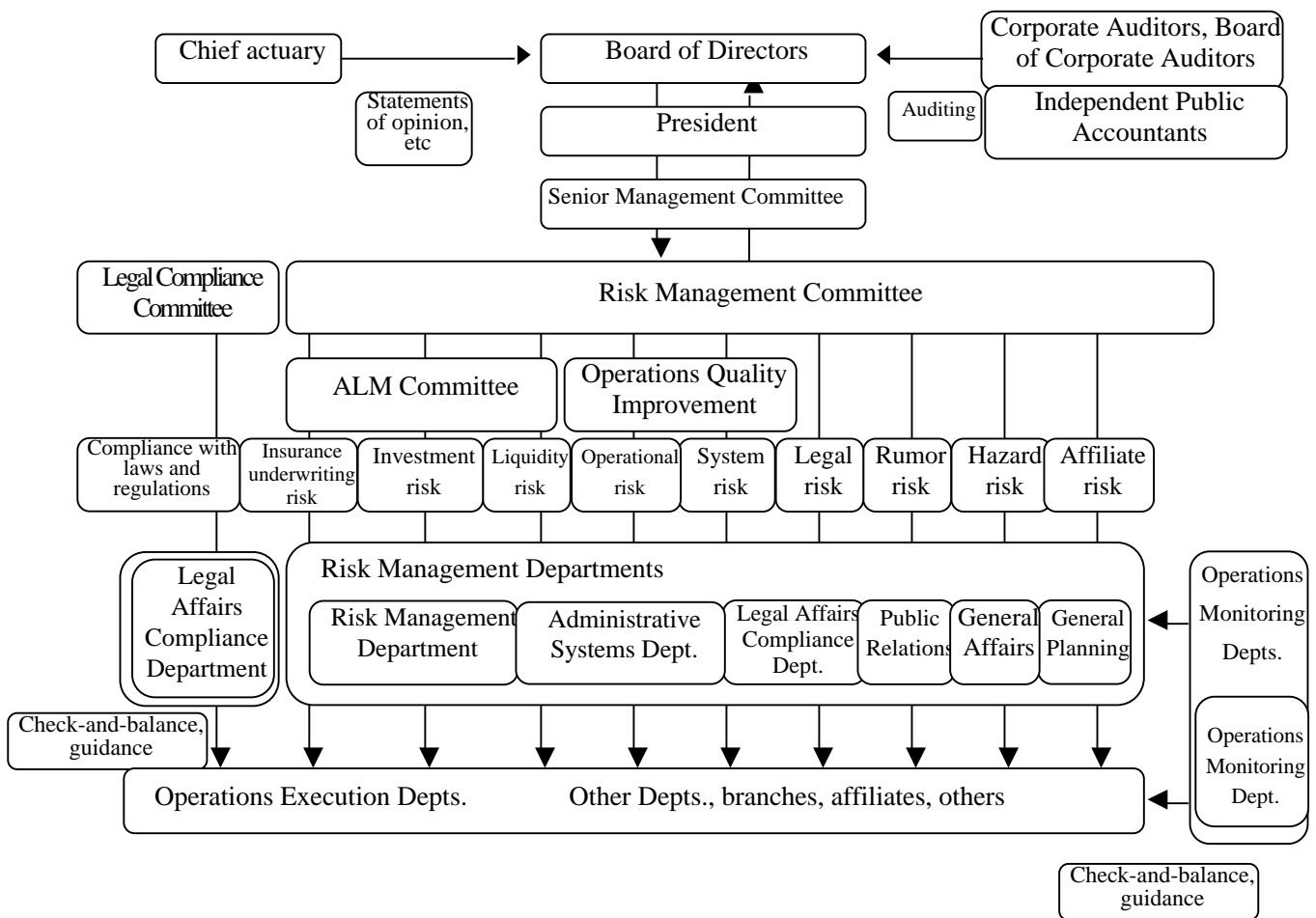
### **Progress of corporate governance initiatives**

#### **(1) Administrative organization for managerial decision making, execution, and monitoring**

- The Company employs a system of corporate auditors. It makes proactive use of an external director and external auditors and strives to reflect the opinions of these experts in its management. As of March 31, 2003, the Company had appointed one attorney at law as an external director and one attorney at law and one honorary university professor as external auditors.
- In addition to the Board of Directors, the Company has a Senior Management Committee composed of senior directors to strengthen the deliberation process for basic issues related to management strategy.
- In accordance with rules set forth by the Insurance Business Law, the Company has appointed a chief actuary, who participates in the determination of insurance pricing and other actuarial matters.
- To accurately recognize and manage risks, the Company has formulated the Risk Management Basic Policy. Under the policy, while designating specific administrative divisions for each risk category, the Company has also established the Risk Management Department for overall risk management.

Furthermore, in order to cope with cross-divisional risk issues, the Company has established such committees as a Risk Management Committee, an ALM (Asset and Liability Management) Committee, and an Operations Quality Improvement Committee, thus enabling thorough risk management.

- Below is a schematic representation of the Company’s risk management and compliance framework.



Note: Each risk management department recognizes, analyzes, and evaluates each risk, and provides check-and-balance and guidance functions to the Operations Execution Departments and other departments, thus working to prevent or minimize risks.

(Reference) Management Risks

Under its Risk Management Basic Policy, the Company categorizes and defines management risks according to the table below.

| Risk type                   |                             | Description   |
|-----------------------------|-----------------------------|---|
| Insurance underwriting risk |                             | The risk of suffering losses from unfavorable gaps between actual experiences and assumptions made at the time of pricing, due to the change of economic situations, etc.                 |
| Asset management risk       | Market risk                 | The risk of suffering losses from fluctuations in interest rates, foreign exchange rates and other factors.   |
|                             | Credit risk                 | The risk of suffering losses from the deterioration of the financial conditions of obligors.  |
|                             | Real estate investment risk | The risk of suffering losses from the decline of real estate prices or real estate related revenue.   |
| Liquidity risk              | Cash flow risk              | The risk of suffering losses from having to sell off assets at a much lower price than usual to secure funds.   |
|                             | Market liquidity risk       | The risk of suffering losses from unavailability of trading options in the market or having to trade at a significantly disadvantaged price owing to market volatility and other factors. |
| Operational risk            |                             | The risk of suffering losses from officers, employees, and sales representatives neglecting to perform accurate operations or causing accidents.  |
| System risk                 |                             | The risk of suffering losses from computer system downtime, malfunction, and other system flaws.  |
| Legal risk                  |                             | The risk of suffering losses from neglecting to comply with the law.  |
| Rumor risk                  |                             | The risk of suffering losses from an increase in surrendered insurance policies or other situations due to the spread of negative rumors through the media and other sources.             |
| Hazard risk                 |                             | The risk of suffering losses from the lack of contingency plans or emergency measures for large-scale disasters.  |
| Affiliate risk              |                             | The risk of suffering losses from the deterioration of an affiliate's profitability or other adverse factors.   |

**(2) Personal relations, financial relations, transactions or other such special interests between the Company and its external director, external auditors**

No corresponding items.

**(3) Activity taken over the last fiscal year to improve the Company's corporate governance.**

To monitor the Company's decision making and each director's business execution, the Board of Directors convenes monthly and at any other time when deemed necessary.

The aforementioned Senior Management Committee meets weekly, the ALM and Operations Quality Improvement committees monthly, and the Risk Management Committee quarterly.

Moreover, corporate auditors attend meetings of the Board of Directors to monitor each director's business execution, and the standing auditor participates in both the Senior Management Committee and the Risk Management Committee.

**6. Future Tasks**

Owing to such factors as growing uncertainty in overseas markets and weakness in global stock prices, the Japanese economy remains in an unpredictable state.

Japanese life insurers are expected to face increasingly intense competition due to the widespread over-the-counter marketing of life insurance products by banks and the progressive development of other new business models against the backdrop of deregulation and regulatory relaxation.

Amid this operating environment, the Company believes it must undertake the following tasks in order to fulfill its corporate visions as stated in item 1, "Basic Management Principles," of this report.

**(1) Strengthening Core Business**

By concentrating operating resources in the Company's core business, providing products and services that meet customer needs, and further increasing the productivity of in-house sales representative and sales agent channels, the Company will further strengthen its superior position in the SME market.

**(2) Strengthening Management Systems to Increase Profitability**

To pursue a sustainable growth in corporate value as a joint stock corporation, the Company will proceed with measures to strengthen its profit management and risk management systems and work to establish an even more solid business franchise.

The Company also intends to quickly and appropriately respond to issues such as those related to the strengthening of product and service development and asset management as well as the augmentation of administrative efficiency.

**(3) Increasing the Competitive Strength and Expanding the Scale of the T&D Life Group with a View to Establishing a Holding Company**

Aiming to quickly realize the objective of establishing a holding company in cooperation with Taiyo Life Insurance Company, the Company will steadily proceed with preparatory measures and work to further increase the benefits of the alliance.

**(4) Thorough Implementation of Compliance Initiatives**

Integrity and fairness in corporate activities through strict compliance with laws and regulations is crucial to the gaining of customer trust, and the Company will continue to pursue the thorough implementation of compliance initiatives.

***7. Basic Policy on Relations with Interested Parties (Parent Company, Others)***

No corresponding items. The Company possesses neither a parent company nor any such company of superordinate equity status.

### **III. Financial Review**

#### ***1. Business Results***

##### **(1) Overview of Operations during the Fiscal Year under Review**

###### **a) Results of Operations (Consolidated basis)**

During the fiscal year under review, the Company's ordinary revenue declined 10.0%, or ¥131.0 billion, from the level in the previous fiscal year, to ¥1,185.2 billion, reflecting a 6.6% decrease in income from insurance premiums, to ¥989.4 billion, and a 24.4% decrease in investment income/gains to ¥186.0 billion. The decrease in investment income/gains was due mainly to decreases in income from interest, dividends and income from real estate for rent of 16.9%, to ¥129.4 billion, and in gains on the sale of securities of 63.2%, to ¥32.5 billion.

Ordinary expenses decreased 10.1%, or ¥128.7 billion, to ¥1,143.4 billion, owing to such changes as a 5.0% decrease in insurance claims and other payments, to ¥861.9 billion; a 35.7% decrease in investment expenses/losses, to ¥132.1 billion; and a 5.3% increase in operating expenses, to ¥111.3 billion. The decrease in investment expenses/losses was due mainly to a rebound in gains from derivatives, net, up from a loss of ¥25.9 billion in the previous fiscal year, to a gain of ¥21.1 billion, primarily as a result of risk-hedging stock index futures transactions, as well as decreases in losses from monetary trusts, which were down 61.1%, to ¥11.7 billion, and losses on sale of securities, which were down 64.8%, to ¥19.7 billion.

Equity in net losses of affiliated companies of ¥3.0 billion was recorded, compared to equity in net income of affiliated companies of ¥0.1 billion in the previous fiscal year as a result of losses related to affiliate T&D Financial Life Insurance Company stemming from an increase in operating expenses to expand variable annuities business and a worse investment environment.

As a consequence, ordinary profit decreased 5.1%, or ¥2.2 billion, to ¥41.8 billion.

Extraordinary gains decreased 7.8%, to ¥6.2 billion, and extraordinary losses decreased 83.0%, to ¥5.7 billion.

Owing to the reduction of the policyholder dividend ratio on individual insurance and annuities due mainly to the decrease in income from interest, dividends

and income from real estate for rent, the provision for reserve for policyholder dividends amounted to ¥26.5 billion, a decline of ¥4.0 billion compared with the provision for allowance for policyholder dividends at the previous fiscal year-end of ¥30.6 billion,

After accounting for extraordinary gains and losses, provision for reserve for policyholder dividends, and income taxes, net income amounted to ¥6.3 billion, down ¥3.1 billion from ¥9.5 billion for the previous fiscal year.

#### **b) Sales Results (Non-consolidated basis)**

The new policy amount of individual insurance and annuities (including the net increase from conversions) increased steadily 2.3%, to ¥4,673.5 billion. The Company's mainstay individual term life insurance also increased 0.1%, to ¥4,298.5 billion.

At the end of the fiscal year under review, the total policy amount in force of individual insurance and annuities was ¥3,9342.6 billion, up 1.1%, or ¥413.5 billion, from the level at the end of the previous fiscal year, marking the first net increase since the fiscal year ended March 31, 1998. The total policy amount in force of individual term life insurance was ¥34,804.6 billion, up 1.4%, or ¥495.5 billion from the previous fiscal year-end.

#### **c) Other Important Performance Items**

The Company's core profit (*kiso rieki*, a measure of underlying profitability from core insurance operations on a non-consolidated basis) decreased 19.3%, to ¥88.7 billion, reflecting the need to offset a ¥20.4 billion negative spread, which increased 257.8% from the previous fiscal year (an amount representing net losses on each policy with assumed investment yields that exceed investment yields earned by the Company). This decrease in core profit and increase in negative spread was due mainly to the decline in income from interest, dividends and income from real estate for rent.

At the end of the fiscal year under review, the Company's solvency margin ratio (a measure of insurance companies' financial soundness) was 860.2%, up 88.2 percentage points from 772.0% at the previous fiscal year-end. Furthermore, value of adjusted net assets (adjusted assets at fair value - liabilities (excluding quasi-equity liabilities)) amounted to ¥515.4 billion, up 9.4%, or ¥44.2 billion from ¥471.2 billion at the previous fiscal year-end.

## **(2) Forecast for the Year Ending March 31, 2004**

The Company's performance forecast for the fiscal year ending March 31, 2004 is as follows.

On a non-consolidated basis, due to achieving the same level as in the fiscal year ended March 31, 2003, in income from insurance premiums and lower investment income owing to persistently low interest rates, ordinary revenue is projected to decline 5%, to ¥1,124.0 billion. As the Company does not foresee losses on sale of securities and devaluation losses on securities of the same level as those that were recorded in fiscal year ended March 31, 2003, ordinary profit is projected to increase 52%, to ¥70.0 billion, and net income is projected to increase 101%, to ¥23.0 billion. Core profit is expected to remain at the same level as the fiscal year ended March 31, 2003, at ¥88.0 billion.

On a consolidated basis, the Company projects that ordinary revenue will decrease 5%, to ¥1,127.0 billion; ordinary profit will increase 58%, to ¥66.0 billion; and net income will increase 198%, to ¥19.0 billion.

The Company anticipates that cash dividends per share for the fiscal year ending March 31, 2004, will amount to ¥3,000. However, it will not distribute interim shareholder dividends for the six months ending September 30, 2003.

## **2. Financial Position**

### **(1) Balance sheet position**

At the balance sheet date, total assets amounted to ¥6,035.9 billion, up 0.4% from the previous year-end.

Looking at principal asset items, securities principally comprising domestic bonds amounted to ¥3,947.2 billion, down 2.6%. Loans totaled ¥1,181.6 billion, up 2.4%, and cash and deposits and call loans were ¥423.7 billion, up 16.9%.

Total liabilities were ¥5,855.9 billion, up 0.3%, and the bulk of this figure was comprised of total policy reserves, which amounted to ¥5,394.7 billion, up 0.2%.

Total equity was ¥179.0 billion, up 3.8%.

## (2) Cash flows

Consolidated cash flows for the fiscal year under review were as follows.

Net cash provided by operating activities increased ¥23.8 billion, to ¥124.7 billion.

Net cash used in investing activities decreased ¥80.0 billion, to ¥80.0 billion.

Net cash provided by financing activities amounted to ¥24.4 billion. This primarily reflected the issuance of commercial paper.

As a result, cash and cash equivalents at the end of the fiscal year totaled ¥464.0 billion, down ¥67.5 billion from the beginning of the fiscal year.

### (Reference) Consolidated Cash Flow Indicators

| Item   | Fiscal year ended<br>March 31, 1999 | Fiscal year ended<br>March 31, 2000 | Fiscal year ended<br>March 31, 2001 | Fiscal year ended<br>March 31, 2002 | Fiscal year ended<br>March 31, 2003 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Shareholders' equity ratio *                   | 1.9%                                | 2.5%                                | 2.8%                                | 2.8%                                | 3.0%                                |
| Shareholders' equity ratio at<br>fair value ** |                                     |                                     |                                     |                                     | 5.5%                                |

Notes:

\* Shareholders' equity ratio = (year-end shareholders equity / year-end total assets) x 100

As of April 1, 2002, Daido Life converted itself from a mutual company to a joint stock corporation. In the case of mutual life insurance companies, provision for reserve for policyholder dividends constitutes dispositions of net surplus. However, in the case of life insurance companies that are joint stock corporations, such provision is treated as an expense in the statements of operations. Hence, the shareholders' equity ratio prior to the fiscal year ended March 31, 2002, was calculated with the following sums deducted from shareholders' equity.

|  | Fiscal year ended March<br>31, 1999 | Fiscal year ended March<br>31, 2000 | Fiscal year ended March<br>31, 2001 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|
| Deducted provision for reserve for<br>policyholder dividends | ¥34,316 million                     | ¥39,536 million                     | ¥33,249 million                     |

Furthermore, the sum of ¥5,560 million, which was paid to policyholders in accordance with Article 12 of the implementation order for the Insurance Business Law due to the Company's demutualization, was deducted from shareholders' equity for the fiscal year ended March 31, 2002.

\*\* Shareholders' equity ratio at fair value = (market capitalization at year-end / total assets at year-end) x 100.

There is no shareholders' equity ratio at fair value prior to the fiscal year ended March 31, 2003, because the Company was a mutual company prior to that fiscal year end.

**Profit/Loss Status for the Fiscal Year Ended March 31, 2003 (Consolidated)**

(Millions of Yen, %)

|   | Fiscal Year Ended<br>March 31, 2002 | Fiscal Year Ended<br>March 31, 2003 | Increase<br>(decrease) | % change |
|---|-------------------------------------|-------------------------------------|------------------------|----------|
| <b>Ordinary Revenue</b>                                   | 1,316,283                           | 1,185,256                           | (131,026)              | (10.0)   |
| Income from insurance premiums and others                 | 1,059,445                           | 989,420                             | (70,024)               | (6.6)    |
| Income from insurance premiums                            | 1,057,881                           | 988,327                             | (69,554)               | (6.6)    |
| Investment income/gains                                   | 246,104                             | 186,088                             | (60,016)               | (24.4)   |
| Interests, dividends and income from real estate for rent | 155,683                             | 129,419                             | (26,264)               | (16.9)   |
| Gains on sale of securities                               | 88,599                              | 32,596                              | (56,003)               | (63.2)   |
| Gains from derivatives, net                               | -                                   | 21,111                              | 21,111                 | -        |
| Other ordinary income                                     | 10,537                              | 9,747                               | (790)                  | (7.5)    |
| Equity in net income of affiliated companies              | 195                                 | -                                   | (195)                  | (100.0)  |
| <b>Ordinary Expenses</b>                                  | 1,272,245                           | 1,143,449                           | (128,796)              | (10.1)   |
| Insurance claims and other payments                       | 907,444                             | 861,908                             | (45,536)               | (5.0)    |
| Insurance claims  | 297,441                             | 295,889                             | (1,552)                | (0.5)    |
| Insurance benefits  | 266,487                             | 254,314                             | (12,172)               | (4.6)    |
| Surrender payments  | 269,970                             | 215,896                             | (54,074)               | (20.0)   |
| Provision for policy and other reserves                   | 31,543                              | 13,873                              | (17,670)               | (56.0)   |
| Investment expenses/losses                                | 205,609                             | 132,153                             | (73,456)               | (35.7)   |
| Losses from monetary trust, net                           | 30,189                              | 11,748                              | (18,440)               | (61.1)   |
| Losses on sale of securities                              | 56,136                              | 19,755                              | (36,380)               | (64.8)   |
| Devaluation losses on securities                          | 54,222                              | 58,713                              | 4,491                  | 8.3      |
| Losses from derivatives, net                              | 25,925                              | -                                   | (25,925)               | (100.0)  |
| Operating expenses  | 105,822                             | 111,381                             | 5,558                  | 5.3      |
| Other ordinary expenses                                   | 21,824                              | 21,047                              | (777)                  | (3.6)    |
| Equity in net loss of affiliated companies                | -                                   | 3,085                               | 3,085                  | -        |
| <b>Ordinary Profit</b>                                    | 44,037                              | 41,807                              | (2,230)                | (5.1)    |
| <b>Extraordinary Gains</b>                                | 6,832                               | 6,297                               | (535)                  | (7.8)    |
| <b>Extraordinary Losses</b>                               | 33,998                              | 5,764                               | (28,233)               | (83.0)   |
| Provision for allowance for policyholder dividends        | 30,662                              | -                                   | (30,662)               | (100.0)  |
| <b>Extraordinary Gains (Losses)</b>                       | (27,166)                            | 532                                 | 27,698                 | -        |
| <b>Provision for reserve for policyholder dividends</b>   | -                                   | 26,569                              | 26,569                 | -        |
| <b>Income before Income Taxes</b>                         | 16,871                              | 15,769                              | (1,101)                | (6.5)    |
| <b>Income Taxes</b>                                       |                                     |                                     |                        |          |
| Current   | 10,130                              | 4,176                               | (5,954)                | (58.8)   |
| Deferred  | (2,961)                             | 5,154                               | 8,115                  | -        |
| <b>Minority Interests</b>                                 | 160                                 | 55                                  | (105)                  | (65.5)   |
| <b>Net Income</b>   | 9,541                               | 6,383                               | (3,157)                | (33.1)   |

**Principle Business Performance for the Fiscal Year Ended March 31, 2003 (Non-Consolidated)**

(Millions of Yen, %)

|                                | Fiscal Year Ended<br>March 31, 2002 | Fiscal Year Ended<br>March 31, 2003 | Increase<br>(decrease) | % Change |
|--------------------------------|-------------------------------------|-------------------------------------|------------------------|----------|
| New Policy Amount              | 4,570,422                           | 4,673,514                           | 103,091                | 2.3      |
| Individual term life insurance | 4,292,917                           | 4,298,528                           | 5,610                  | 0.1      |
| Policy Amount in Force         | 38,929,108                          | 39,342,682                          | 413,573                | 1.1      |
| Individual term life insurance | 34,309,043                          | 34,804,637                          | 495,593                | 1.4      |
| Core Profit                    | 109,889                             | 88,729                              | (21,160)               | (19.3)   |
| Negative Spread Amount         | 5,723                               | 20,479                              | 14,756                 | 257.8    |
| Solvency Margin Ratio          | 772.0%                              | 860.2%                              | 88.2%                  | -        |
| Adjusted Net Asset             | 471,234                             | 515,471                             | 44,237                 | 9.4      |

Notes: New policy amount and policy amount in force are total of individual insurance and individual annuities, respectively.

## IV. Consolidated Financial Statements

### Unaudited Consolidated Balance Sheets

As of 31st March

|   | 2002<br>(Millions<br>of yen) |              | 2003<br>(Millions<br>of yen) |              | Increase<br>(decrease) |
|---|------------------------------|--------------|------------------------------|--------------|------------------------|
|   |                              | %            |                              | %            |                        |
| <b>Assets:</b>  |                              |              |                              |              |                        |
| Cash and Deposits   | ¥ 178,391                    | 3.0          | ¥ 288,716                    | 4.8          | ¥ 110,324              |
| Call Loans  | 184,000                      | 3.1          | 135,000                      | 2.2          | (49,000)               |
| Monetary Claims Purchased   | 42,394                       | 0.7          | 40,897                       | 0.7          | (1,497)                |
| Monetary Trusts   | 95,195                       | 1.6          | 150,393                      | 2.5          | 55,197                 |
| Securities  | 4,053,640                    | 67.4         | 3,947,224                    | 65.4         | (106,415)              |
| Loans   | 1,153,654                    | 19.2         | 1,181,658                    | 19.6         | 28,004                 |
| Property and Equipment  | 184,226                      | 3.1          | 175,974                      | 2.9          | (8,252)                |
| Due from Agency   | 2,409                        | 0.0          | 5,073                        | 0.1          | 2,664                  |
| Due from Reinsurers   | 1,480                        | 0.0          | 1,391                        | 0.0          | (89)                   |
| Other Assets  | 56,863                       | 0.9          | 55,353                       | 0.9          | (1,510)                |
| Net Deferred Tax Asset  | 69,789                       | 1.2          | 61,096                       | 1.0          | (8,692)                |
| Reserve for Possible Loan Losses  | (11,590)                     | (0.2)        | (6,874)                      | (0.1)        | 4,715                  |
| <b>Total Assets</b>   | <b>¥ 6,010,457</b>           | <b>100.0</b> | <b>¥ 6,035,905</b>           | <b>100.0</b> | <b>¥ 25,448</b>        |
| <b>Liabilities:</b>   |                              |              |                              |              |                        |
| Policy Reserves:  |                              |              |                              |              |                        |
| Reserve for outstanding claims  | ¥ 47,805                     |              | ¥ 47,734                     |              | ¥ (71)                 |
| Policy reserve  | 5,381,993                    |              | 5,394,718                    |              | 12,724                 |
| Reserve for policyholder dividends  | 113,659                      |              | 137,336                      |              | 23,677                 |
| Total Policy Reserves   | 5,543,459                    | 92.2         | 5,579,788                    | 92.4         | 36,329                 |
| Due to Agency   | 0                            | 0.0          | 0                            | 0.0          | (0)                    |
| Due to Reinsurers   | 699                          | 0.0          | 767                          | 0.0          | 68                     |
| Other Liabilities   | 171,881                      | 2.9          | 181,982                      | 3.0          | 10,101                 |
| Reserve for Employees' Retirement Benefits                                  | 61,665                       | 1.0          | 64,074                       | 1.1          | 2,409                  |
| Reserve for Losses on Sale of Loans   | 63                           | 0.0          | 63                           | 0.0          | 0                      |
| Allowance for Policyholder Dividends  | 30,662                       | 0.5          | -                            | -            | (30,662)               |
| Reserve for Price Fluctuations  | 28,042                       | 0.5          | 29,242                       | 0.5          | 1,199                  |
| <b>Total Liabilities</b>  | <b>5,836,472</b>             | <b>97.1</b>  | <b>5,855,919</b>             | <b>97.0</b>  | <b>19,447</b>          |
| <b>Minority Interests</b>   | <b>1,433</b>                 | <b>0.0</b>   | <b>924</b>                   | <b>0.0</b>   | <b>(508)</b>           |
| <b>Equity:</b>  |                              |              |                              |              |                        |
| Revaluation Reserve   | 53                           | 0.0          | -                            | -            | -                      |
| Reserve for Redemption of Fund  | 35,000                       | 0.6          | -                            | -            | -                      |
| Surplus   | 95,376                       | 1.6          | -                            | -            | -                      |
| Net Unrealised Gains on Securities  | 41,641                       | 0.7          | -                            | -            | -                      |
| Translation Adjustments   | 479                          | 0.0          | -                            | -            | -                      |
| <b>Total Equity</b>   | <b>172,551</b>               | <b>2.9</b>   | <b>-</b>                     | <b>-</b>     | <b>-</b>               |
| <b>Stockholders' Equity:</b>  |                              |              |                              |              |                        |
| Common Stock  | -                            | -            | 75,000                       | 1.3          | -                      |
| Capital Surplus   | -                            | -            | 54                           | 0.0          | -                      |
| Retained Earnings   | -                            | -            | 56,123                       | 0.9          | -                      |
| Net Unrealised Gains on Securities  | -                            | -            | 47,883                       | 0.8          | -                      |
| <b>Total Stockholders' Equity</b>   | <b>-</b>                     | <b>-</b>     | <b>179,060</b>               | <b>3.0</b>   | <b>-</b>               |
| <b>Total Liabilities, Minority Interests<br/>and (Stockholders') Equity</b> | <b>¥ 6,010,457</b>           | <b>100.0</b> | <b>¥ 6,035,905</b>           | <b>100.0</b> | <b>¥ 25,448</b>        |

Unaudited Consolidated Statements of Operations

Years ended 31st March

|   | 2002<br>(Millions<br>of yen) |       | 2003<br>(Millions<br>of yen) |       | Increase<br>(decrease) |
|---|------------------------------|-------|------------------------------|-------|------------------------|
|   |                              | %     |                              | %     |                        |
| <b>Ordinary Revenue:</b>                                    |                              |       |                              |       |                        |
| <b>Income from Insurance Premiums</b>                       | ¥ 1,059,445                  |       | ¥ 989,420                    |       | ¥ (70,024)             |
| <b>Investment Income / Gains:</b>                           |                              |       |                              |       |                        |
| Interest, dividends and income from<br>real estate for rent | 155,683                      |       | 129,419                      |       | (26,264)               |
| Gains on investments in trading<br>securities, net          | 592                          |       | -                            |       | (592)                  |
| Gains on sale of securities                                 | 88,599                       |       | 32,596                       |       | (56,003)               |
| Gains from derivatives                                      | -                            |       | 21,111                       |       | 21,111                 |
| Other investment income                                     | 1,229                        |       | 2,961                        |       | 1,731                  |
| Total Investment Income/gains                               | 246,104                      |       | 186,088                      |       | (60,016)               |
| <b>Other Ordinary Income</b>                                | 10,537                       |       | 9,747                        |       | (790)                  |
| <b>Equity in Net Income of Affiliated<br/>Companies</b>     | 195                          |       | -                            |       | (195)                  |
| <b>Total Ordinary Revenue</b>                               | 1,316,283                    | 100.0 | 1,185,256                    | 100.0 | (131,026)              |
| <b>Ordinary Expenses:</b>                                   |                              |       |                              |       |                        |
| <b>Insurance Claims and Other Payments:</b>                 |                              |       |                              |       |                        |
| Insurance claims  | 297,441                      |       | 295,889                      |       | (1,552)                |
| Annuity payments  | 22,768                       |       | 27,104                       |       | 4,336                  |
| Insurance benefits  | 266,487                      |       | 254,314                      |       | (12,172)               |
| Surrender payments  | 269,970                      |       | 215,896                      |       | (54,074)               |
| Other payments  | 50,776                       |       | 68,703                       |       | 17,927                 |
| Total Insurance Claims and<br>Other Payments                | 907,444                      |       | 861,908                      |       | (45,536)               |
| <b>Provision for Policy and Other<br/>Reserves:</b>         |                              |       |                              |       |                        |
| Provision for outstanding claims                            | 3,703                        |       | -                            |       | (3,703)                |
| Provision for policy reserve                                | 26,289                       |       | 12,724                       |       | (13,565)               |
| Interest portion of reserve for<br>policyholder dividends   | 1,550                        |       | 1,149                        |       | (401)                  |
| Total Provision for Policy<br>and Other Reserves            | 31,543                       |       | 13,873                       |       | (17,670)               |
| <b>Investment Expenses / Losses:</b>                        |                              |       |                              |       |                        |
| Interest expense  | 68                           |       | 37                           |       | (30)                   |
| Losses from monetary trusts, net                            | 30,189                       |       | 11,748                       |       | (18,440)               |
| Losses on investments in trading<br>securities, net         | -                            |       | 3,018                        |       | 3,018                  |
| Losses on sale of securities                                | 56,136                       |       | 19,755                       |       | (36,380)               |
| Devaluation losses on securities                            | 54,222                       |       | 58,713                       |       | 4,491                  |
| Losses from derivatives, net                                | 25,925                       |       | -                            |       | (25,925)               |
| Foreign exchange losses, net                                | 10,034                       |       | 1,473                        |       | (8,560)                |
| Write-off of loans  | 3,621                        |       | 69                           |       | (3,552)                |
| Depreciation of real estate for rent                        | 3,250                        |       | 3,069                        |       | (180)                  |
| Other investment expenses                                   | 3,282                        |       | 5,753                        |       | 2,471                  |
| Losses from special accounts, net                           | 18,879                       |       | 28,512                       |       | 9,633                  |
| Total Investment Expenses / Losses                          | 205,609                      |       | 132,153                      |       | (73,456)               |
| <b>Operating Expenses</b>                                   | 105,822                      |       | 111,381                      |       | 5,558                  |
| <b>Other Ordinary Expenses</b>                              | 21,824                       |       | 21,047                       |       | (777)                  |
| <b>Equity in Net Loss of Affiliated<br/>Companies</b>       | -                            |       | 3,085                        |       | 3,085                  |
| <b>Total Ordinary Expenses</b>                              | 1,272,245                    | 96.7  | 1,143,449                    | 96.5  | (128,796)              |
| <b>Ordinary Profit</b>                                      | ¥ 44,037                     | 3.3   | ¥ 41,807                     | 3.5   | ¥ (2,230)              |

|  | 2002<br>(Millions<br>of yen) |         | 2003<br>(Millions<br>of yen) |         | Increase<br>(decrease) |
|--|------------------------------|---------|------------------------------|---------|------------------------|
|  |                              | %       |                              | %       |                        |
| <b>Extraordinary Gains:</b>  |                              |         |                              |         |                        |
| Gains on sale of property, equipment and loans                     | ¥                            | 1,986   | ¥                            | 911     | ¥ (1,075)              |
| Reversal of reserve for possible loan losses                       |                              | 4,236   |                              | 3,165   | (1,071)                |
| Recoveries from bad debts previously written-off                   |                              | 608     |                              | 2,181   | 1,572                  |
| Other  |                              | -       |                              | 38      | 38                     |
| <b>Total Extraordinary Gains</b>                                   |                              | 6,832   | 0.6                          | 6,297   | 0.5 (535)              |
| <b>Extraordinary Losses:</b>                                       |                              |         |                              |         |                        |
| Losses on sale, disposal and devaluation of property and equipment |                              | 1,689   |                              | 4,309   | 2,619                  |
| Provision for reserve for possible loan losses                     |                              | 0       |                              | 0       | 0                      |
| Provision for allowance for policyholder dividends                 |                              | 30,662  |                              | -       | (30,662)               |
| Provision for price fluctuation reserve                            |                              | 1,330   |                              | 1,199   | (130)                  |
| Social service contribution  |                              | 316     |                              | -       | (316)                  |
| Payments for 100th anniversary project                             |                              | -       |                              | 254     | 254                    |
| <b>Total Extraordinary Losses</b>                                  |                              | 33,998  | 2.6                          | 5,764   | 0.5 (28,233)           |
| <b>Provision for reserve for policyholder dividends</b>            |                              | -       | -                            | 26,569  | 2.2 26,569             |
| <b>Income Before Income Taxes</b>                                  |                              | 16,871  | 1.3                          | 15,769  | 1.3 (1,102)            |
| <b>Income Taxes:</b>   |                              |         |                              |         |                        |
| Current  |                              | 10,130  | 0.8                          | 4,176   | 0.4 (5,954)            |
| Deferred   |                              | (2,961) | (0.2)                        | 5,154   | 0.4 8,115              |
| <b>Minority Interests</b>  |                              | 160     | 0.0                          | 55      | 0.0 (105)              |
| <b>Net Income</b>  | ¥                            | 9,541   | 0.7                          | ¥ 6,383 | 0.5 ¥ (3,158)          |

Unaudited Consolidated Statements of Retained Earnings

Years ended 31st March

|  | 2002<br>(Millions<br>of yen) |         | 2003<br>(Millions<br>of yen) |        | Increase<br>(decrease) |
|--|------------------------------|---------|------------------------------|--------|------------------------|
| <b>Balance at Beginning of Year</b>            | ¥                            | 126,145 | ¥                            | -      | ¥ -                    |
| <b>Deductions:</b>                             |                              |         |                              |        |                        |
| Transfer to reserve for policyholder dividends |                              | 33,249  |                              | -      | -                      |
| Transfer to reserve for redemption of fund     |                              | 6,800   |                              | -      | -                      |
| Interest on fund                               |                              | 181     |                              | -      | -                      |
| Bonus to directors                             |                              | 65      |                              | -      | -                      |
| Bonus to corporate auditors                    |                              | 13      |                              | -      | -                      |
| Total deductions                               |                              | 40,310  |                              | -      | -                      |
| <b>Net Income</b>                              |                              | 9,541   |                              | -      | -                      |
| <b>Balance at End of Year</b>                  | ¥                            | 95,376  | ¥                            | -      | ¥ -                    |
| <b>Capital Surplus:</b>                        |                              |         |                              |        |                        |
| Balance at beginning of year                   | ¥                            | -       | ¥                            | 54     | ¥ -                    |
| <b>Balance at End of Year</b>                  | ¥                            | -       | ¥                            | 54     | ¥ -                    |
| <b>Retained Earnings:</b>                      |                              |         |                              |        |                        |
| Balance at beginning of year                   |                              | -       |                              | 49,815 |                        |
| <b>Addition:</b>                               |                              |         |                              |        |                        |
| Net income                                     |                              | -       |                              | 6,383  |                        |
| <b>Deduction:</b>                              |                              |         |                              |        |                        |
| Bonus to directors                             |                              | -       |                              | 65     |                        |
| Bonus to corporate auditors                    |                              | -       |                              | 10     |                        |
| Total deductions                               |                              | -       |                              | 75     |                        |
| <b>Balance at End of Year</b>                  | ¥                            | -       | ¥                            | 56,123 | ¥ -                    |

Unaudited Consolidated Statements of Cash Flows

Years ended 31st March

|   | 2002<br>(Millions<br>of yen) | 2003<br>(Millions<br>of yen) | Increase<br>(decrease) |
|---|------------------------------|------------------------------|------------------------|
| <b>Cash flows from operating activities:</b>  |                              |                              |                        |
| Income before income taxes  | ¥ 16,871                     | ¥ 15,769                     | ¥ (1,102)              |
| Depreciation of real estate for rent  | 3,250                        | 3,069                        | (180)                  |
| Amortisation of goodwill due to consolidation   | 5                            | (1,192)                      | (1,198)                |
| Other depreciation and amortisation   | 7,072                        | 5,794                        | (1,278)                |
| Increase (decrease) in reserve for outstanding claims                                       | 3,703                        | (71)                         | (3,775)                |
| Increase in policy reserve  | 26,289                       | 12,724                       | (13,565)               |
| Interest portion of reserve for policyholder dividends                                      | 1,550                        | 1,149                        | (401)                  |
| Provision for reserve for policyholder dividends  | -                            | 26,569                       | 26,569                 |
| Decrease in reserve for possible loan losses  | (5,844)                      | (3,167)                      | 2,677                  |
| Write-off of loans  | 3,621                        | 69                           | (3,552)                |
| Increase in reserve for employees' retirement benefits                                      | 1,445                        | 2,437                        | 992                    |
| Increase in reserve for losses on sale of loans   | 0                            | 0                            | 0                      |
| Increase (decrease) in allowance for policyholder dividends                                 | 30,662                       | (30,662)                     | (61,324)               |
| Transfer from allowance for policyholder dividends to<br>reserve for policyholder dividends | -                            | 30,662                       | 30,662                 |
| Increase in reserve for price fluctuations  | 1,330                        | 1,199                        | (130)                  |
| Interest, dividends and income from real estate for rent                                    | (155,683)                    | (129,419)                    | 26,264                 |
| Losses on securities investment   | 42,347                       | 78,413                       | 36,066                 |
| Interest expense  | 68                           | 37                           | (30)                   |
| Exchange losses   | 3,326                        | 1,519                        | (1,806)                |
| (Gains) losses on sale or disposal of property and equipment                                | (989)                        | 3,379                        | 4,368                  |
| Equity in net (income) loss of affiliated companies   | (195)                        | 3,085                        | 3,280                  |
| Increase in amount due from agency  | (2,409)                      | (2,664)                      | (254)                  |
| (Increase) decrease in amount due from reinsurers   | (323)                        | 89                           | 412                    |
| Increase in other assets  | (3,373)                      | (4,327)                      | (954)                  |
| Increase (decrease) in amount due to agency   | 0                            | (0)                          | (0)                    |
| Increase (decrease) in amount due to reinsurers   | (43)                         | 68                           | 111                    |
| Increase in other liabilities   | 2,758                        | 7,690                        | 4,931                  |
| Other, net  | 57,855                       | (6,485)                      | (64,341)               |
| Sub-total   | 33,299                       | 15,741                       | (17,558)               |
| Interest, dividends and income from real estate for rent<br>received                        | 164,501                      | 136,979                      | (27,521)               |
| Interest paid   | (57)                         | (39)                         | 18                     |
| Dividends paid to policyholders   | (34,533)                     | (34,868)                     | (335)                  |
| Other, net  | (43,066)                     | 12,542                       | 55,609                 |
| Income taxes paid   | (19,304)                     | (5,618)                      | 13,686                 |
| <b>Net cash provided by operating activities</b>  | ¥ 100,838                    | ¥ 124,736                    | ¥ 23,898               |

|  | 2002<br>(Millions<br>of yen) | 2003<br>(Millions<br>of yen) | Increase<br>(decrease) |
|--|------------------------------|------------------------------|------------------------|
| <b>Cash flows from investing activities:</b>   |                              |                              |                        |
| Net (increase) decrease in short-term investments  | ¥ (3,790)                    | ¥ 6,540                      | ¥ 10,331               |
| Proceeds from sale and redemption of monetary claims purchased   | 2,200                        | 700                          | (1,500)                |
| Investments in monetary trusts   | (38,000)                     | (130,000)                    | (92,000)               |
| Proceeds from monetary trusts  | 134,731                      | 49,000                       | (85,731)               |
| Purchase of securities   | (2,170,659)                  | (1,412,770)                  | 757,888                |
| Sale and redemption of securities  | 1,865,697                    | 1,460,254                    | (405,443)              |
| Investments in loans   | (351,733)                    | (381,749)                    | (30,016)               |
| Collections on loans   | 320,301                      | 355,378                      | 35,077                 |
| Increase (decrease) in cash collateral received under security lending contracts                         | 91,337                       | (24,759)                     | (116,097)              |
| Sub-total  | (149,914)                    | (77,405)                     | 72,509                 |
| <b>Total of net cash provided by (used in) operating activities and investment transactions as above</b> |                              |                              |                        |
|  | (49,076)                     | 47,331                       | 96,407                 |
| Purchase of property and equipment   | (13,909)                     | (5,710)                      | 8,199                  |
| Proceeds from sale of property and equipment   | 3,763                        | 1,955                        | (1,807)                |
| Net cash paid related to sale of subsidiaries  | -                            | 937                          | 937                    |
| Proceeds from business transfer  | -                            | 200                          | 200                    |
| <b>Net cash used in investing activities</b>   | <b>(160,061)</b>             | <b>(80,021)</b>              | <b>80,039</b>          |
| <b>Cash flows from financing activities:</b>   |                              |                              |                        |
| Proceeds from issuance of commercial paper   | -                            | 30,000                       | 30,000                 |
| Payments related to redemption of commercial paper   | (30,000)                     | -                            | 30,000                 |
| Repayments of debt   | (57)                         | (0)                          | 56                     |
| Repayments of fund   | (6,800)                      | -                            | 6,800                  |
| Interest paid related to fund  | (181)                        | -                            | 181                    |
| Dividends paid to minority interests   | (2)                          | (0)                          | 2                      |
| Payments related to article 12 of implementation order for Insurance Business Law                        | -                            | (5,560)                      | (5,560)                |
| <b>Net cash provided by (used in) financing activities</b>   | <b>(37,042)</b>              | <b>24,437</b>                | <b>61,479</b>          |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>                                      |                              |                              |                        |
|  | (3,349)                      | (1,621)                      | 1,727                  |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | <b>(99,614)</b>              | <b>67,530</b>                | <b>167,145</b>         |
| <b>Cash and cash equivalents at beginning of year</b>  | <b>496,091</b>               | <b>396,477</b>               | <b>(99,614)</b>        |
| <b>Cash and cash equivalents at end of year</b>  | <b>¥ 396,477</b>             | <b>¥ 464,008</b>             | <b>¥ 67,530</b>        |

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

#### (a) Basis of presentation

Daido Life Insurance Company (the “Company”), a Japanese mutual company, maintains its accounting records and prepares its financial statements in Japanese yen in accordance with the provisions of the Insurance Business Law of Japan and in conformity with generally accepted accounting principles and practices in Japan.

In preparing the financial statements, certain items presented in the original financial statements have been reclassified and summarised for readers outside Japan. Such financial statements have been prepared in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. In addition, the accompanying footnotes include information which is not required under accounting principles and practices generally accepted in Japan, but is presented herein as additional information to the financial statements.

Amounts of less than one million yen have been eliminated. As a result, total in yen shown herein do not necessarily agree with the sum of the individual amounts.

#### (b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the parent company and its subsidiaries. All material intercompany balances and transactions are eliminated. The number of the consolidated subsidiaries for the year ended 31st March, 2003 was 6. Daido Life Investment Trust Management Co., Ltd, which was previously consolidated, has been accounted for under the equity method since 1st April, 2002 due to the sale of shares on 30th May, 2002. As of 1st July, 2002, Daido Life Investment Trust Management Co., Ltd. has been merged with T&D Taiyo Daido Asset Management Co., Ltd. and changed its name to T&D Asset Management Co., Ltd. As a result, T&D Taiyo Daido Asset Management Co., Ltd. has been eliminated from the list of affiliated companies since 30th June, 2002. Daido Properties Investment Inc. has been deconsolidated due to the liquidation on 3rd December, 2002.

In accordance with the reorganisation plan of the Company’s consolidated subsidiaries, Daido Kosan Co., Ltd., Daiko Building Service Co., Ltd. and Nihon System Shuno, Inc. have split off their businesses to those wholly owned subsidiaries on 1st October, 2002 and then the remaining businesses were merged into Daido Management Service Co., Ltd. together with businesses belonging to Daido Life Calculation Centre Co., Ltd., Daido Life Leasing Co., Ltd., Daido Confirm Co., Ltd. and Daido Life Credit Service Co., Ltd., as of 3rd February, 2003.

The investments in affiliates are accounted for under the equity method. The number of affiliated companies for the year ended 31st March, 2003 was 9. T&D Taiyo Daido Lease Co., Ltd. and Alternative Investment Capital Limited has been accounted for under the equity method since 30th September, 2002 and 4th October 2002, respectively, due to the purchase of shares on 1st August, 2002 and 1st October, 2002, respectively. T&D Information System Service Co., Ltd. has been merged with T&D Information Systems Co., Ltd. as of 1st October, 2002. T&D Premium Collection Service Co., Ltd. has been eliminated from the list of affiliated companies due to the liquidation on 18th March, 2003.

Further information for consolidated subsidiaries and affiliated companies is shown in “I. Subsidiaries and Affiliates”.

The financial statements of affiliates located outside Japan are prepared for the year ending 31st December. Appropriate adjustments were made for material transactions from 31st December to 31st March, which is the date of the consolidated financial statements.

The excess of cost over underlying net equity at acquisition dates of investments in subsidiaries and affiliated companies is amortised within twenty years. If the amount is not significant, the cost over equity is amortised immediately.

**(c) Foreign currency translation**

*(i) Foreign currency accounts*

Foreign currency monetary assets and liabilities (including securities and derivatives) are translated into Japanese yen at foreign exchange rates prevailing at the balance sheet date except for certain hedging instruments and related hedged items, which are translated at the contracted rates of such hedging instruments.

All income and expenses associated with foreign currencies are translated at the exchange rates prevailing when such transactions are made. The gains and losses of the exchange were credited or charged to income.

*(ii) Foreign currency financial statements of consolidated subsidiaries*

Assets, liabilities, income and expenses of the Company’s affiliates located outside Japan are translated into Japanese yen at the exchange rates in effect at the balance sheet date in accordance with generally accepted accounting standards in Japan.

**(d) Investments in securities other than subsidiaries and affiliates**

Investments in securities other than subsidiaries and affiliates are classified as trading, held-to-maturity, and available-for-sale securities. Trading securities and available-for-sale securities with readily obtainable fair values (“marketable available-for-sale securities”) are stated at fair value. Unrealised gains and losses on trading securities are reported in the statement of operations. Unrealised gains and losses on marketable available-for-sale securities are included in a separate component of equity, net of income taxes, unless the decline of the fair value of any particular marketable available-for-sale securities exceeds 30% or more of its book value, in which case such declines are recorded as devaluation (impairment) losses and charged to income. The Company and its subsidiaries have applied a stricter rule for impairment of marketable available-for-sale securities during the year ended 31st March 2003, by considering the current stock market condition. Held-to-maturity and available-for-sale securities without readily obtainable fair values are stated at amortised cost. For the purpose of computing realised gains and losses, cost is determined using the moving average method.

**(e) Reserve for possible loan losses**

The reserve for possible loan losses is established in accordance with the Company's Self-Assessment Manual. Regarding loans to borrowers under legal proceedings, such as bankruptcy and loans to borrowers in similar conditions, the Company provides a specific reserve in the amount of the loan balance less amounts collectible from collateral, guarantee and by other means. For loans to borrowers not yet bankrupt but highly likely to fall into bankruptcy, the necessary specific reserve amount is determined and is provided for based on an overall assessment of the borrowers' ability to pay after subtracting from the loan balance the amount collectible from collateral, guarantees and by other means. With respect to other loans, the Company provides for a general reserve by applying the historical loan-loss ratio determined over a fixed period. Each loan is subject to asset assessment by the business-related divisions in accordance with the Self-Assessment Manual, and the results of the assessment are reviewed by the Audit Division, which is independent from business-related divisions, before the reserve amount is finally determined.

Consolidated subsidiaries provide for their reserve for possible loan losses using the same procedures as the Company, which is mainly based on the results of self-assessment procedures and also provides an amount considered necessary by applying the historical loan-loss ratio determined over a fixed period.

**(f) Reserve for price fluctuations**

Pursuant to requirements under the Insurance Business Law, the Company maintains a reserve for price fluctuations mainly related to shares, bonds and foreign currency assets which are exposed to losses due to fluctuations of market prices. This reserve may only be used to reduce deficits arising from price fluctuations on those assets.

**(g) Policy reserve**

Pursuant to the requirements under the Insurance Business Law, the Company maintains a policy reserve for the fulfillment of future obligations under life insurance contracts. The reserve is set up under the net level premium method. A net level premium, determined at the issue date and fixed to be invariable until the termination of the relevant policy, is required to fund all future policy benefits. The net level premium reserve is calculated using interest and mortality rates set by the Financial Services Agency.

In addition to the above, in order to provide for any extraordinary risks which might arise in the future, the Company is required to maintain a contingency reserve at an amount determined based on requirements under the Insurance Business Law.

**(h) Reserve for losses on sale of loans**

The Company will be required to cover future losses resulting from its real estate secured loans sold to Cooperative Credit Purchasing Co. Ltd. and maintains a reserve based on estimates of such future losses. The establishment of this reserve is prescribed in Article 287-2 of the Japanese Commercial Code.

**(i) Income taxes**

The provision for income taxes is based on income recognised for financial statement purposes, which includes deferred income taxes representing the effects of temporary differences between income recognised for financial statement purposes and income recognised for tax return purposes. Deferred tax assets and liabilities are determined based on the difference between assets and liabilities for financial statement purposes and tax return purposes using statutory tax rates.

**(j) Property and equipment**

Property and equipment, including real estate for rent, are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method for buildings acquired on and after 1st April, 1998 and by the declining-balance method for other property and equipment. Estimated useful lives range from 6-50 years for buildings and structures and 2-20 years for equipment. Accumulated depreciation of property and equipment as of 31st March, 2003 was ¥88,407 million.

**(k) Derivative financial instruments**

The Company uses derivative financial instruments to hedge exposures to changes in interest rates, foreign exchange rates and stock prices for assets in the balance sheet or for future investments, and to manage the differences in the durations of its assets and liabilities.

All derivative financial instruments are stated at fair value, except for certain derivative financial instruments that are specifically identified as hedging instruments. Although insurance companies in Japan are allowed to use macro hedge accounting, the Company does not apply such accounting.

**(l) Accounting for consumption taxes**

Consumption taxes received or paid by the Company and its domestic subsidiaries are not included in income and expenses. The net of consumption taxes received and paid is separately recorded on the balance sheet. Where consumption taxes paid are not fully credited against consumption taxes received, the non-credited portion is charged as an expense in the period in which the consumption taxes are paid. However certain non-credited portions of consumption taxes paid such as the purchase of property and equipment are not charged to expense but are deferred as prepaid expenses and amortised against income over a five-year period on a straight-line basis.

**(m) Cash and cash equivalents**

Cash equivalents consist of highly liquid investments without significant market risk, such as demand deposits and short-term investments with an original maturity of three months or less.

**(n) Changes of presentation**

The presentation of stockholders' equity of the balance sheet and the consolidated statement of retained earnings as of and for the year ended 31st March 2003 have been revised due to the Company's demutualisation and the revision of the format of the financial statements prescribed by the implementation order for the Insurance Business Law.

**(o) Additional information**

From the year ended 31st March, 2003, the Company has recognised impairment losses for all securities of which decline in the fair value exceeds 30% of its book value. As a result, the Company and its subsidiaries recognised ¥18,487 million of additional devaluation losses on marketable available-for-sale securities. This resulted the decrease by ¥18,487 million in ordinary profit and income before income taxes for the year ended 31st March, 2003.

## 2. Investment in Securities and Monetary Trusts

Investment in securities and monetary trusts held by the Company and its subsidiaries as of 31st March, 2002 and 2003 are summarised below:

|                     | <u>As of 31st March,</u> |                    |
|---------------------|--------------------------|--------------------|
|                     | <u>2002</u>              | <u>2003</u>        |
|                     | (Millions of yen)        |                    |
| Securities:         |                          |                    |
| Trading             | ¥ 262,759                | ¥ 199,518          |
| Available-for-sale: |                          |                    |
| with fair value     | 2,210,754                | 2,105,291          |
| without fair value  | <u>88,280</u>            | <u>103,952</u>     |
|                     | 2,299,034                | 2,209,243          |
| Held-to-maturity    | <u>1,491,845</u>         | <u>1,538,461</u>   |
|                     | ¥ <u>4,053,640</u>       | ¥ <u>3,947,224</u> |
| Monetary trusts:    |                          |                    |
| Trading             | ¥ 22,949                 | ¥ 35,175           |
| Available-for-sale  | <u>72,246</u>            | <u>115,217</u>     |
|                     | ¥ <u>95,195</u>          | ¥ <u>150,393</u>   |

Investments in trading securities held by the Company and its subsidiaries as of 31st March, 2002 and 2003 are summarised below:

|                 | <u>As of 31st March, 2002</u> |                                     |
|-----------------|-------------------------------|-------------------------------------|
|                 | <u>Fair value</u>             | <u>Unrealised<br/>Gain (Losses)</u> |
|                 | (Millions of yen)             |                                     |
| Securities      | ¥ 262,759                     | ¥ 2,667                             |
| Monetary trusts | <u>22,949</u>                 | <u>(94)</u>                         |
| Total           | ¥ <u>285,708</u>              | ¥ <u>2,573</u>                      |

|                 | <u>As of 31st March, 2003</u> |                                     |
|-----------------|-------------------------------|-------------------------------------|
|                 | <u>Fair value</u>             | <u>Unrealised<br/>Gain (Losses)</u> |
|                 | (Millions of yen)             |                                     |
| Securities      | ¥ 199,518                     | ¥ (25,446)                          |
| Monetary trusts | <u>35,175</u>                 | <u>(3,973)</u>                      |
| Total           | ¥ <u>234,693</u>              | ¥ <u>(29,419)</u>                   |

Investments in held-to-maturity securities and available-for-sale securities held by the Company and its subsidiaries as of 31st March, 2002 and 2003 are summarised below:

|                   | <u>As of 31st March, 2002</u> |                                   |                                    |
|-------------------|-------------------------------|-----------------------------------|------------------------------------|
|                   | Amortised                     | Gross                             | Gross                              |
|                   | <u>Cost</u>                   | <u>Unrealised</u><br><u>Gains</u> | <u>Unrealised</u><br><u>Losses</u> |
|                   | (Millions of yen)             |                                   |                                    |
| Held-to-maturity: |                               |                                   |                                    |
| Domestic bonds    |                               |                                   |                                    |
| Corporate bonds   | ¥ 620,913                     | ¥ 24,804                          | ¥ (2,035)                          |
| Municipal bonds   | 698,994                       | 35,959                            | (458)                              |
| Government bonds  | <u>111,904</u>                | <u>17,147</u>                     | <u>-</u>                           |
| Sub-total         | 1,431,812                     | 77,911                            | (2,493)                            |
| Foreign bonds     | <u>60,031</u>                 | <u>1,203</u>                      | <u>(447)</u>                       |
| Total             | ¥ <u>1,491,845</u>            | ¥ <u>79,115</u>                   | ¥ <u>(2,941)</u>                   |

|                          | <u>As of 31st March, 2002</u> |                                   |                                    |
|--------------------------|-------------------------------|-----------------------------------|------------------------------------|
|                          | Carrying                      | Gross                             | Gross                              |
|                          | <u>Amount</u>                 | <u>Unrealised</u><br><u>Gains</u> | <u>Unrealised</u><br><u>Losses</u> |
|                          | (Millions of yen)             |                                   |                                    |
| Available-for-sale:      |                               |                                   |                                    |
| Domestic bonds           |                               |                                   |                                    |
| Corporate bonds          | ¥ 438,448                     | ¥ 16,095                          | ¥ (1,250)                          |
| Municipal bonds          | 620,846                       | 28,879                            | (448)                              |
| Government bonds         | <u>462,797</u>                | <u>12,902</u>                     | <u>(140)</u>                       |
| Sub-total                | 1,522,093                     | 57,877                            | (1,838)                            |
| Domestic stocks          | 278,384                       | 32,784                            | (14,831)                           |
| Foreign bonds            | 258,740                       | 2,745                             | (3,659)                            |
| Foreign stocks           | 974                           | 2                                 | (71)                               |
| Other foreign securities | 31,005                        | 390                               | (799)                              |
| Other securities         | <u>119,553</u>                | <u>175</u>                        | <u>(8,776)</u>                     |
| Total                    | ¥ <u>2,210,754</u>            | ¥ <u>93,976</u>                   | ¥ <u>(29,977)</u>                  |

|                   | <u>As of 31st March, 2003</u> |                                   |                                    |
|-------------------|-------------------------------|-----------------------------------|------------------------------------|
|                   | Amortised                     | Gross                             | Gross                              |
|                   | <u>Cost</u>                   | <u>Unrealised</u><br><u>Gains</u> | <u>Unrealised</u><br><u>Losses</u> |
|                   | (Millions of yen)             |                                   |                                    |
| Held-to-maturity: |                               |                                   |                                    |
| Domestic bonds    |                               |                                   |                                    |
| Corporate bonds   | ¥ 709,871                     | ¥ 43,083                          | ¥ (194)                            |
| Municipal bonds   | 669,306                       | 42,806                            | -                                  |
| Government bonds  | <u>108,877</u>                | <u>16,394</u>                     | <u>-</u>                           |
| Sub-total         | 1,488,055                     | 102,284                           | (194)                              |
| Foreign bonds     | <u>50,405</u>                 | <u>2,168</u>                      | <u>(233)</u>                       |
| Total             | ¥ <u>1,538,461</u>            | ¥ <u>104,452</u>                  | ¥ <u>(428)</u>                     |

|                          | <u>As of 31st March, 2003</u> |                                       |  |
|--------------------------|-------------------------------|---------------------------------------|--|
|                          | <u>Carrying<br/>Amount</u>    | <u>Gross<br/>Unrealised<br/>Gains</u> | <u>Gross<br/>Unrealised<br/>Losses</u> |
|                          | (Millions of yen)             |                                       |  |
| Available-for-sale:      |                               |                                       |  |
| Domestic bonds           |                               |                                       |  |
| Corporate bonds          | ¥ 509,975                     | ¥ 24,550                              | ¥ (236)                                |
| Municipal bonds          | 617,154                       | 37,252                                | -                                      |
| Government bonds         | <u>420,182</u>                | <u>13,150</u>                         | <u>(12)</u>                            |
| Sub-total                | 1,547,313                     | 74,952                                | (249)                                  |
| Domestic stocks          | 172,363                       | 14,198                                | (10,571)                               |
| Foreign bonds            | 161,023                       | 5,633                                 | (1,174)                                |
| Foreign stocks           | 1,913                         | -                                     | (262)                                  |
| Other foreign securities | 30,076                        | 796                                   | (1,934)                                |
| Other securities         | <u>192,601</u>                | <u>3,129</u>                          | <u>(6,490)</u>                         |
| Total                    | ¥ <u>2,105,291</u>            | ¥ <u>98,710</u>                       | ¥ <u>(20,683)</u>                      |

Net unrealised gains and losses on monetary trusts classified as available-for-sale securities are summarized as follows:

|                               | <u>As of 31st March,</u> |             |
|-------------------------------|--------------------------|-------------|
|                               | <u>2002</u>              | <u>2003</u> |
|                               | (Millions of yen)        |             |
| Carrying amount               | ¥ 72,246                 | ¥ 115,217   |
| Net unrealised gains (losses) | 398                      | (4,130)     |

Available-for-sale securities without readily obtainable fair value held by the Company and its subsidiaries as of 31st March, 2002 and 2003 are summarised below:

|                           | <u>As of 31st March,</u> |                  |
|---------------------------|--------------------------|------------------|
|                           | <u>2002</u>              | <u>2003</u>      |
|                           | (Millions of yen)        |                  |
| Unlisted domestic stocks  | ¥ 10,767                 | ¥ 10,672         |
| Unlisted foreign stocks   | 60,000                   | 60,000           |
| Other foreign securities  | 7,451                    | 12,857           |
| Other securities          | 3,098                    | 4,696            |
| Investments in affiliates | <u>6,964</u>             | <u>15,727</u>    |
| Total                     | ¥ <u>88,280</u>          | ¥ <u>103,952</u> |

Gross gains of ¥88,599 million and ¥32,510 million, and gross losses of ¥56,136 million and ¥19,659 million were realised on the sale of available-for-sale securities for the year ended 31st March, 2002 and 2003, respectively.

The carrying value of bonds classified as held-to-maturity and available-for-sale at 31st March, 2002 and 2003, by contractual maturity date, is shown below:

| As of 31st March, 2002                   |  |   |                        |                 |                    |
|--|--|---|------------------------|-----------------|--------------------|
| Due in<br>one year<br>or less            | Due after<br>one year<br>through<br>five years | Due after<br>five years<br>through<br>ten years | Due after<br>ten years | Total           |                    |
| (Millions of yen)                        |  |   |                        |                 |                    |
| Held-to-maturity and available-for-sale: |  |   |                        |                 |                    |
| Government bonds                         | ¥ 119,840                                      | ¥ 203,699                                       | ¥ 244,605              | ¥ 6,559         | ¥ 574,703          |
| Municipal bonds                          | 110,190  | 563,814   | 641,493                | 5,262           | 1,320,759          |
| Corporate bonds                          | 114,815  | 417,641   | 445,178                | 80,807          | 1,058,441          |
| Foreign bonds                            | <u>69,178</u>                                  | <u>138,442</u>                                  | <u>111,151</u>         | -               | <u>318,771</u>     |
| Total                                    | ¥ <u>414,025</u>                               | ¥ <u>1,323,597</u>                              | ¥ <u>1,442,429</u>     | ¥ <u>92,628</u> | ¥ <u>3,272,679</u> |

| As of 31st March, 2003                   |  |   |                        |                  |                    |
|--|--|---|------------------------|------------------|--------------------|
| Due in<br>one year<br>or less            | Due after<br>one year<br>through<br>five years | Due after<br>five years<br>through<br>ten years | Due after<br>ten years | Total            |                    |
| (Millions of yen)                        |  |   |                        |                  |                    |
| Held-to-maturity and available-for-sale: |  |   |                        |                  |                    |
| Government bonds                         | ¥ 169,871                                      | ¥ 180,617                                       | ¥ 174,442              | ¥ 4,127          | ¥ 529,057          |
| Municipal bonds                          | 134,842  | 557,843   | 590,087                | 3,687            | 1,286,459          |
| Corporate bonds                          | 81,227   | 442,532   | 530,258                | 165,828          | 1,219,845          |
| Foreign bonds                            | <u>6,044</u>                                   | <u>66,998</u>                                   | <u>115,121</u>         | <u>23,265</u>    | <u>211,428</u>     |
| Total                                    | ¥ <u>391,987</u>                               | ¥ <u>1,247,992</u>                              | ¥ <u>1,409,910</u>     | ¥ <u>196,909</u> | ¥ <u>3,246,798</u> |

Bonds amounting to ¥96,491 million were loaned under lending contracts as of 31st March, 2003.

During the year ended 31st March, 2002, held-to-maturity securities with a carrying amount of ¥1,113,483 million held with respect to the Company's group annuity business were reclassified into available-for-sale securities. This reclassification was to sustain an appropriate level of liquidity in order to deal with large potential shifts in the size of its group annuity business of interest rates increase significantly in the future.

As a result of this reclassification, securities and net unrealised gains of securities increased by ¥53,736 million and ¥34,332 million, respectively.

### 3. Loans

Delinquent loans of the Company and its subsidiaries as of 31st March, 2003 are summarised below.

| (Millions of yen)                       |                |
|---|----------------|
| Loans to bankrupt companies             | ¥ 293          |
| Past due loans                          | 8,405          |
| Loans over due for three months or more | 234            |
| Restructured loans                      | <u>885</u>     |
| Total                                   | ¥ <u>9,818</u> |

“Loans to bankrupt companies” are loans to borrowers that are subject to bankruptcy, corporate reorganisation or rehabilitation or other similar proceedings on which the Company has stopped accruing interest after determining that collection or repayment of principal or interest is impossible due to the significant delay in payment of principal or interest or for some other reason.

“Past due loans” are loans other than those categorised as “Loans to bankrupt companies” for which due dates for interest payments have been rescheduled for purposes of reconstruction or support of the borrower loans which the Company has stopped accruing interest based on its self-assessment.

“Loans over due for three months or more” are loans other than those categorised as “Loans to bankrupt companies” or “Past due loans” for which principal and/or interest are in arrears for three months or more.

“Restructured loans” are loans other than those categorised as “Loans to bankrupt companies”, “Past due loans” or “Loans over due for three months or more” for which agreements have been made between the relevant parties providing a concessionary interest rate, rescheduling of due dates for interest and/or principal payments, waiver of claims and/or other terms in favour of the borrower for purposes of reconstruction or support of the borrower.

Certain past due loans and loans to bankrupt companies were written off and charged to the reserve for possible loan losses. Write-offs relating to bankrupt companies as of 31st March, 2003 amounted to ¥986 million. Past due loans also decreased due to write-offs in the amounts of ¥4,122 million as of 31st March, 2003.

The Company’s outstanding loan commitments with borrowers are summarised as follows:

|                          | (Millions of yen) |
|--------------------------|-------------------|
| Total loan commitment    | ¥ 2,175           |
| Less amount draw down    | <u>1,095</u>      |
| Residual loan commitment | ¥ <u>1,080</u>    |

Based on the agreement, the extension of the credit is subject to the Company’s review procedures. The review procedures consist of ensuring the use of funds and credit worthiness of the borrower. Since not all of such outstanding commitment amounts will be drawn up, the outstanding commitment amounts do not necessarily represent future cash requirements.

#### 4. Derivative Financial Instruments

The Company uses derivative financial instruments to hedge exposures to changes in interest rates, foreign exchange rates and stock prices for assets in the balance sheet or for future investments, and to manage the differences in the durations of its assets and liabilities.

The Company has established internal rules regarding derivative financial instruments, which include policies and procedures for risk assessment, approval, reporting and monitoring. Based on such rules, the use of new types of derivative financial instruments must be approved by the board of directors. Such rules enable the Company to establish a control environment for derivative financial instruments. Each dealing function, such as the front, back and middle offices, is completely separated into different departments. The middle office, the Total Risk Monitoring Department, is periodically monitoring, measuring and analysing the risk related to the total assets of the Company, including derivative financial instruments, and periodically reports total risk, position and gains and losses to the ALM (Asset Liability Management) Committee and the Investment Strategy Meeting.

Because the Company uses derivative financial instruments mainly to hedge or to manage market risk exposures resulting from assets on the balance sheet, the risk of derivative financial instruments is limited through offsetting the risk arising from those assets. Instruments are traded either over an exchange or with counterparties of high credit quality. Accordingly, the risk of nonperformance by the counterparties is therefore considered to be remote.

The following tables show a summary of the notional amounts and current market or fair value of derivative financial instruments, except for hedging instruments, held as of 31st March, 2002 and 2003, respectively. Notional amounts do not represent exposure to credit loss.

|                                   | <u>As of 31st March, 2002</u> |                         |                                     |                                 |
|-----------------------------------|-------------------------------|-------------------------|-------------------------------------|---------------------------------|
|                                   | <u>Notional amounts</u>       |                         | <u>Current market or fair value</u> | <u>Valuation gains (losses)</u> |
|                                   | <u>Over one year</u>          | <u>One year or less</u> |                                     |                                 |
|                                   |                               |                         |                                     |                                 |
|                                   |                               |                         |                                     | (Millions of yen)               |
| Stock index future sold           | ¥ -                           | ¥ 65,843                | ¥ 64,983                            | ¥ 859                           |
| Interests rate swaps              | 61,800                        | 2,600                   | (1,423)                             | (1,423)                         |
| Foreign exchange contracts sold   | -                             | 73,653                  | 75,594                              | (1,941)                         |
| Foreign exchange contracts bought | -                             | 380                     | 381                                 | <u>1</u>                        |
| Total valuation gains (losses)    |                               |                         |                                     | ¥ <u>(2,504)</u>                |

|                                   | <u>As of 31st March, 2003</u> |                         |                                     |                                 |
|-----------------------------------|-------------------------------|-------------------------|-------------------------------------|---------------------------------|
|                                   | <u>Notional amounts</u>       |                         | <u>Current market or fair value</u> | <u>Valuation gains (losses)</u> |
|                                   | <u>Over one year</u>          | <u>One year or less</u> |                                     |                                 |
|                                   |                               |                         |                                     |                                 |
|                                   |                               |                         |                                     | (Millions of yen)               |
| Stock index future sold           | ¥ -                           | ¥ 82,825                | ¥ 83,679                            | ¥ (853)                         |
| Interests rate swaps              | 29,200                        | 32,600                  | (1,354)                             | (1,354)                         |
| Foreign exchange contracts sold   | -                             | 70,271                  | 70,885                              | (613)                           |
| Foreign exchange contracts bought | -                             | 204                     | 204                                 | <u>(0)</u>                      |
| Total valuation gains (losses)    |                               |                         |                                     | ¥ <u>(2,821)</u>                |

The notional amounts and average fixed interest rates of interest rate swaps by maturities at 31st March, 2002 and 2003 are as follows:

|  | <u>After one</u>         |                                 |                          |          | <u>Total</u> |
|--|--------------------------|---------------------------------|--------------------------|----------|--------------|
|  | <u>One year or less</u>  | <u>year through three years</u> | <u>After three years</u> |          |              |
|  | <u>(Millions of yen)</u> |                                 |                          |          |              |
| 2002:  |                          |                                 |                          |          |              |
| Notional amount                                | ¥ 2,600                  | ¥ 55,200                        | ¥ 6,600                  | ¥ 64,400 |              |
| Average fixed interest rate to be received (%) | 0.10                     | 1.20                            | 0.10                     | 1.04     |              |
| Average fixed interest rate to be paid (%)     | 1.97                     | 2.22                            | 1.97                     | 2.19     |              |
| 2003:  |                          |                                 |                          |          |              |
| Notional amount                                | ¥ 32,600                 | ¥ 25,200                        | ¥ 4,000                  | ¥ 61,800 |              |
| Average fixed interest rate to be received (%) | 0.87                     | 0.74                            | 0.07                     | 0.76     |              |
| Average fixed interest rate to be paid (%)     | 2.19                     | 2.24                            | 1.97                     | 2.20     |              |

As of 31st March, 2003, ¥10,923 million of the Company's investments in securities were used as substitution of margin for future contracts.

## 5. Special Accounts

The balance sheet includes ¥175,054 million of assets and liabilities in equal amounts related to special accounts, as of 31st March, 2003.

Special account assets and liabilities reported in the accompanying consolidated balance sheet represent funds that are administered and invested by the Company to meet specific investment objectives of the policyholders. All gains and losses relating to special account assets are offset by a corresponding provision for or reversal of policy reserve and do not affect the Company's net income. Special accounts are established in conformity with the Insurance Business Law. The assets of each account are separately managed to identify investment results of each account, although they are not legally segregated in terms of their treatments in case of bankruptcy of the insurance company.

Securities invested under the special accounts are deemed as trading securities, and are stated at fair value. Cost is determined on the moving average method.

## 6. Income Taxes

The Company and its domestic subsidiaries are subject to corporate (national) and inhabitants (local) taxes based on income which, in the aggregate, resulted in a normal statutory tax rate of approximately 36.1% for the year ended 31st March, 2003.

The effective tax rates for the year ended 31st March, 2003 differ from the normal statutory rate for the following reasons:

|  |              |   |
|--|--------------|---|
| Statutory tax rate                                   | 36.1         | % |
| Permanent differences such as entertainment expenses | 9.0          |   |
| Elimination of dividends received from subsidiaries  | 8.3          |   |
| Effect of equity in net loss of affiliated companies | 7.1          |   |
| Other  | <u>(1.3)</u> |   |
| Effective tax rate                                   | <u>59.2</u>  | % |

Significant components of deferred tax assets and liabilities of the Company and its subsidiaries as of 31st March, 2003 are summarised below:

|  | (Millions of yen) |
|--|-------------------|
| Deferred tax assets:                               |                   |
| Policy reserves                                    | ¥ 35,317          |
| Reserve for employee's retirement benefits         | 21,535            |
| Devaluation losses on securities                   | 14,234            |
| Reserve for price fluctuations                     | 10,559            |
| Unrealised losses on available-for-sale securities | 9,141             |
| Reserve for possible loan losses                   | 3,159             |
| Other  | <u>3,739</u>      |
| Total deferred tax assets                          | ¥ 97,687          |
| Deferred tax liabilities:                          |                   |
| Unrealised gain on available-for-sale securities   | ¥ (36,027)        |
| Deferred gain on sale of real estate               | <u>(563)</u>      |
| Total deferred tax liabilities                     | <u>(36,590)</u>   |
| Net deferred tax asset                             | ¥ <u>61,096</u>   |

## 7. Reserve for Employees' Retirement Benefits

The Company and its subsidiaries maintain non-contributory defined benefit plans covering substantially all employees. Under the plans, employees are entitled to lump-sum or annuity payments based on their current rate of pay and length of service at retirement or whether the termination of employment was for reasons other than dismissal cause.

The Company sets up a reserve for employees' retirement benefits under the defined benefit plans based on the actuarial value of the retirement benefit obligations and the pension assets.

The components of net periodic pension cost for the year ended 31st March, 2002 and 2003 are summarised below:

|                                       | For the year ended<br>31st March, |                |
|---------------------------------------|-----------------------------------|----------------|
|                                       | 2002                              | 2003           |
|                                       | (Millions of yen)                 |                |
| Service cost                          | ¥ 3,209                           | ¥ 3,270        |
| Interest cost                         | 1,642                             | 1,677          |
| Expected return on assets             | (131)                             | (95)           |
| Amortisation of unrecognised net gain | 1,008                             | 2,036          |
| Amortisation of prior service cost    | 254                               | -              |
| Total pension cost                    | ¥ <u>5,984</u>                    | ¥ <u>6,888</u> |

Assumptions used in accounting for the plans were as follows:

|   | For the year ended<br>31st March, |       |
|---|-----------------------------------|-------|
|   | 2002                              | 2003  |
| Discount rate                               | 2.5%                              | 2.3%  |
| Expected long-term rate of return on assets | 2.5%                              | 1.75% |

The attribution of retirement benefits to periods of employees' service is made based on the benefit/years-of-service approach. Unrecognised net gain or loss are charged or credited to income when recognised.

The plans' funded status as of 31st March, 2002 and 2003 are summarised below:

|                                 | As of 31st March, |                 |
|---------------------------------|-------------------|-----------------|
|                                 | 2002              | 2003            |
|                                 | (Millions of yen) |                 |
| Projected benefit obligation    | ¥ 67,118          | ¥ 69,859        |
| Plan assets                     | (5,452)           | (5,785)         |
| Unrecognised net gain or loss   | -                 | -               |
| Reserve for retirement benefits | ¥ <u>61,665</u>   | ¥ <u>64,074</u> |

Directors are not covered by the plans described above. Benefits paid to directors are charged to income as paid, as amounts vary with circumstances and it is not practicable to compute the liability for future payments.

## 8. Reserve for Policyholder Dividends

Changes in the reserve for policyholder dividends included in policy reserves for the year ended 31st March, 2003 is as follows:

| (Millions of yen)                                  |                  |
|--|------------------|
| Balance at beginning of year                       | ¥ 113,659        |
| Transfer from allowance for policyholder dividends | 30,662           |
| Policyholder dividends                             | (34,868)         |
| Increase in interest                               | 1,149            |
| Other  | 164              |
| Provision of reserve for policyholder dividends    | <u>26,569</u>    |
| Balance at end of year                             | ¥ <u>137,336</u> |

## 9. Commitments

Amounts of the Company's future contribution to the Policyholder Protection Fund, which has been taken over by the Policyholder Protection Corporation in accordance with the Enactment Law of Financial System Reform Legislation in the year ended 31st March, 2000, were estimated at ¥3,624 million as of 31st March, 2003. The contribution is charged to income as an operating expense when paid as the amount of future contribution is not yet fixed.

The amounts of future contribution to the Policyholder Protection Corporation, which is estimated in accordance with Article 259 of the Insurance Business Law, were ¥15,996 million as of 31st March, 2003. The contribution is also charged to income as an operating expense when paid as the amount of future contribution is not yet fixed.

¥23,928 million of the Company's investments in securities were pledged for the benefit of the Policyholder Protection Corporation as of 31st March, 2003 in order to secure such future contribution.

## 10. Information for Consolidated Statement of Retained Earnings

As a result of the demutualisation performed by the Company as of 1st April, 2002, the equity in the balance sheet has been adjusted. These adjustments would effect to the stockholders' equity of the consolidated balance sheet as follows:

| (Millions of yen)                  |                |                                    |                |
|------------------------------------|----------------|------------------------------------|----------------|
| As of 31st March, 2002             |                | As of 1st April, 2002              |                |
| Description                        | Amount         | Description                        | Amount         |
| (Equity)                           |                | (Stockholders' Equity)             |                |
| Revaluation reserve                | ¥ 53           | Common Stock                       | ¥ 75,000       |
| Reserve for redemption of fund     | 35,000         | Capital Surplus                    | 54             |
| Surplus                            | 95,376         | Retained earnings                  | 49,815         |
| Net unrealised gains on securities | 41,641         | Net unrealised gains on securities | 41,641         |
| Translation adjustments            | 479            | Translation adjustments            | 479            |
| <b>Total Equity</b>                | <b>172,551</b> | <b>Total Equity</b>                | <b>166,991</b> |

Note: For total equity as of 1st April, 2002, ¥5,560 million has been deducted from total equity as of 31st March, 2002 in accordance with Article 12 of the implementation order for the Insurance Business Law.

## 11. Consolidated Statement of Cash Flows

The following table provides a reconciliation of cash and cash equivalents in the statement of cash flows to cash and deposits as stated in the balance sheet:

|  | <u>As of 31st March,</u><br><u>2003</u><br>(Millions of yen) |
|--|--|
| Cash and deposits  | 288,716  |
| Less deposits with an original maturity more than three months | (606)  |
| Call loan  | 135,000  |
| Monetary claims purchased                                      | <u>40,897</u>  |
| Cash and cash equivalents                                      | <u>464,008</u>   |

Assets and liabilities of Daido Life Investment Trust Management which is deconsolidated due to the sale of shares are summarized as follows.

|                   | <u>As of 31st March,</u><br><u>2003</u><br>(Millions of yen) |
|-------------------|--|
| Cash and deposits | ¥ 590  |
| Securities        | 2,208  |
| Other assets      | 331  |
| Other liabilities | 233  |

## 12. Per Share Information

The Company has not issued new shares of common stock and shares having a potential dilutive effect after its demutualisation. In addition, the Company did not hold any treasury stocks during the year ended 31st March, 2002. The net income per share calculated based on the weighted average number of shares of common stock outstanding during the year ended 31st March, 2003 was ¥4,204.50. The net assets per share calculated based on the number of shares of common stock outstanding as of 31st March, 2003 was ¥119,322.62.

## 13. Segment Information

Segment information is not required to be disclosed as ordinary revenue and total assets related to the Company's insurance business in Japan exceeds 90% of the total amounts of ordinary revenue and total assets, respectively.

## 14. Subsequent Events

In accordance with the Article 85 of the Insurance Business Law, the Company converted from a mutual company to a joint stock corporation on 1st April, 2002.

### (1) Subscribed capital

Equity in the balance sheet of the Company as of 1st April, 2002 has been adjusted as follows in accordance with the plan of reorganisation prescribed in the Article 86 of the Insurance Business Law.

(Millions of yen)

| As of 31st March, 2002             |               | As of 1st April, 2002              |               |
|------------------------------------|---------------|------------------------------------|---------------|
| Description                        | Amount        | Description                        | Amount        |
| (Equity)                           |               | (Equity)                           |               |
| Legal reserve                      |               | Subscribed Capital                 | ¥ 75,000      |
| Revaluation reserve                | ¥ 53          | Legal reserve                      |               |
| Reserve for redemption of fund     | 35,000        | Capital reserve                    | 54            |
| Legal reserve for future losses    | <u>1,018</u>  | Appropriated legal reserve         | <u>1,018</u>  |
| Total Legal reserve                | 36,071        | Total Legal reserve                | 1,072         |
| Surplus                            |               | Surplus                            |               |
| Appropriated retained earnings     | ¥ 63,635      | Appropriated retained earnings     | 18,074        |
| Unappropriated retained earnings   | <u>22,766</u> | Unappropriated retained earnings   | <u>22,766</u> |
| Total Surplus                      | 86,402        | Total Surplus                      | 40,841        |
| Net unrealised gains on securities | 41,514        | Net unrealised gains on securities | 41,514        |
| Total Equity                       | 163,988       | Total Equity                       | 158,428       |

Note: For total equity as of 1st April, 2002, ¥5,560 million has been deducted from total equity as of 31st March, 2002 in accordance with Article 12 of the implementation order for the Insurance Business Law. (See (2) below)

### (2) Payment based on Article 12 of the implementation order for Insurance Business Law

If eligible policyholders are prohibited by laws or regulations from receiving any share allotments, the Company should make monetary compensation to such policyholders who had reported the fact to the Company by 30th April, 2001 in accordance with the Article 89 of the Insurance Business Law. In accordance with the Article 12 of the implementation order for the Insurance Business Law, the amount of monetary compensation is equivalent in proportion to the amount of their relative contribution to the Company's net assets.

Amounts paid to policyholders (totalling to ¥5,560 million) was calculated by multiplying the number of total shares to be allotted to policyholders if they could receive the share allotments (21,272.6071944 shares) by the purchase price for new listing made by underwriters (¥261,387). The amount has been reclassified into accrued liabilities and paid the day after the reorganisation (1st April, 2002).