

Consolidated Financial Summary  
(For the fiscal year 2002 ended March 31, 2003)

May 22, 2003

Name of Company: Taiyo Life Insurance Company  
 Stock Listing: Tokyo  
 Security Code No.: 8796  
 Head Office: Tokyo, Japan  
 URL: <http://www.taiyo-seimei.co.jp/>  
 Date of Board Meeting for approval of Accounts: May 22, 2003  
 Application of U.S Accounting Standards: No

**1. Consolidated Results for the FY2002 Ended March 31, 2003**

(1) Results of Operations

*Note: Amounts of less than one million yen are truncated, and percentages have been rounded to the nearest percent.*

|                             | Ordinary Revenue | %change | Ordinary Profit | %change | Net Income | %change |
|-----------------------------|------------------|---------|-----------------|---------|------------|---------|
| FY2002 ended March 31, 2003 | ¥1,401,834       | (12.6)  | ¥21,063         | 16.8    | ¥1,584     | 101.2   |
| FY2001 ended March 31, 2002 | ¥1,603,506       | 14.7    | ¥18,030         | (17.5)  | ¥787       | -       |

|                             | 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 |
|-----------------------------|----------------------|--------------------------------------|---------------------------------------------|------------------------------------------|----------------------------------------------|
| FY2002 ended March 31, 2003 | ¥1,015.50            | ¥ -                                  | 1.1%                                        | 0.3%                                     | 1.5%                                         |
| FY2001 ended March 31, 2002 | ¥524.90              | ¥ -                                  | 0.3%                                        | 0.3%                                     | 1.1%                                         |

- Notes: 1. Equity in net income of affiliated companies: ¥(2,571) million for the year ended March 31, 2003 and ¥350 million for the year ended March 31, 2002.  
 2. Average number of outstanding shares during the year (consolidated): None  
 3. Changes in method of accounting: Yes  
 4. % change for ordinary revenue, ordinary profit and net income is presented in comparison with the previous fiscal year.  
 5. Taiyo Life Insurance Company was a mutual company through March 31, 2003. Please refer to P.2, 3 of this material for computation 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 |
|-----------------------------|--------------------|----------------------|----------------------------|--------------------------------|
| FY2002 ended March 31, 2003 | ¥6,549,636 million | ¥115,431 million     | 1.8%                       | ¥76,913.56                     |
| FY2001 ended March 31, 2002 | ¥6,855,318 million | ¥166,991 million     | 2.4%                       | ¥111,328.00                    |

- Notes: 1. Number of outstanding shares at the end of the year (consolidated): None  
 2. Taiyo Life Insurance Company was a mutual company through March 31, 2003. Please refer to P.2, 3 for computation 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 Year |
|-----------------------------|--------------------------------------|--------------------------------------|--------------------------------------|------------------------------------------|
| FY2002 ended March 31, 2003 | ¥(207,657) million                   | ¥247,581 million                     | ¥(21,636) million                    | ¥172,469 million                         |
| FY2001 ended March 31, 2002 | ¥(283,952) million                   | ¥164,870 million                     | ¥(1,145) million                     | ¥154,178 million                         |

|                                                                             |      |
|-----------------------------------------------------------------------------|------|
| (4) Scope of Consolidation and Application of Equity Method:                |      |
| Number of consolidated subsidiaries:                                        | 8    |
| Number of non-consolidated subsidiaries accounted for by the equity method: | None |
| Number of affiliates accounted for by the equity method:                    | 3    |
| (5) Change in Scope of Consolidation and Application of Equity Method:      |      |
| Number of companies newly consolidated:                                     | 1    |
| Number of companies excluded from consolidation:                            | 0    |
| Number of companies newly accounted for by the equity method:               | 0    |
| Number of companies excluded from the equity method of accounting           | 1    |

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

|         | Ordinary Revenue | Ordinary Profit | Net Income  |
|---------|------------------|-----------------|-------------|
|         | (¥Millions)      | (¥Millions)     | (¥Millions) |
| Interim | ¥599,000         | ¥13,600         | ¥3,000      |
| Annual  | ¥1,189,000       | ¥23,900         | ¥3,700      |

Note: Projected net income per share for the year ending March 31, 2004 is ¥2,466.67

The above forecasts for the year ending March 31, 2004 reflect the Company's current analysis of the existing information and trends available on the release date of this material. Actual results may differ from expectations based on risks and uncertainties that may affect the Company's business.

As of April 1, 2003, Taiyo Life Insurance Company converted from a mutual company to a joint stock corporation.

In the case of mutual life 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 for reserve is treated as an expense in its statement of operation.

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

Assuming that the Company had treated the provision for reserve for policyholder dividends as an expense in the statement of operation, like as a joint stock corporation, the following figures and ratios would have been calculated as follows:

#### **Net income**

Net income as reported in the statement of operation [¥11,642 million] - provision for reserve for policyholder dividends [¥10,855 million] = net income (adjusted)

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

Net income (adjusted) / number of outstanding shares at time of demutualization [1,500,000 shares]

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

Net income (adjusted) / {(total equity at beginning of fiscal year [¥323,383 million] – provision for reserve for policyholder dividend [¥11,101 million] + total equity at end of fiscal year [¥177,847 million] – provision for reserve for policyholder dividend [¥10,855 million]) / 2} x 100

#### **Shareholders' equity**

Total equity at end of fiscal year as reported in the balance sheet [¥177,847 million] – provision for reserve for policyholder dividend [¥10,855 million] = shareholders equity (adjusted)

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

Shareholders' equity (adjusted) / (total liabilities at end of fiscal year [¥6,675,367 million] + minority interests at end of fiscal year [¥2,103 million] + total equity at end of fiscal year [¥177,847 million]) x 100

**Shareholders' equity per share**

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

**Fiscal Year Ended March 31, 2003**

For the fiscal year ended March 31, 2003, the Company sets up the allowance for policyholder dividends to provide for policyholder dividends to be paid after demutualization, and the amount corresponding to the provision for policyholder dividends of a mutual company was charged to the income statement of operation.

In conjunction with the demutualization, certain policyholders will receive cash payment in lieu of a share allotment (Note) after April 1, 2003. The amount paid (hereinafter, the amount paid upon demutualization) had been included within the equity of the mutual company but was deducted from equity upon demutualization and would not be included in the shareholders' equity of the joint stock corporation.

If these effects described above had been taken into consideration, the following figures and ratios would have been calculated as follows:

**Net income**

Net income as reported in the statement of operation [¥1,584 million]

**Net income per share**

(Net income [¥1,584 million] – bonus to directors and corporate auditors [¥61 million]) / number of outstanding shares at time of demutualization [1,500,000 shares]

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

Net income [¥1,584 million] / {(total equity at beginning of fiscal year [¥177,847 million] – provision for reserve for policyholder dividend [¥10,855 million] + total equity at end of fiscal year [¥116,307 million]) / 2} x 100

**Shareholders' equity**

Total equity at end of fiscal year as reported in the balance sheet [¥116,307 million] – amount paid upon demutualization [¥875 million] = shareholders' equity (adjusted)

**Shareholders' equity ratio**

Shareholders' equity (adjusted) / (total liabilities at end of fiscal year [¥6,431,564 million] + minority interests at end of fiscal year [¥1,765 million] + total equity at end of fiscal year [¥116,307 million]) x 100

**Shareholders' equity per share**

(Shareholders' equity (adjusted) – bonus to directors and corporate auditors [¥61 million]) / number of outstanding shares at time of demutualization [1,500,000 shares]

Note: If policyholders are prohibited by laws or regulations from receiving any share allotments, the Company should make monetary compensation to such policyholders in accordance with the Article 89, Section 1 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 ¥875 million) were calculated by multiplying the number of total shares that would be allotted if they could receive the share allotments (12,054.9739294) by the purchase price for new listing made by underwriters (¥72,652).

The amount was reclassified into other payables as of the date of demutualization and paid after April 1, 2003.

## . Subsidiaries and Affiliates

The Company and its subsidiaries consist of Taiyo Life Insurance Company, 8 subsidiaries and 6 affiliates.

|                                                                                                             |
|-------------------------------------------------------------------------------------------------------------|
| <b>Taiyo Life Insurance Company</b>                                                                         |
| <b>Insurance and Insurance-Related Business (3 companies)</b>                                               |
| <b>Insurance</b>                                                                                            |
| # T&D Financial Life Insurance Company (Life insurance company)                                             |
| <b>Insurance-Related</b>                                                                                    |
| * T&D Confirm Ltd. (Policyholder confirmation)                                                              |
| * Toyo Insurance Agency Co. Ltd. (Insurance agent)                                                          |
| <b>Investment-Related Business (7 companies)</b>                                                            |
| <b>Investment Advisory</b>                                                                                  |
| * Taiyo Life Insurance International (UK) Ltd. (Investment advisory services)                               |
| # T&D Asset Management Co., Ltd. (Investment advisory and investment trust services)                        |
| T&D Asset Management (USA) Inc. (Investment advisory services)                                              |
| Sinopia T&D Asset Management Co., Ltd. (Investment advisory services)                                       |
| <b>Other</b>                                                                                                |
| * T&D Taiyo Daido Life Lease Ltd. (Leasing)                                                                 |
| * Taiyo Credit Guarantee Co., Ltd. (Credit guarantee services)                                              |
| T&D Asset Management (Cayman) Inc. (Investment fund management and administrative services)                 |
| <b>Other Businesses (4 companies)</b>                                                                       |
| <b>Administration-Related</b>                                                                               |
| * Taiyo Life Career Staff Co., Ltd. (Personnel placement agency)                                            |
| <b>General Affairs and Calculation-Related</b>                                                              |
| * Taiyo Life Office Support Co., Ltd. (Back office services)                                                |
| # T&D Information Systems, Ltd. (Computer processing)                                                       |
| <b>Others</b>                                                                                               |
| * Taiyo Building Management Co., Ltd. (Real estate management and agency services for lease of real estate) |

Notes:

1. Companies marked by \*, # and represent consolidated subsidiaries, affiliated companies accounted for by the equity method, and affiliated companies accounted for by the cost method, respectively.
2. Taiyo Life Insurance International (UK) Ltd. made the resolution of dissolution at the Annual General Meeting held on July 29, 2002, and is currently undergoing liquidation process.

## II. Management Principles and Goals

### 1. Basic Management Principles

Our vision, which we stated in the medium-term management plan, is as follows:

- We will become our customers' life-time partner by providing the best products and services in the retail household market.
- We will establish a strong business structure that makes continuously enhance our corporate value through the contribution to our income and profit.

Basic policies derived from our vision are as follows:

1. Enhance and expand customer base through highly unique strategies (differentiation strategy)
2. Establish profitable structure through the enhancement of sales activities and efficiencies.
3. Maintain a sound financial position to meet our customers' expectation

### 2. Dividend Policy

Because the Company is engaged in the life insurance business, which is required to consider its sociality and publicities, we believe that it is important to maintain a sound and strong business structure.

Our basic profit distribution policy has a fundamental goal to pay stable cash shareholder dividends while seeking to maintain a sound capital base for its operation and ensuring operating stability.

Unappropriated retained earnings have been effectively reinvested to strengthen our business foundation.

As the Company was a mutual company through March 31, 2003, it is not permitted to distribute shareholder dividends for the year then ended.

### 3. Target in Management Plan

Based on the medium-term management plan for the fiscal year started April 1, 2003, we set out the following targets for the fiscal year ending March 31, 2004.

We believe that our corporate value will be increased through the stepping up of the target in our plan and this will be matched with the long-term profit for all stakeholders including shareholders.

(Non-consolidated)

|                                           | Target amount<br>(in billion yen) | % change from the<br>previous fiscal year |
|-------------------------------------------|-----------------------------------|-------------------------------------------|
| Ordinary profit                           | 26.0                              | 112.8%                                    |
| Net income                                | 6.4                               | 132.6%                                    |
| Base profit                               | 29.4                              | 102.3%                                    |
| Policy amount in force                    |                                   |                                           |
| Individual insurance/individual annuities | 16,590.8                          | 108.7%                                    |
| Group insurance                           | 10,764.8                          | 98.1%                                     |
| Group annuities                           | 786.3                             | 98.1%                                     |

#### 4. Medium-term Strategy

Our Medium-term Strategy includes business plans formulated based on our vision and basic management principles, which require to improve profitability, to achieve efficient resource management and to improve the transparency of management.

The outline of medium-term management plan for the fiscal year ending March 31, 2004 and 2005 are as follows:

##### 1. Marketing plan

###### A. Individual insurance

- Enhance profitability through expanded sales of protection-oriented products
- Develop and expand sales staff organization (enhancement of recruitment and education)
- Expand customer base by attracting new customers and promoting additional sales using data base to existing customers
- Improve customer services by utilization of contract history and other customer information, expansion of call center, and provision of expanded card service

###### B. Corporate insurance

- Maintain customer base by capturing new group customers and promoting additional products to existing customers
- Sales plans focusing on profitability

###### C. Non-life insurance

- Provide comprehensive insurance services through sales of non-life insurance products, and expand fee business

##### 2. Resource management plan (restructuring and efficiency)

- Integrate operating process and improve its efficiency by using IT
- Achieve efficient resource management through review of organization and business integration within T&D insurance group

##### 3. Financial and investment plan

- Implement centralized management system both for profit and risk
- Enhance base profit by focusing source of interest income
- Maintain sound financial position

##### 4. Management plan

- Enhance corporate governance function
- Improve risk management structure
- Enforce compliance activities
- Enhance organization for IR and disclosure
- Enhance personal ability and make efficient and appropriate allocation of human resources

##### 5. Future Tasks

Amid a continuing severe business environment, we intend to address the following issues, among other things, in order to become a selected insurance company that earns high degree of trust from customers and shareholders.

###### 1. Diversion of products and sales plan (shift to protection-oriented products)

In the past, we focused on sales of savings-type products including short-term endowment insurance. However, in our new focus, we will develop and provide various attractive products, other than saving-type products, that meet the diversifying needs of customers and we will establish a strong income structure. For that purpose, our current business priority is to shift sales to protection-oriented products that focus on sufficient medical and nursing care.

To evaluate the results of this issue in a timely manner, we have introduced new measures for corporate value based on the present value of our insurance products.

## 2. Improvement of investment portfolio

In the investment area, we have suffered significant losses on devaluation of equity securities due to deterioration of recent Japanese stock market. However, we had net unrealized gain on total portfolio of the general account assets mainly due to the increase in unrealized gains in domestic and foreign bonds stemming from decline in interest rates. We have still maintained highly sound financial position.

We try to do further improvement of our portfolio in order to aim a strong corporate structure insusceptible to the market fluctuation.

In the fiscal year ended in March 31, 2003, we recognized appropriate impairment losses on equity securities and decreased the level of investments in and loans to financial institutions as part of our effort to reduce the risk of the investment portfolio.

## 3. Enhancement of internal control structure

In order to ensure the implementation of risk management, we have prepared internal rules based on the “Risk Management Basic Policy”, and we have enhanced the centralized risk management system led by “Risk Control Committee”.

In order to ensure the compliance activities, we have formed “Compliance Committee” to discuss and investigate compliance issues.

In order to review the internal control structure, internal audits are conducted by the audit department, which is independent from other departments. The independence enables the audit department to maintain sufficient check function. We intend to enhance the internal check system to ensure that risk management and compliance structure are established and properly function at both headquarter and branch offices, and that business is conducted in accordance with the management policy and business plan.

## 6. The Principles of Corporate Governance and its Implementation Status

### (1) The principles of corporate governance

In recent years, companies are required to improve their corporate governance. Under such circumstances, the life insurance industry has become highly competitive due to certain factors such as deregulation. It is, therefore, crucial for us to establish the management structure that can respond to dynamic changes in the market conditions.

In order to accomplish our vision such as “We will become our customers’ life-time partner by providing the best products and services in the retail household market” and “We will establish a strong business structure that continuously enhances our corporate value through the contribution to our income and profit”, we will focus on enhancement of internal control structure and improvement of information disclosure that enable to ensure effective management monitoring function and establish a governance structure that meets the expectation of our customers and shareholders by enhancing transparency and objectivity of management.

## (2) Implementation status of corporate governance policies

### 1) Management decision-making, organization of execution and monitoring functions, and other corporate governance structure

During the fiscal year ended March 31, 2003, the Company set up the Executive Committee, which is responsible for business operations, in order to separate the function of board of directors into management/execution function of business operations and decision-making/corporate governance function. Such separation enables to enhance the independence of the board of directors.

In addition, as of April 1, 2003, the organization of the Company was converted from a mutual company to a joint stock corporation, whose management is constantly monitored by its shareholders through the capital market.

A director is monitored by other directors and corporate auditors. The effective supervisory function by the corporate auditors office is supported by four corporate auditors, two of whom are outside auditors, and one staff who is exclusively assigned to the corporate auditors office.

In addition, corporate auditors work closely with the independent auditors. Independent auditors regularly report the result of their audits to corporate auditors.

Under the principle of self-discipline, we have placed a high priority on the enhancement of internal control to ensure the sound and appropriate operation.

In order to establish a centralized structure for compliance and risk management and to ensure its thorough implementation, the Company established several committees such as “Compliance Committee”, “Risk Control Committee”, “Committee concerning to ethic enhancement of sales activities”. Main members of each committee include the president of the Company as the committee chairman and directors who are responsible for its daily operation. These committees strictly monitor corporate activities and operation activities such as legal issues, corporate ethics and comprehensive risk control.

Furthermore, the Company organized sub-committees under each committee in order to discuss compliance and risk management issues from professional and practical point of view. These sub-committees include “Data Protection Committee” and “Anti-accident Committee” under the Compliance Committee and “ALM (Asset Liability Management) Committee” and “Investment Risk Management Committee” under the Risk Control Committee.

In addition to organizational structure mentioned above, various rules and implementation plans, such as code of conduct, ethical code, and compliance program, are prepared to share high ethical standards at all employee level in performing daily operation.

In terms of information disclosure, the Company actively engages in IR activities in addition to statutory disclosures.

2) Independence of outside directors and outside corporate auditors

The two outside corporate auditors of the Company have no conflict of interests with the Company. We appointed an attorney as one of the outside corporate auditors defined under Article 18-1 of Law Concerning Special Measures under the Japanese Commercial Code Concerning Audit of a Joint Stock Corporation.

3) Implementation process during the year ended March 31, 2003 to improve corporate governance.

In order to enhance the management monitoring function, we have been considering to invite outside directors and preparing to accept competent applicants from outside by establishing new rules in the articles of incorporation regarding the limited liability contract with outside directors.

Starting in the fiscal year ending March 31, 2004, we disclosed newly adopted management measure, EV (Embedded Value). The disclosure of EV enables us to accomplish sufficient accountability and improved management transparency.

The activities of the board of directors and committees during the year ended March 31, 2003 were as follows:

The regular meeting of the board of directors was held on a monthly basis, and extraordinary meetings were also held when deemed necessary.

The meetings of Compliance Committee, Risk Control Committee and Committee concerning to ethic enhancement of sales activities were held quarterly and the meeting of Executive Committee was held bimonthly with additional extraordinary meetings when deemed necessary.

In terms of sub-committees, Anti-accident Committee meets quarterly, ALM Committee and Investment Risk Committee meet monthly, and Data Protection Committee meets when deemed necessary.

### III. Financial Review

#### 1. Result of Operations

##### (1) Overview of the Operations during the Fiscal Year Ended March 31, 2003

###### Business Environment

Japanese economy during the fiscal year ended March 31, 2003 showed certain good aspects such as expansion in exports and improvement in corporate revenues, however, the unemployment remained high and consumer spending and capital expenditure remained low. During the second half of the year, the stock price of Japanese banks significantly went down due to concern for potential financial problems resulted from non-performing loans held by the banks. The heightening tension about a possible war with Iraq around fiscal year end increased the uncertainty of the future economic situation.

In the life insurance industry, companies have continuously been suffered by negative spreads resulting from prolonged low interest rate and further deterioration in assets value such as a decline in stock and land price. These factors make companies' financial condition weaken. A decrease in household income and increased uncertainty to credit worthiness of Japanese insurance companies resulted in a decrease in new written policies and an increase in surrenders/lapse for existing insurance policies. As a consequence, policy amount in force and total assets declined for the life insurance industry as a whole.

###### Overview

Under such circumstances, we have kept in mind our corporate vision, "We will become our customers' life-time partner by providing the best products and services in the retail household market" and "We will establish a strong business structure that makes continuously enhance our corporate value through the contribution to our income and profit". The Company has allocated its business resources mainly to its core business that is "sales activities of protection-oriented products focusing on the medical and nursing care through the sales staff channel in the retail household market".

In addition, we converted from a mutual company to a joint stock corporation as of April 1, 2003, and the Company's shares were listed at the first section of the Tokyo Stock Exchange (TSE) on the same day in order to aim our objectives such as "to keep transparency of the management based on principles considering the market mechanism", "flexible business development" and "diversification of funding method".

In respect of the alliance with Daido Life Insurance Company, we merged its asset management and investment trust management services into T&D Asset management Co., Ltd. in July 2003. In August 2003, our leasing business was merged into T&D Taiyo Daido leasing Co., Ltd. and in September 2003, we both agreed on the capital injection to T&D Financial Life Insurance Company in order to improve its financial condition. In the meantime, we also have been preparing to establish a joint holding company.

We have implemented various measures for our sales, products and services.

For sales activities, we are going to educate our sales representatives to meet with customers' expectation. We have introduced a new sales representatives training program in August aiming for "education of sales representatives to earn customers' trust". We have also introduced another training program providing higher knowledge of nursing and financial planning techniques to sales representatives since January of this year. In addition, we have introduced the database marketing methodology enabling the sales representatives to provide the best product and services for each customer.

Furthermore, based on the alliance with Nipponkoa Insurance Co., Ltd., we have started to provide integrated insurance services since March 2002, through the sale of non-life products together with our life insurance products.

For products, we have developed protection-oriented products focusing on medical and nursing care. In April, we launched new products, named “Kenko Lady<sup>2</sup>” and “Kenko Mr.<sup>2</sup>”, which cover hospitalization due to woman related disease and/or life style related disease. These products were developed through the improvement in our core product line, named “Kenko”. Our new product line-up also allows customers to add insurance riders such as woman related disease and/or life style related disease to other existing products including the nursing care insurance product such as “Tokoton Kaigo”. Also, in order to improve the coverage for the initial expenditure of nursing care, we have started to offer a nursing care rider to products such as “Tokoton Kaigo”, “Happy Melody” and “Term life insurance with survival benefits (“Aile” products)”.

In July, we increased the maximum coverage amount for term life insurance policy rider with disaster premium to improve death benefit such as “Kenko Lady<sup>2</sup>” and “Kenko Mr.<sup>2</sup>”. Further, the coverage of these products was revised in October to pay the hospitalization benefit from the first day of the overnight hospitalization.

Regarding the asset management activities, we have tried to keep interest income through loans and investments in Yen-denominated bonds, currency-hedged foreign bonds. As for domestic equity securities, we have reduced the market risk through the sales or recognition of appropriate impairment losses as part of our effort to improve our portfolio.

For customer services, we have formed a business alliance with UFJ Bank and IY Bank and have increased the number of ATM available for our Himawari Card. As of March 2003, the number of ATM available for our card across the country became 36,000, including both ATM owned by us and by postal offices. We have also established our original website for L-mode and I-mode to provide various services.

As regard to administrative services, we have pursued restructuring and integration of operation process, using the comprehensive information system “NET’S01”, which is designed to manage customer information received through various channels such as call center, internet, and branch offices and to improve the work efficiency using work-flow techniques.

## Result of Operations of Principal Business

### 1) Earnings

For the fiscal year ended March 31, 2003, ordinary revenue totaled ¥1,401.8 billion, 87.4% of the amount in the previous year, consisting of income from insurance premiums and others of ¥887.9 billion, 87.1% of the previous year, investment income of ¥229 billion, 93.8% of the previous year, and other ordinary income of ¥284.8 billion, 83.8% of the previous year. The decrease in income from insurance premiums and others resulted from a decrease in income from insurance premiums related to individual insurance, individual annuities insurance and group annuities insurance. The decrease in investment income resulted from a decrease in interest and dividends income due to prolonged low interest rates. Other ordinary income decreased as a result of a significant decrease in reversal of policy reserves due to a decrease in maturity of saving-oriented products.

Ordinary expense totaled ¥1,380.7 billion, 87.1% of the amount in the previous year, consisting of insurance claims and other payments of ¥1,138.3 billion, 83.2% of the previous year, investment expenses of ¥93.6 billion, 115.6% of the previous year, operating expenses of ¥84.7 billion, 99.9% of the previous year, and equity in net loss of affiliated company of ¥2.5 billion. The decrease in insurance claims and other payments resulted from a decrease in maturity of saving-oriented products. The increase in investment expenses resulted from an increase in devaluation losses on securities due to decline in stock prices. Equity in net loss of affiliated companies is attributable mainly to the net loss of T&D Financial Life Insurance Company.

As a result, ordinary profit amounted to ¥21 billion, 116.8% of the previous year. Extraordinary gains and losses were ¥55 billion, 3,801.4% of the previous year, and ¥70.4 billion, 773.5% of the previous year, respectively, and both amounts significantly increased, compared to the previous year. This increase of extraordinary losses resulted from impairment losses on equity securities included in trust account amounting to ¥57.6 billion. In correspondence to the recognition of such losses, the reversal of reserve for price fluctuations amounting to ¥52.7 billion was recognized as extraordinary gains. Extraordinary losses also included ¥11.2 billion of provision for allowance for policyholder dividends to provide for policyholder dividends to be paid after demutualization.

Net income, which is calculated based on ordinary profit with adjustments consisting of extraordinary gains and losses, current and deferred income taxes, and minority interest income and losses amounted to 1.5 billion, 101.2% of the previous year.

## 2) Insurance policy

### a) Individual insurance/individual annuity

For the individual insurance, new policy amount written totaled ¥2,091 billion, 102.1% of the previous year. The decrease in policy amount consists of maturity of ¥774.7 billion, 78.5% of the previous year, and surrender/lapse of ¥1,098.7 billion, 122.1% of the previous year. As a consequence, the policy amount in force at year-end totaled ¥10,500.2 billion, 102.8% of the previous year.

For the individual annuities insurance, new policy amount written totaled ¥84.4 billion, 60.2% of the previous year. The policy amount decreased due to surrender/lapse of ¥220.1 billion, 71.1% of the previous year. As a consequence, the policy amount in force at the year-end totaled ¥4,768.4 billion, 95.1% of the previous year.

Individual insurance and individual annuities insurance (Billions of Yen)

|                             | FY 1999  | FY 2000  | FY 2001  | FY 2002<br>(Current) |
|-----------------------------|----------|----------|----------|----------------------|
| <b>Individual insurance</b> |          |          |          |                      |
| New policies                | 1,333.2  | 1,458.1  | 2,047.9  | 2,091.0              |
| Maturity                    | 803.1    | 740.1    | 986.7    | 774.7                |
| Surrender/lapse             | 727.1    | 847.5    | 900.0    | 1,098.7              |
| Policy in force             | 10,034.0 | 9,958.8  | 10,217.3 | 10,500.2             |
| <b>Individual annuities</b> |          |          |          |                      |
| New policies                | 514.4    | 473.6    | 140.1    | 84.4                 |
| Surrender/lapse             | 271.7    | 353.5    | 309.6    | 220.1                |
| Policy in force             | 5,150.9  | 5,213.7  | 5,015.5  | 4,768.4              |
| <b>Total</b>                |          |          |          |                      |
| New policies                | 1,847.6  | 1,931.7  | 2,188.1  | 2,175.4              |
| Maturity                    | 803.1    | 740.1    | 986.7    | 774.7                |
| Surrender/lapse             | 998.8    | 1,201.1  | 1,209.6  | 1,318.8              |
| Policy in force             | 15,185.0 | 15,172.5 | 15,232.9 | 15,268.6             |

Note 1. Amounts for individual insurance are the total of death benefit and survival benefits.

2. Amounts for individual annuities insurance are equal to the total of the fund to be held for an annuity for which annuity payments have not yet commenced and the amount of the policy reserve for an annuity for which payments have commenced.

b) Group insurance/group annuities insurance

For the group insurance, new policy amount written totaled ¥106.7 billion, 38.8% of the previous year, and the policy amount in force at year-end totaled ¥801.5 billion, 98.6% of the previous year.

Group insurance and group annuities insurance (Billions of Yen)

|                 | FY 1999  | FY 2000  | FY 2001  | FY 2002<br>(Current) |
|-----------------|----------|----------|----------|----------------------|
| Group insurance |          |          |          |                      |
| New policies    | 181.5    | 77.8     | 275.0    | 106.7                |
| Policy in force | 10,204.6 | 10,378.3 | 11,022.7 | 10,979.9             |
| Group annuities |          |          |          |                      |
| Policy in force | 781.3    | 788.7    | 813.2    | 801.5                |

Note 1. The amount of group insurance is the total of principle policies of death benefit and annuity riders.

2. The amount of group annuities policy in force represents the policy reserve.

c) Other significant issues

Base profit, a measure of a life insurance company's underlying profitability from core insurance operations, for the fiscal year ended March 31, 2003 amounted to ¥28.7 billion, 207.1% of the previous year, after offsetting the negative spread of ¥43.4 billion, 65.6% of the previous year.

Also, solvency margin ratio, an indicator used by Financial Service Agency ("FSA") for control purpose to monitor a life insurance company's financial soundness, as of the fiscal year-end was 681.5%, decreased by 85.5% from previous year.

Adjusted net assets, a measure used by FSA for control purpose to monitor a life insurance company's financial soundness, as of the fiscal year-end amounted to ¥341.2 billion, decreased by 25.1% from previous year. Adjusted net assets represent as net amount of assets reflecting the fair value and liabilities except for subordinated liabilities.

(2) Forecast for the Fiscal Year ending March 31, 2004

While the Japanese economy seems to remain sluggish in the short-term as companies feel deflationary pressure from accelerated disposition of non-performing assets and have concerns regarding the further decline in the stock price, it is expected to move to a recovery phase slowly in the medium-term as the economy in the United States will be in a recovery phase after its inventory adjustment and that will contribute to an increase in production.

In the life insurance industry, competition has become more severe than ever in all aspects due to various factors including deregulation and diversified products and services.

Under such difficult environment, we intend to pursue our medium-term management plan in order to achieve our goal to be a selected insurance company and to earn trust from our customers and shareholders.

According to our forecast of the consolidated result of operations for the fiscal year ending March 31, 2004, as presented in the consolidated financial summary, we expect to earn ordinary revenue of ¥1,189.0 billion, a decrease of 15.2% compared with this fiscal year, ordinary profit of ¥23.9 billion, an increase of 13.5% from this fiscal year, and net income of ¥3.7 billion, an increase of 133.6% from this fiscal year.

We anticipate the annual dividend per share for the fiscal year ending March 2004 would be ¥1,500. As for the interim shareholders dividends, the Company is not permitted to pay any interim dividends for the six months ending September 30, 2003 under Japanese Commercial Code since the Company was not a joint stock corporation as of March 31, 2003 and therefore the balance sheet as a joint stock corporation as of that day was not available.

## 2. Financial Position

### (1) Balance sheet

The total assets amounted to ¥6,549.6 billion, 95.5% of the previous year, mainly due to a decrease in securities.

Assets consist mainly of securities including public and corporate bonds of ¥3,662.6 billion, 55.9% of the total assets, loans of ¥2,207.9 billion, 33.7% of the total assets, fixed assets of ¥194 billion, 3.0% of the total assets and cash and deposits and call loan of ¥172.8 billion, 2.6% of the total assets.

Total liabilities amounted to ¥6,431.5 billion, 96.3% of the previous year, and its major component, policy reserve, amounted to ¥6,134.2 billion, 96.5% of the previous year.

Total shareholders' equity amounted to ¥116.3 billion, 65.4% of the previous year, and its decrease was mainly due to redemption of funds and decrease in the net unrealized gains on securities.

### (2) Cash flows

Cash flows for the fiscal year ended March 31, 2003 were summarized as follows:

Cash flows used in operating activities totaled ¥207.6 billion, reflecting the decrease in cash outflows by ¥76.2 billion compared with the previous year due to a decrease in maturity payments for insurance policies.

Cash flows provided by investment activities totaled ¥247.5 billion, reflecting the increase in cash inflows by ¥82.7 billion compared with the previous year due to sales of securities.

Cash flows used in financing activities totaled ¥21.6 billion, reflecting the increase in cash outflows by ¥20.4 billion, compared with the previous year due to redemption of funds.

As a result, cash and cash equivalents at the end of the year amounted to ¥172.4 billion, increased by ¥18.2 billion from the previous year.

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

(Millions of Yen, %)

|                                                                  | FY 2001<br>(April 1, 2001<br>– March 31,<br>2002) | FY 2002<br>(April 1, 2002<br>– March 31,<br>2003) | Increase<br>(decrease) | % change from<br>the previous<br>fiscal year |
|------------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------|------------------------|----------------------------------------------|
| <b>Ordinary Revenue</b>                                          |                                                   |                                                   |                        |                                              |
| Income from insurance premiums and others                        |                                                   |                                                   |                        |                                              |
| Income from insurance premiums                                   | 1,018,994                                         | 887,784                                           | (131,209)              | (12.9)%                                      |
| Other                                                            | 47                                                | 158                                               | 110                    | 234.0                                        |
| Total Income from insurance premiums and others                  | 1,019,041                                         | 887,942                                           | (131,099)              | (12.9)                                       |
| Investment income/gains                                          |                                                   |                                                   |                        |                                              |
| Interests, dividends and other                                   | 162,688                                           | 149,645                                           | (13,043)               | (8.0)                                        |
| Gains on sale of securities                                      | 66,529                                            | 70,429                                            | 3,900                  | 5.9                                          |
| Other                                                            | 15,030                                            | 8,951                                             | (6,078)                | (40.4)                                       |
| Total Investment income/gains                                    | 244,247                                           | 229,025                                           | (15,221)               | (6.2)                                        |
| Other ordinary income                                            |                                                   |                                                   |                        |                                              |
| Reversal of policy reserve                                       | 287,124                                           | 224,601                                           | (62,523)               | (21.8)                                       |
| Other                                                            | 52,743                                            | 60,265                                            | 7,523                  | 14.3                                         |
| Total Other ordinary income                                      | 339,867                                           | 284,866                                           | (55,000)               | (16.2)                                       |
| Equity in net income of affiliated companies                     | 350                                               | -                                                 | (350)                  | (100.0)                                      |
| <b>Total Ordinary Revenue</b>                                    | 1,603,506                                         | 1,401,834                                         | (201,672)              | (12.6)                                       |
| <b>Ordinary Expenses</b>                                         |                                                   |                                                   |                        |                                              |
| Insurance claims and other payments                              |                                                   |                                                   |                        |                                              |
| Insurance claims                                                 | 917,359                                           | 718,110                                           | (199,248)              | (21.7)                                       |
| Insurance benefits                                               | 121,200                                           | 121,707                                           | 507                    | 0.4                                          |
| Surrender payments                                               | 225,199                                           | 174,597                                           | (50,601)               | (22.5)                                       |
| Other                                                            | 104,546                                           | 123,908                                           | 19,361                 | 18.5                                         |
| Total Insurance claims and other payments                        | 1,368,304                                         | 1,138,322                                         | (229,981)              | (16.8)                                       |
| Provision for policy and other reserves                          | 4,696                                             | 564                                               | (4,131)                | (88.0)                                       |
| Investment expenses/losses                                       |                                                   |                                                   |                        |                                              |
| Losses on sale of securities                                     | 37,298                                            | 42,100                                            | 4,801                  | 12.9                                         |
| Devaluation losses on securities                                 | 3,174                                             | 24,930                                            | 21,756                 | 685.4                                        |
| Losses on derivatives                                            | 26,117                                            | 630                                               | (25,487)               | (97.6)                                       |
| Other                                                            | 14,419                                            | 25,961                                            | 11,542                 | 80.0                                         |
| Total Investment expenses/losses                                 | 81,008                                            | 93,621                                            | 12,612                 | 15.6                                         |
| Operating expenses                                               | 84,869                                            | 84,795                                            | (73)                   | (0.1)                                        |
| Other ordinary expenses                                          | 46,597                                            | 60,895                                            | 14,297                 | 30.7                                         |
| Equity in net loss of affiliated companies                       | -                                                 | 2,571                                             | 2,571                  | -                                            |
| <b>Total Ordinary Expenses</b>                                   | 1,585,475                                         | 1,380,770                                         | (204,705)              | (12.9)                                       |
| <b>Ordinary Profit</b>                                           | 18,030                                            | 21,063                                            | 3,032                  | 16.8                                         |
| <b>Extraordinary Gains</b>                                       |                                                   |                                                   |                        |                                              |
| Reversal of reserve for price fluctuations                       | -                                                 | 52,779                                            | 52,779                 | -                                            |
| Other                                                            | 1,448                                             | 2,266                                             | 818                    | 56.5                                         |
| Total extraordinary gains                                        | 1,448                                             | 55,045                                            | 53,597                 | -                                            |
| <b>Extraordinary Losses</b>                                      |                                                   |                                                   |                        |                                              |
| Impairment losses on equity securities included in trust account | -                                                 | 57,664                                            | 57,664                 | -                                            |
| Provision for allowance for policyholder dividends               | -                                                 | 11,267                                            | 11,267                 | -                                            |
| Other                                                            | 9,111                                             | 1,550                                             | (7,561)                | (83.0)                                       |
| Total extraordinary losses                                       | 9,111                                             | 70,481                                            | 61,369                 | 673.5                                        |
| <b>Income before Income Taxes</b>                                | 10,367                                            | 5,628                                             | (4,738)                | (45.7)                                       |

|                                  |         |       |          |         |
|----------------------------------|---------|-------|----------|---------|
| <b>Income Taxes</b>              |         |       |          |         |
| Current                          | 1,452   | 171   | (1,281)  | (88.2)  |
| Deferred                         | (2,440) | 3,736 | 6,177    | -       |
| <b>Minority Interests Income</b> | -       | 136   | 136      | -       |
| <b>Minority Interests Loss</b>   | 287     | -     | (287)    | (100.0) |
| <b>Net Income</b>                | 11,642  | 1,584 | (10,058) | (86.4)  |

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

(Millions of Yen, %)

|                        | FY 2001    | FY 2002    | Increase<br>(decrease) | % change from<br>the previous<br>fiscal year |
|------------------------|------------|------------|------------------------|----------------------------------------------|
| New Policy Amount      | 2,188,155  | 2,175,488  | (12,667)               | (0.6)%                                       |
| Policy Amount in Force | 15,232,917 | 15,268,605 | 35,687                 | 0.2                                          |
| Base Profit            | 13,875     | 28,734     | 14,858                 | 107.1                                        |
| Negative Spread Amount | 66,274     | 43,450     | (22,823)               | (34.4)                                       |
| Solvency Margin Ratio  | 767.0%     | 681.5%     | (85.5%)                | -                                            |
| Adjusted Net Assets    | 455,632    | 341,261    | (114,370)              | (25.1)                                       |

Note Amounts for "New Policy Amount" and "Policy Amount in Force" represent the total of individual insurance and insurance annuities insurance.

## **. Unaudited Consolidated Financial Statements**

Taiyo Life Insurance Company

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Unaudited Consolidated Balance Sheets

As of March 31,

|                                                                       | 2002<br>(Millions<br>of yen) |              | 2003<br>(Millions<br>of yen) |              | Increase<br>(decrease) | 2003<br>(Thousands of<br>U.S. dollars) |
|-----------------------------------------------------------------------|------------------------------|--------------|------------------------------|--------------|------------------------|----------------------------------------|
|                                                                       |                              | %            |                              | %            |                        |                                        |
| <b>Assets:</b>                                                        |                              |              |                              |              |                        |                                        |
| Cash and Deposits                                                     | ¥ 53,508                     | 0.8          | ¥ 45,264                     | 0.7          | ¥ (8,244)              | \$ 376,573                             |
| Call Loans                                                            | 101,580                      | 1.5          | 127,580                      | 1.9          | 26,000                 | 1,061,397                              |
| Monetary Claims Purchased                                             | 54,995                       | 0.8          | 41,966                       | 0.6          | (13,028)               | 349,141                                |
| Monetary Trusts                                                       | 95,933                       | 1.4          | 55,619                       | 0.8          | (40,314)               | 462,726                                |
| Securities                                                            | 3,884,267                    | 56.7         | 3,662,688                    | 55.9         | (221,579)              | 30,471,614                             |
| Loans                                                                 | 2,290,537                    | 33.4         | 2,207,937                    | 33.7         | (82,599)               | 18,368,866                             |
| Property and Equipment                                                | 192,004                      | 2.8          | 194,088                      | 3.0          | 2,083                  | 1,614,711                              |
| Due from Reinsurers                                                   | 1                            | 0.0          | 24                           | 0.0          | 23                     | 207                                    |
| Other Assets                                                          | 109,617                      | 1.6          | 126,725                      | 1.9          | 17,107                 | 1,054,289                              |
| Deferred Tax Assets                                                   | 66,792                       | 1.0          | 79,222                       | 1.2          | 12,429                 | 659,087                                |
| Deferred Tax Assets on Land<br>Revaluation                            | 11,956                       | 0.2          | 12,129                       | 0.2          | 173                    | 100,912                                |
| Reserve for Possible Loan Losses                                      | (5,876)                      | (0.1)        | (3,610)                      | (0.1)        | 2,265                  | (30,039)                               |
| <b>Total Assets</b>                                                   | <b>¥ 6,855,318</b>           | <b>100.0</b> | <b>¥ 6,549,636</b>           | <b>100.0</b> | <b>¥ (305,682)</b>     | <b>\$ 54,489,487</b>                   |
| <b>Liabilities:</b>                                                   |                              |              |                              |              |                        |                                        |
| Policy Reserves:                                                      |                              |              |                              |              |                        |                                        |
| Reserve for outstanding claims                                        | ¥ 22,458                     |              | ¥ 18,399                     |              | ¥ (4,058)              | \$ 153,077                             |
| Policy reserve                                                        | 6,358,848                    |              | 6,134,247                    |              | (224,601)              | 51,033,669                             |
| Reserve for policyholder<br>dividends                                 | <u>74,036</u>                |              | <u>67,293</u>                |              | <u>(6,742)</u>         | <u>559,846</u>                         |
| Total Policy Reserves                                                 | 6,455,343                    | 94.2         | 6,219,940                    | 95.0         | (235,402)              | 51,746,594                             |
| Due to Reinsurers                                                     | 24                           | 0.0          | 25                           | 0.0          | 1                      | 213                                    |
| Other Liabilities                                                     | 139,372                      | 2.0          | 168,433                      | 2.6          | 29,060                 | 1,401,274                              |
| Reserve for Employees'<br>Retirement Benefits                         | 25,073                       | 0.4          | 29,158                       | 0.4          | 4,084                  | 242,583                                |
| Reserve for Directors' and Corporate<br>Auditors' Retirement Benefits | 491                          | 0.0          | 492                          | 0.0          | 0                      | 4,099                                  |
| Allowance for Policyholder<br>Dividends                               | -                            | -            | 11,267                       | 0.2          | 11,267                 | 93,743                                 |
| Reserve for Price Fluctuations                                        | 54,911                       | 0.8          | 2,132                        | 0.0          | (52,779)               | 17,739                                 |
| Deferred Tax Liabilities                                              | 150                          | 0.0          | 112                          | 0.0          | (37)                   | 939                                    |
| <b>Total Liabilities</b>                                              | <b>6,675,367</b>             | <b>97.4</b>  | <b>6,431,564</b>             | <b>98.2</b>  | <b>(243,803)</b>       | <b>53,507,188</b>                      |
| <b>Minority Interests</b>                                             | <b>2,103</b>                 | <b>0.0</b>   | <b>1,765</b>                 | <b>0.0</b>   | <b>(338)</b>           | <b>14,684</b>                          |
| <b>Equity:</b>                                                        |                              |              |                              |              |                        |                                        |
| Fund                                                                  | 24,000                       | 0.4          | -                            | -            | (24,000)               | -                                      |
| Reserve for Redemption of Fund                                        | 7,000                        | 0.1          | 10,000                       | 0.2          | 3,000                  | 83,194                                 |
| Reserve for Revaluation                                               | 13                           | 0.0          | 13                           | 0.0          | -                      | 109                                    |
| Surplus                                                               | 137,787                      | 2.0          | 125,973                      | 1.9          | (11,814)               | 1,048,033                              |
| Land Revaluation                                                      | (21,163)                     | (0.3)        | (21,470)                     | (0.3)        | (306)                  | (178,622)                              |
| Net Unrealized Gains on Securities                                    | 30,264                       | 0.4          | 1,842                        | 0.0          | (28,422)               | 15,328                                 |
| Translation Adjustments                                               | (54)                         | (0.0)        | (51)                         | (0.0)        | 2                      | (427)                                  |
| <b>Total Equity</b>                                                   | <b>177,847</b>               | <b>2.6</b>   | <b>116,307</b>               | <b>1.8</b>   | <b>(61,539)</b>        | <b>967,615</b>                         |
| <b>Total Liabilities,<br/>Minority Interests and Equity</b>           | <b>¥ 6,855,318</b>           | <b>100.0</b> | <b>¥ 6,549,636</b>           | <b>100.0</b> | <b>¥ (305,682)</b>     | <b>\$ 54,489,487</b>                   |

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Operations

Years ended March 31,

|                                                             | 2002<br>(Millions<br>of yen) | %            | 2003<br>(Millions<br>of yen) | %            | Increase<br>(decrease) | 2003<br>(Thousands of<br>U.S. dollars) |
|-------------------------------------------------------------|------------------------------|--------------|------------------------------|--------------|------------------------|----------------------------------------|
| <b>Ordinary Revenue:</b>                                    |                              |              |                              |              |                        |                                        |
| Income from Insurance Premiums                              | ¥ 1,019,041                  |              | ¥ 887,942                    |              | ¥ (131,099)            | \$ 7,387,204                           |
| Investment Income:                                          |                              |              |                              |              |                        |                                        |
| Interest, dividends and income<br>from real estate for rent | 162,688                      |              | 149,645                      |              | (13,043)               | 1,244,973                              |
| Gains from monetary trusts, net                             | -                            |              | 3,554                        |              | 3,554                  | 29,568                                 |
| Gains on sale of securities                                 | 66,529                       |              | 70,429                       |              | 3,900                  | 585,937                                |
| Foreign exchange gains, net                                 | 11,243                       |              | -                            |              | (11,243)               | -                                      |
| Other investment income                                     | <u>3,785</u>                 |              | <u>5,395</u>                 |              | <u>1,610</u>           | <u>44,891</u>                          |
| Total Investment Income                                     | 244,247                      |              | 229,025                      |              | (15,221)               | 1,905,370                              |
| Other Ordinary Income                                       | 339,867                      |              | 284,866                      |              | (55,000)               | 2,369,941                              |
| Equity in Income of Affiliated<br>Companies                 | 350                          |              | -                            |              | (350)                  | -                                      |
| <b>Total Ordinary Revenue</b>                               | <b>1,603,506</b>             | <b>100.0</b> | <b>1,401,834</b>             | <b>100.0</b> | <b>(201,672)</b>       | <b>11,662,517</b>                      |
| <b>Ordinary Expenses:</b>                                   |                              |              |                              |              |                        |                                        |
| Insurance Claims and Other<br>Payments:                     |                              |              |                              |              |                        |                                        |
| Insurance claims                                            | 917,359                      |              | 718,110                      |              | (199,248)              | 5,974,299                              |
| Annuity payments                                            | 74,514                       |              | 87,121                       |              | 12,607                 | 724,806                                |
| Insurance benefits                                          | 121,200                      |              | 121,707                      |              | 507                    | 1,012,542                              |
| Surrender payments                                          | 225,199                      |              | 174,597                      |              | (50,601)               | 1,452,557                              |
| Other payments                                              | <u>30,030</u>                |              | <u>36,784</u>                |              | <u>6,753</u>           | <u>306,030</u>                         |
| Total Insurance Claims<br>and Other Payments                | 1,368,304                    |              | 1,138,322                    |              | (229,981)              | 9,470,236                              |
| Provision for Policy and Other<br>Reserves:                 |                              |              |                              |              |                        |                                        |
| Provision for outstanding claims                            | 3,625                        |              | -                            |              | (3,625)                | -                                      |
| Interest portion of reserve for<br>policyholder dividends   | <u>1,070</u>                 |              | <u>564</u>                   |              | <u>(505)</u>           | <u>4,700</u>                           |
| Total Provision for Policy<br>and Other Reserves            | 4,696                        |              | 564                          |              | (4,131)                | 4,700                                  |
| Investment Expenses:                                        |                              |              |                              |              |                        |                                        |
| Interest expense                                            | 1,986                        |              | 1,982                        |              | (4)                    | 16,493                                 |
| Losses from monetary trusts, net                            | 430                          |              | -                            |              | (430)                  | -                                      |
| Losses on sale of securities                                | 37,298                       |              | 42,100                       |              | 4,801                  | 350,252                                |
| Devaluation losses on securities                            | 3,174                        |              | 24,930                       |              | 21,756                 | 207,406                                |
| Amortization of securities                                  | 260                          |              | -                            |              | (260)                  | -                                      |
| Losses from derivatives, net                                | 26,117                       |              | 630                          |              | (25,487)               | 5,247                                  |
| Foreign exchange losses, net                                | -                            |              | 8,235                        |              | 8,235                  | 68,518                                 |
| Write-off of loans                                          | 161                          |              | 373                          |              | 212                    | 3,107                                  |
| Depreciation of real estate<br>for rent                     | 2,545                        |              | 2,373                        |              | (172)                  | 19,745                                 |
| Other investment expenses                                   | 2,848                        |              | 3,888                        |              | 1,039                  | 32,347                                 |
| Losses on separate accounts, net                            | <u>6,184</u>                 |              | <u>9,106</u>                 |              | <u>2,921</u>           | <u>75,757</u>                          |
| Total Investment Expenses                                   | <u>81,008</u>                |              | <u>93,621</u>                |              | <u>12,612</u>          | <u>778,877</u>                         |
| Operating Expenses                                          | 84,869                       |              | 84,795                       |              | (73)                   | 705,455                                |

|                                                                          | 2002                 |              | 2003                 |             | Increase          | 2003                           |
|--------------------------------------------------------------------------|----------------------|--------------|----------------------|-------------|-------------------|--------------------------------|
|                                                                          | (Millions<br>of yen) | %            | (Millions<br>of yen) | %           | (decrease)        | (Thousands of<br>U.S. dollars) |
| Other Ordinary Expenses                                                  | 46,597               |              | 60,895               |             | 14,297            | 506,614                        |
| Equity in Loss of Affiliated<br>Companies                                | -                    |              | 2,571                |             | 2,571             | 21,393                         |
| <b>Total Ordinary Expenses</b>                                           | <b>1,585,475</b>     | <b>98.9</b>  | <b>1,380,770</b>     | <b>98.5</b> | <b>(204,705)</b>  | <b>11,487,277</b>              |
| <b>Ordinary Profit</b>                                                   | <b>18,030</b>        | <b>1.1</b>   | <b>21,063</b>        | <b>1.5</b>  | <b>3,032</b>      | <b>175,239</b>                 |
| <b>Extraordinary Gains:</b>                                              |                      |              |                      |             |                   |                                |
| Gains on sale of property and<br>equipment                               | 405                  |              | 2                    |             | (403)             | 16                             |
| Reversal of reserve for price<br>fluctuations                            | -                    |              | 52,779               |             | 52,779            | 439,093                        |
| Reversal of reserve for possible<br>loan losses                          | 672                  |              | 2,112                |             | 1,440             | 17,574                         |
| Other                                                                    | 370                  |              | 152                  |             | (218)             | 1,267                          |
| <b>Total Extraordinary Gains</b>                                         | <b>1,448</b>         | <b>0.1</b>   | <b>55,045</b>        | <b>3.9</b>  | <b>53,597</b>     | <b>457,951</b>                 |
| <b>Extraordinary Losses:</b>                                             |                      |              |                      |             |                   |                                |
| Losses on sale, disposal and<br>devaluation of property and<br>equipment | 1,929                |              | 852                  |             | (1,076)           | 7,095                          |
| Provision for reserve for price<br>fluctuations                          | 6,929                |              | -                    |             | (6,929)           | -                              |
| Impairment losses on equity<br>securities included in trust account      | -                    |              | 57,664               |             | 57,664            | 479,740                        |
| Provision for allowance<br>for policyholder dividends                    | -                    |              | 11,267               |             | 11,267            | 93,743                         |
| Other                                                                    | 252                  |              | 695                  |             | 443               | 5,786                          |
| <b>Total Extraordinary Losses</b>                                        | <b>9,111</b>         | <b>0.6</b>   | <b>70,481</b>        | <b>5.0</b>  | <b>61,369</b>     | <b>586,365</b>                 |
| <b>Income Before Income Taxes</b>                                        | <b>10,367</b>        | <b>0.6</b>   | <b>5,628</b>         | <b>0.4</b>  | <b>(4,738)</b>    | <b>46,826</b>                  |
| <b>Income Taxes:</b>                                                     |                      |              |                      |             |                   |                                |
| Current                                                                  | 1,452                | 0.1          | 171                  | 0.0         | (1,281)           | 1,422                          |
| Deferred                                                                 | (2,440)              | (0.2)        | 3,736                | 0.3         | 6,177             | 31,089                         |
| <b>Minority Interests</b>                                                | <b>(287)</b>         | <b>(0.0)</b> | <b>136</b>           | <b>0.0</b>  | <b>(423)</b>      | <b>1,132</b>                   |
| <b>Net Income</b>                                                        | <b>¥ 11,642</b>      | <b>0.7</b>   | <b>¥ 1,584</b>       | <b>0.1</b>  | <b>¥ (10,058)</b> | <b>\$ 13,181</b>               |

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Surplus

Years ended March 31,

|                                                        | 2002<br>(Millions<br>of yen) | 2003<br>(Millions<br>of yen) | Increase<br>(decrease) | 2003<br>(Thousands of<br>U.S. dollars) |
|--------------------------------------------------------|------------------------------|------------------------------|------------------------|----------------------------------------|
| <b>Balance at Beginning of Year</b>                    | ¥ 142,346                    | ¥ 137,787                    | ¥ (4,558)              | \$ 1,146,319                           |
| <b>Additions:</b>                                      |                              |                              |                        |                                        |
| Net income                                             | 11,642                       | 1,584                        | (10,058)               | 13,181                                 |
| Increase in surplus due to reverse of land revaluation | -                            | 306                          | 306                    | 2,550                                  |
| Increase in surplus due to deconsolidated companies    | 166                          | 1,157                        | 990                    | 9,630                                  |
| Increase in surplus due to newly affiliated companies  | <u>726</u>                   | <u>-</u>                     | <u>(726)</u>           | <u>-</u>                               |
| Total additions                                        | 12,536                       | 3,048                        | (9,487)                | 25,363                                 |
| <b>Deductions:</b>                                     |                              |                              |                        |                                        |
| Transfer to reserve for policyholder dividends         | 11,101                       | 10,855                       | (246)                  | 90,309                                 |
| Transfer to redemption reserve fund                    | 3,000                        | 3,000                        | -                      | 24,958                                 |
| Interest on fund                                       | 597                          | 874                          | 277                    | 7,278                                  |
| Bonus to directors and corporate auditors              | 63                           | 58                           | (5)                    | 484                                    |
| Decrease in surplus due to deconsolidated companies    | <u>2,331</u>                 | <u>74</u>                    | <u>(2,257)</u>         | <u>618</u>                             |
| Total deductions                                       | 17,095                       | 14,862                       | (2,232)                | 123,649                                |
| <b>Balance at End of Year</b>                          | ¥ 137,787                    | ¥ 125,973                    | ¥ (11,814)             | \$ 1,048,033                           |

See notes to unaudited consolidated financial statements.

Unaudited Consolidated Statements of Cash Flows

Years ended March 31,

|                                                                   | 2002<br>(Millions<br>of yen) | 2003<br>(Millions<br>of yen) | Increase<br>(decrease) | 2003<br>(Thousands of<br>U.S. dollars) |
|-------------------------------------------------------------------|------------------------------|------------------------------|------------------------|----------------------------------------|
| <b>Cash flows from operating activities:</b>                      |                              |                              |                        |                                        |
| Income before income taxes                                        | ¥ 10,367                     | ¥ 5,628                      | ¥ (4,738)              | \$ 46,826                              |
| Depreciation of real estate for rent                              | 2,545                        | 2,373                        | (172)                  | 19,745                                 |
| Amortization of goodwill due to consolidation                     | (1)                          | 38                           | 40                     | 324                                    |
| Other depreciation and amortization                               | 3,753                        | 4,377                        | 624                    | 36,421                                 |
| Increase (decrease) in reserve for outstanding claims             | 3,625                        | (4,058)                      | (7,684)                | (33,765)                               |
| Decrease in policy reserve                                        | (287,124)                    | (224,601)                    | 62,523                 | (1,868,562)                            |
| Increase in reserve for policyholder dividends                    | 1,070                        | 564                          | (505)                  | 4,700                                  |
| Decrease in reserve for possible loan losses                      | (671)                        | (2,265)                      | (1,593)                | (18,847)                               |
| Increase in reserve for employees' retirement benefits            | 1,497                        | 4,084                        | 2,587                  | 33,984                                 |
| Increase in allowance for policyholder dividends                  | -                            | 11,267                       | 11,267                 | 93,743                                 |
| Increase (decrease) in reserve for price fluctuations             | 6,929                        | (52,779)                     | (59,708)               | (439,093)                              |
| Interest, dividends and income from real estate for rent          | (162,688)                    | (149,645)                    | 13,043                 | (1,244,973)                            |
| Losses on investment securities                                   | 7,119                        | 60,460                       | 53,340                 | 502,995                                |
| Interest expense                                                  | 1,986                        | 1,982                        | (4)                    | 16,493                                 |
| Exchange (gains) losses                                           | (11,243)                     | 8,235                        | 19,479                 | 68,518                                 |
| Losses on sale or disposal of property and equipment              | 1,524                        | 850                          | (673)                  | 7,078                                  |
| Equity in net (income) losses of affiliated companies             | (350)                        | 2,571                        | 2,921                  | 21,393                                 |
| Decrease in amount due from agency                                | 96                           | -                            | (96)                   | -                                      |
| (Increase) decrease in amount due from reinsurers                 | 37                           | (23)                         | (60)                   | (196)                                  |
| Increase in other assets                                          | (3,574)                      | (7,104)                      | (3,530)                | (59,107)                               |
| Increase in amount due to reinsurers                              | 0                            | 1                            | 0                      | 11                                     |
| Increase (decrease) in other liabilities                          | (788)                        | 1,634                        | 2,423                  | 13,601                                 |
| Other, net                                                        | (111)                        | 171                          | 282                    | 1,429                                  |
| Sub-total                                                         | (426,000)                    | (336,232)                    | 89,767                 | (2,797,279)                            |
| Interest, dividends and income from real estate for rent received | 163,822                      | 149,063                      | (14,759)               | 1,240,128                              |
| Interest paid                                                     | (1,986)                      | (1,855)                      | 131                    | (15,436)                               |
| Policyholder dividends                                            | (18,540)                     | (18,162)                     | 377                    | (151,104)                              |
| Income taxes paid                                                 | (1,246)                      | (469)                        | 777                    | (3,907)                                |
| <b>Net cash used in operating activities</b>                      | ¥ (283,952)                  | ¥ (207,657)                  | ¥ 76,294               | \$ (1,727,598)                         |

|                                                                                                          | 2002<br>(Millions<br>of yen) | 2003<br>(Millions<br>of yen) | Increase<br>(decrease) | 2003<br>(Thousands of<br>U.S. dollars) |
|----------------------------------------------------------------------------------------------------------|------------------------------|------------------------------|------------------------|----------------------------------------|
| <b>Cash flows from investing activities:</b>                                                             |                              |                              |                        |                                        |
| Net decrease in short-term investments                                                                   | ¥ 1,168                      | ¥ 534                        | ¥ (633)                | \$ 4,450                               |
| Investments in monetary claims purchased                                                                 | (160,988)                    | (156,976)                    | 4,011                  | (1,305,963)                            |
| Proceeds from sale and redemption of monetary claims purchased                                           | 235,896                      | 170,166                      | (65,729)               | 1,415,693                              |
| Investments in monetary trusts                                                                           | (32,206)                     | (2,271)                      | 29,934                 | (18,897)                               |
| Proceeds from monetary trusts                                                                            | 22,750                       | 46,139                       | 23,389                 | 383,859                                |
| Purchase of securities                                                                                   | (2,857,264)                  | (3,062,353)                  | (205,088)              | (25,477,146)                           |
| Sale and redemption of securities                                                                        | 2,881,376                    | 3,176,026                    | 294,650                | 26,422,846                             |
| Investment in loans                                                                                      | (532,432)                    | (677,181)                    | (144,748)              | (5,633,789)                            |
| Collection of loans                                                                                      | 634,446                      | 759,781                      | 125,334                | 6,320,974                              |
| Other, net                                                                                               | (24,519)                     | 1,231                        | 25,750                 | 10,245                                 |
| Sub-total                                                                                                | 168,226                      | 255,096                      | 86,870                 | 2,122,271                              |
| <b>Total of net cash provided by (used in) operating activities and investment transactions as above</b> | <b>(115,726)</b>             | <b>47,439</b>                | <b>163,165</b>         | <b>394,672</b>                         |
| Purchase of property and equipment                                                                       | (7,832)                      | (7,921)                      | (88)                   | (65,902)                               |
| Proceeds from sale of property and equipment                                                             | 4,477                        | 375                          | (4,101)                | 3,125                                  |
| Net cash received related to purchase of subsidiaries                                                    | -                            | 30                           | 30                     | 249                                    |
| <b>Net cash provided by investing activities</b>                                                         | <b>164,870</b>               | <b>247,581</b>               | <b>82,710</b>          | <b>2,059,744</b>                       |
| <b>Cash flows from financing activities:</b>                                                             |                              |                              |                        |                                        |
| Proceeds from debt                                                                                       | 7,000                        | 9,350                        | 2,350                  | 77,787                                 |
| Repayments of debt                                                                                       | (4,535)                      | (6,075)                      | (1,539)                | (50,540)                               |
| Repayments of fund                                                                                       | (3,000)                      | (24,000)                     | (21,000)               | (199,667)                              |
| Interest paid related to fund                                                                            | (597)                        | (874)                        | (277)                  | (7,278)                                |
| Dividends paid to minority interests                                                                     | (12)                         | (36)                         | (23)                   | (300)                                  |
| <b>Net cash used in financing activities</b>                                                             | <b>(1,145)</b>               | <b>(21,636)</b>              | <b>(20,490)</b>        | <b>(180,000)</b>                       |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>                                      |                              |                              |                        |                                        |
|                                                                                                          | 65                           | 2                            | (62)                   | 20                                     |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                              | <b>(120,162)</b>             | <b>18,290</b>                | <b>138,452</b>         | <b>152,165</b>                         |
| <b>Cash and cash equivalents at beginning of year</b>                                                    | <b>295,891</b>               | <b>154,178</b>               | <b>(141,712)</b>       | <b>1,282,685</b>                       |
| <b>Decrease in cash and cash equivalents due to deconsolidated subsidiaries</b>                          | <b>(21,550)</b>              | <b>-</b>                     | <b>21,550</b>          | <b>-</b>                               |
| <b>Cash and cash equivalents at end of year</b>                                                          | <b>¥ 154,178</b>             | <b>¥ 172,469</b>             | <b>¥ 18,290</b>        | <b>\$ 1,434,851</b>                    |

See notes to unaudited consolidated financial statements.

## Taiyo Life Insurance Company

### Notes to Unaudited Consolidated Financial Statements

#### 1. Summary of Significant Accounting Policies

##### (a) *Basis of presentation*

Taiyo Life Insurance Company (the “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 (the “Insurance Business Law”) and in conformity with generally accepted accounting principles and practices in Japan.

Pursuant to its plan of demutualization and the Insurance Business Law, the Company has converted from a mutual company to a joint stock corporation since April 1, 2003.

In preparing the consolidated financial statements, certain items presented in the original consolidated financial statements have been reclassified and summarized for readers outside Japan. These consolidated 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 consolidated financial statements.

Amounts of less than one million yen and one thousand U.S. dollars have been eliminated. As a result, yen and U.S. dollar totals 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 Company and its subsidiaries. All material inter-company balances and transactions are eliminated. The number of consolidated subsidiaries for the year ended March 31, 2003 was 8. Taiyo Building Management Co., Ltd., was included in the consolidated financial statements from the date of its incorporation, April 1, 2002. Taiyo Life Lease Ltd. changed its name to T&D Taiyo Daido Lease Ltd. on August 1, 2002.

Investments in affiliates are accounted for under the equity method. The number of affiliated companies for the year ended March 31, 2003 was 3. As of July 1, 2002, T&D Taiyo Daido Asset Management Co., Ltd. has been merged with Daido Life Investment Trust Management Co., Ltd. and changed its name to T&D Asset Management Co., Ltd. Taiyo Fire & Marine Insurance Company Ltd., which was previously affiliated company, has been accounted for the cost method since April 1, 2002, resulted by the reduction in control of its equity shares.

There are other affiliated companies which are accounted for under the cost method. The aggregate impact of such companies to the consolidated financial statements is immaterial.

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

Taiyo Life Insurance Company

Notes to Unaudited Consolidated Financial Statements

The financial statements of a subsidiary located outside Japan are prepared with a fiscal year end of December 31. Appropriate adjustments have been made for material transactions between December 31 and March 31, the date of the consolidated financial statements.

The excess of cost over underlying equity at acquisition dates of investments in subsidiaries and affiliated companies is amortized within 20 years. If the amount is not significant, the cost over equity is charged to current operations immediately.

**(c) *Investments in securities other than those of subsidiaries and affiliates***

Investments in securities are classified as trading, held-to-maturity, available-for-sale securities and policy-reserve-matching bonds. Trading securities and available-for-sale securities with readily obtainable fair values (“marketable available-for-sale securities”) are stated at fair market value. Unrealized gains and losses on trading securities are reported in the statement of operations. In respect of the calculation of the fair value, the average price prevailing in March is applied for equity securities and the month-end price of March is applied for securities other than equity securities. Unrealized gains and losses on marketable available-for sale securities are included as a separate component of equity, net of income taxes, unless the decline in fair value of any particular available-for-sale security is considered to be a permanent impairment, in which case devaluation losses are charged to income. Held-to-maturity securities and available-for-sale securities without readily obtainable fair value are stated at amortized cost.

The Company has set up “policy-reserve-matching bonds”. The purpose of the policy-reserve-matching bonds is to reflect the Company’s ALM (Asset Liability Management) activity in the financial statements. The Company holds certain bonds to hedge the interest rate risk arising from contracted insurance policies. Policy-reserve-matching bonds are not stated at fair market value but are stated at amortized cost, matching with the accounting treatment of the policy reserve of insurance policies.

For the purpose of computing realized gains and losses, cost is determined by the moving average method.

The Company’s management and investment policies for policy-reserve-matching bonds include risk management guidelines for monitoring such policy-reserve-matching bonds. Based on the guidelines, the Company categorizes insurance policies into (1) ‘personal insurance policies with maturity less than 25 years’; and (2) policies for ‘defined contribution corporate pension insurance’ and ‘group pure endowment insurance’ policies with respect to group annuity insurance; (3) ‘lump-sum endowment insurance’ policies; and (4) ‘personal pension insurance’ policies during the year ended March 31, 2002. During the year ended March 31, 2003, the Company integrated saving-oriented products categories such as ‘lump-sum endowment insurance’ and ‘personal pension insurance’ into the category of ‘personal insurance policies with maturity less than 25 years’. Such integration was resulted that the Company recognized the difficulty to keep an appropriate level of asset volume for investment activities relating to these product categories. They might be getting smaller since there is less possibilities that the Company restarts selling activities for such saving-oriented products under prolonged low-interest rate environment and the Company’s activities in order to shift from saving-oriented products to protection-oriented products will also make them smaller. There were no impacts on financial statements due to such integration.

## Taiyo Life Insurance Company

### Notes to Unaudited Consolidated Financial Statements

The Company identifies the corresponding policy-reserve-matching bonds for each category of insurance policies, which may be adjusted based upon the changing characteristics of the Company's underlying policies. The Company also periodically examines the effectiveness of duration matching, which matches the duration of bonds held by the Company to that of the Company's underlying policies.

#### **(d) Foreign currency translation**

##### *(i) Foreign currency accounts*

Foreign currency monetary assets and liabilities (including derivatives and securities) are translated into Japanese yen at the foreign exchange rate prevailing at the balance sheet date except for available-for-sale securities, which are translated into Japanese yen at the average foreign exchange rate prevailing in March.

All income and expenses in foreign currencies are translated at the exchange rates prevailing when such transactions are made. Exchange gains and losses are charged or credited to income.

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

Assets, liabilities, income and expenses of a subsidiary located outside Japan are translated into Japanese yen at the exchange rate in effect at the balance sheet date in accordance with generally accepted accounting standards in Japan. Gains and losses resulting from translation of foreign currency financial statements are excluded from the statements of operations and are accumulated in "Translation Adjustments" in equity.

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

A reserve for possible loan losses is established in accordance with the Company's self-assessment guidelines. With respect to loans to borrowers subject to bankruptcy and similar proceedings, the Company provides a specific reserve for the loan balance less amounts collectible from collateral, guarantees and by other means. For loans to borrowers not yet bankrupt but highly likely to fall into bankruptcy, management determines and provides for the necessary specific reserve amount based on an overall assessment of the borrowers' ability to pay after subtracting the amount collectible from collateral, guarantees and by other means. With respect to other loans, the Company provides a general reserve by applying the historical loan loss ratio determined over a fixed period. Each loan is subject to asset assessment by the Risk Management Department in accordance with the Company's self-assessment guidelines, and the results of the assessment are reviewed by the Business Auditing Department, which is independent from the Risk Management Department, before the reserve amount is finally determined.

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

Taiyo Life Insurance Company

Notes to Unaudited Consolidated Financial Statements

**(f) Reserve for price fluctuations**

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

**(g) Allowance for policyholder dividends**

The Company sets up the allowance for policyholder dividends in preparation for policyholder dividends to be paid after the demutualization. The set up of this allowance is prescribed in Article 287-2 of the Japanese Commercial Code.

Policyholder dividends are recorded on an accrual basis for a joint stock corporation. They are treated as an appropriation of surplus for a mutual company. Accordingly, they are recorded based on the approval of the policyholders' representatives meeting held after the balance sheet date. Since the Company converted its organization from a mutual company to a joint stock corporation on April 1, 2003, the Company has accrued policyholder dividends for the year ended March 31, 2003 through this allowance.

Allowance for policyholder dividends will be absorbed into the reserve for policyholder dividends from April 1, 2003.

**(h) Policy reserve**

Pursuant to 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 established pursuant to the net level premium method. This method assumes a constant, or level, amount of pure insurance premiums over the term of the relevant policy in calculating the amount of the reserve required to fund all future policy benefits. The pure insurance premium is the portion of the premium covering insurance underwriting risk, based on factors such as mortality rates, investment yield and policy cancellation rates, and excluding the portion covering administrative expenses. The net level premium reserve is calculated using interest and mortality rates set by the Financial Services Agency. For policies issued after April 2001, the net level premium reserve is calculated using an annual 1.5% interest rate and the mortality rate specified in the Life Insurance Companies Standard Mortality Table 1996. Such calculation is not necessarily in accordance with the gross premium basis.

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.

**(i) Reserve for employees' retirement benefits**

The Company and its consolidated subsidiaries maintain non-contributory defined benefit plans covering substantially all employees. Under the plans, qualified employees are entitled to lump-sum or annuity payments based on salary, length of service at retirement and reason for the termination of employment.

Taiyo Life Insurance Company

Notes to Unaudited Consolidated Financial Statements

The Company and its consolidated subsidiaries sets up a reserve for employees' retirement benefits under the defined benefit plans based on the actuarial calculation value of the retirement benefit obligations and the pension assets. The attribution of retirement benefits to periods of employees' service is made based on the benefit/ years-of service approach.

Through the year ended March 31, 2002, unrecognized net gains or losses was charged or credited to income in the following fiscal year. However, it was charged or credited to income when recognized in order to improve the financial condition after September 30, 2002. As a result of the accounting change, ordinary profit decreased by ¥3,700 million (U.S.\$30,784 thousand) and income before income taxes decreased by ¥3,700 million (U.S.\$30,784 thousand) for the year ended March 31, 2003.

**(j) Reserve for directors' and corporate auditors' retirement benefits**

The Company and its domestic consolidated subsidiaries have maintained retirement benefit plans covering all directors and corporate auditors. Under the plans, all directors and corporate auditors are entitled to lump-sum or annuity payments based on their current of pay and length of service at retirement.

The Company and its consolidated subsidiaries set up a reserve for directors' and corporate auditors' retirement benefits under the defined benefit plans based on the actuarial calculation value of the retirement benefit obligations. The attribution of retirement benefits to periods of consignees' service is made based on the benefit/ years-of service approach.

**(k) Income taxes**

The provision for income taxes is based on income recognized for financial statement purposes, which includes deferred income taxes resulting from temporary differences arising between income recognized for financial statement purposes and income recognized 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 the statutory tax rate.

**(l) 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 April 1, 1998 and by the declining-balance method for other property and equipment, based on the following estimated useful lives:

|                          |               |
|--------------------------|---------------|
| Buildings and structures | 3 to 50 years |
| Equipment                | 3 to 20 years |

Accumulated depreciation of property and equipment as of March 31, 2003 was ¥92,160 million (U.S.\$766,723 thousand).

Taiyo Life Insurance Company

Notes to Unaudited Consolidated Financial Statements

**(m) Software**

Depreciation of the Company's internal use software, which is included in other assets, is computed by the straight-line method based on estimated useful lives (five years).

**(n) Leases**

The Company and its subsidiaries are party to lease contracts both as a lessee and as a lessor.

Under Japanese accounting standards for leases, finance leases that have been deemed to transfer ownership of the leased property to the lessee ("ownership-transfer finance lease") are capitalized by the lessee, while other finance leases ("non-ownership-transfer finance lease") are permitted to account for as operating lease transactions.

The Company and its subsidiaries treat all non-ownership-transfer finance leases as operating leases. Accordingly, leased assets with respect of non-ownership-transfer finance leases where the Company is the lessee are not recognized in the accompanying balance sheet and lease payments are charged to income when incurred. Non-ownership-transfer finance leases where the Company is lessor are not treated as finance transactions and related leased assets are included in other assets of the accompanying balance sheet. Depreciation of leased assets is computed by the straight-line method over the respective lease period. Lease income is recognized when incurred.

**(o) Land revaluation**

The Company revalued its land for operating purposes as of March 31, 2002, as permitted by the Land Revaluation Law ("the Law"), which became effective in 1998. In accordance with provisions under the Law and related ordinances, the revaluation is a one-time event and subsequent valuation gains/losses after the initial revaluation are not reflected to the financial statements but are disclosed if additional valuation losses are subsequently recognized after the initial revaluation. Net revaluation gains or losses is not charged to income but is included as a separate component of equity, net of income taxes. In case that the Company sells a part of such revalued land, related revaluation gain or losses are transferred to unappropriated surplus. Book values of land for operating use before and after revaluation as of March 31, 2002 were ¥143,340 million and ¥110,220 million, respectively. The additional valuation losses as of March 31, 2003 accounted to ¥5,850 million (U.S.\$48,669 thousand).

**(p) Derivative financial instruments**

The Company uses swaps, forwards, futures and option contracts, to hedge exposure to changes in interest rates, foreign exchange rates, stock and bond prices for assets in the balance sheet or for future investments, and to manage the differences in the duration of its assets and liabilities. In addition, the Company trades credit derivatives within certain internal limitations.

Taiyo Life Insurance Company

Notes to Unaudited Consolidated Financial Statements

Changes in the fair values of the derivatives designated and qualifying as hedges are either charged to income, reported as other assets/liabilities in the balance sheet, or not recognized based on whether such hedges are considered a fair value, cash flow or special hedge. Special hedge relationships are not revalued but the contractual rates of the special hedge are incorporated with those of the hedged items. Fair value hedges of assets and liabilities are recognized in income as an offset to the fair value adjustments of the related hedged items. The fair value of instruments hedging anticipated transactions and referred to as cash flow hedge are recognized in the balance sheet and are reclassified as income when the related hedged item impacts income.

The Company applies hedge accounting to specific derivative financial instruments that are identified as hedging instruments. Although insurance companies in Japan are allowed to use macro hedge accounting, the Company does not apply such accounting.

***(q) 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 amortized against income over a five-year period on a straight-line basis.

***(r) Cash and cash equivalents***

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

**2. U.S. Dollar Amounts**

The translations of yen amounts into U.S. dollar amounts are included solely for the convenience of the reader and have been made, as a matter of arithmetical computation only, at the rate of ¥120.20 = U.S.\$1, which is the approximate rate prevailing at March 31, 2003. The translations should not be construed as representations that such yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rates.

Taiyo Life Insurance Company

Notes to Unaudited Consolidated Financial Statements

**3. Investments in Securities and Monetary Trusts**

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

|                                              | As of March 31,    |                    |                             |
|----------------------------------------------|--------------------|--------------------|-----------------------------|
|                                              | <u>2002</u>        | <u>2003</u>        | <u>2003</u>                 |
|                                              | (Millions of yen)  |                    | (Thousands of U.S. dollars) |
| Securities:                                  |                    |                    |                             |
| Trading                                      | ¥ 79,971           | ¥ 51,290           | \$ 426,710                  |
| Available-for-sale:                          |                    |                    |                             |
| with fair value                              | 2,497,920          | 2,581,565          | 21,477,248                  |
| without fair value                           | <u>96,760</u>      | <u>98,154</u>      | <u>816,593</u>              |
|                                              | 2,594,681          | 2,679,719          | 22,293,841                  |
| Held-to-maturity:                            |                    |                    |                             |
| with fair value                              | 168,025            | 7,459              | 62,055                      |
| Policy-reserve-matching:                     |                    |                    |                             |
| with fair value                              | 1,035,918          | 909,294            | 7,564,849                   |
| Non-consolidated subsidiaries and affiliates | <u>5,670</u>       | <u>14,923</u>      | <u>124,157</u>              |
|                                              | ¥ <u>3,884,267</u> | ¥ <u>3,662,688</u> | \$ <u>30,471,614</u>        |
| Monetary trusts:                             |                    |                    |                             |
| Trading                                      | ¥ 95,883           | ¥ 55,569           | \$ 462,310                  |
| Available-for-sale                           | <u>50</u>          | <u>50</u>          | <u>415</u>                  |
|                                              | ¥ <u>95,933</u>    | ¥ <u>55,619</u>    | \$ <u>462,726</u>           |

Investments in trading securities and monetary trusts held by the Company and its consolidated subsidiaries as of March 31, 2002 and 2003 are summarized below:

|                 | As of March 31,   |                                  |                   |                                  |
|-----------------|-------------------|----------------------------------|-------------------|----------------------------------|
|                 | <u>2002</u>       |                                  | <u>2003</u>       |                                  |
|                 | <u>Fair value</u> | <u>Unrealized Gains (Losses)</u> | <u>Fair value</u> | <u>Unrealized Gains (Losses)</u> |
|                 | (Millions of yen) |                                  |                   |                                  |
| Securities      | ¥ 79,971          | ¥ 1,401                          | ¥ 51,290          | ¥ (4,820)                        |
| Monetary trusts | <u>95,883</u>     | <u>1,354</u>                     | <u>55,569</u>     | <u>1,633</u>                     |
| Total           | ¥ <u>175,855</u>  | ¥ <u>2,755</u>                   | ¥ <u>106,860</u>  | ¥ <u>(3,187)</u>                 |

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|                 | <u>As of March 31, 2003</u> |                                      |
|-----------------|-----------------------------|--------------------------------------|
|                 | <u>Fair value</u>           | <u>Unrealized<br/>Gains (Losses)</u> |
|                 | (Thousands of U.S. dollars) |                                      |
| Securities      | \$ 426,710                  | \$ (40,104)                          |
| Monetary trusts | <u>462,310</u>              | <u>13,587</u>                        |
| Total           | \$ <u>889,021</u>           | \$ <u>(26,517)</u>                   |

Fair value information on investments in available-for-sale, held-to-maturity securities and policy-reserve-matching bonds held by the Company and its consolidated subsidiaries as of March 31, 2002 and 2003 is summarized below:

|                            | <u>As of March 31, 2002</u> |                                       |                                        |
|----------------------------|-----------------------------|---------------------------------------|----------------------------------------|
|                            | <u>Carrying<br/>Amount</u>  | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> |
|                            | (Millions of yen)           |                                       |                                        |
| Available-for-sale:        |                             |                                       |                                        |
| Public and corporate bonds | ¥ 1,330,185                 | ¥ 53,546                              | ¥ (2,572)                              |
| Domestic stocks            | 563,124                     | 63,798                                | (60,374)                               |
| Foreign securities         | 575,176                     | 17,403                                | (22,005)                               |
| Other securities           | <u>29,434</u>               | <u>218</u>                            | <u>(2,350)</u>                         |
| Total                      | ¥ <u>2,497,920</u>          | ¥ <u>134,966</u>                      | ¥ <u>(87,302)</u>                      |

During the year ended March 31, 2002, impairment losses of ¥556 million were charged to income.

|                            | <u>As of March 31, 2002</u> |                                       |                                        |
|----------------------------|-----------------------------|---------------------------------------|----------------------------------------|
|                            | <u>Amortized<br/>Cost</u>   | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> |
|                            | (Millions of yen)           |                                       |                                        |
| Held-to-maturity:          |                             |                                       |                                        |
| Public and corporate bonds | ¥ <u>168,025</u>            | ¥ <u>1,721</u>                        | ¥ <u>(2,185)</u>                       |

|                            | <u>As of March 31, 2002</u> |                                       |                                        |
|----------------------------|-----------------------------|---------------------------------------|----------------------------------------|
|                            | <u>Amortized<br/>Cost</u>   | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> |
|                            | (Millions of yen)           |                                       |                                        |
| Policy-reserve-matching:   |                             |                                       |                                        |
| Public and corporate bonds | ¥ <u>1,035,918</u>          | ¥ <u>6,516</u>                        | ¥ <u>(1,160)</u>                       |

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|                            | As of March 31, 2003      |                                     |                                      |
|----------------------------|---------------------------|-------------------------------------|--------------------------------------|
|                            | Carrying<br><u>Amount</u> | Gross<br>Unrealized<br><u>Gains</u> | Gross<br>Unrealized<br><u>Losses</u> |
|                            | (Millions of yen)         |                                     |                                      |
| Available-for-sale:        |                           |                                     |                                      |
| Public and corporate bonds | ¥ 1,499,778               | ¥ 56,430                            | ¥ (779)                              |
| Domestic stocks            | 360,148                   | 10,356                              | (73,382)                             |
| Foreign securities         | 679,699                   | 34,208                              | (22,233)                             |
| Other securities           | <u>41,938</u>             | <u>83</u>                           | <u>(2,531)</u>                       |
| Total                      | ¥ <u>2,581,565</u>        | ¥ <u>101,079</u>                    | ¥ <u>(98,927)</u>                    |

During the year ended March 31, 2003, impairment losses of ¥82,272 million (U.S.\$684,466 thousand) were charged to income.

|                            | As of March 31, 2003     |                                     |                                      |
|----------------------------|--------------------------|-------------------------------------|--------------------------------------|
|                            | Amortized<br><u>Cost</u> | Gross<br>Unrealized<br><u>Gains</u> | Gross<br>Unrealized<br><u>Losses</u> |
|                            | (Millions of yen)        |                                     |                                      |
| Held-to-maturity:          |                          |                                     |                                      |
| Public and corporate bonds | ¥ <u>7,459</u>           | ¥ <u>717</u>                        | ¥ <u>-</u>                           |

|                            | As of March 31, 2003     |                                     |                                      |
|----------------------------|--------------------------|-------------------------------------|--------------------------------------|
|                            | Amortized<br><u>Cost</u> | Gross<br>Unrealized<br><u>Gains</u> | Gross<br>Unrealized<br><u>Losses</u> |
|                            | (Millions of yen)        |                                     |                                      |
| Policy-reserve-matching:   |                          |                                     |                                      |
| Public and corporate bonds | ¥ <u>909,294</u>         | ¥ <u>32,869</u>                     | ¥ <u>(37)</u>                        |

|                            | As of March 31, 2003        |                                     |                                      |
|----------------------------|-----------------------------|-------------------------------------|--------------------------------------|
|                            | Carrying<br><u>Amount</u>   | Gross<br>Unrealized<br><u>Gains</u> | Gross<br>Unrealized<br><u>Losses</u> |
|                            | (Thousands of U.S. dollars) |                                     |                                      |
| Available-for-sale:        |                             |                                     |                                      |
| Public and corporate bonds | \$ 12,477,360               | \$ 469,474                          | \$ (6,488)                           |
| Domestic stocks            | 2,996,242                   | 86,159                              | (610,501)                            |
| Foreign securities         | 5,654,739                   | 284,595                             | (184,968)                            |
| Other securities           | <u>348,906</u>              | <u>694</u>                          | <u>(21,063)</u>                      |
| Total                      | \$ <u>21,477,248</u>        | \$ <u>840,925</u>                   | \$ <u>(823,022)</u>                  |

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|                            | As of March 31, 2003        |                                     |                                      |
|----------------------------|-----------------------------|-------------------------------------|--------------------------------------|
|                            | Amortized<br><u>Cost</u>    | Gross<br>Unrealized<br><u>Gains</u> | Gross<br>Unrealized<br><u>Losses</u> |
|                            | (Thousands of U.S. dollars) |                                     |                                      |
| Held-to-maturity:          |                             |                                     |                                      |
| Public and corporate bonds | \$ <u>62,055</u>            | \$ <u>5,970</u>                     | \$ <u>-</u>                          |

|                            | As of March 31, 2003          |                                     |                                      |
|----------------------------|-------------------------------|-------------------------------------|--------------------------------------|
|                            | —<br>Amortized<br><u>Cost</u> | Gross<br>Unrealized<br><u>Gains</u> | Gross<br>Unrealized<br><u>Losses</u> |
|                            | (Thousands of U.S. dollars)   |                                     |                                      |
| Policy-reserve-matching:   |                               |                                     |                                      |
| Public and corporate bonds | \$ <u>7,564,849</u>           | \$ <u>273,459</u>                   | \$ <u>(313)</u>                      |

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

|                     | As of March 31,   |                 |                                |
|---------------------|-------------------|-----------------|--------------------------------|
|                     | <u>2002</u>       | <u>2003</u>     | <u>2003</u>                    |
|                     | (Millions of yen) |                 | (Thousands of<br>U.S. Dollars) |
| Available-for-sale: |                   |                 |                                |
| Domestic stocks     | ¥ 6,758           | ¥ 8,102         | \$ 67,407                      |
| Foreign securities  | 90,000            | 90,000          | 748,752                        |
| Other securities    | <u>1</u>          | <u>52</u>       | <u>433</u>                     |
| Total               | ¥ <u>96,760</u>   | ¥ <u>98,154</u> | \$ <u>816,593</u>              |

Impairment losses of ¥216 million and ¥322 million (U.S.\$2,680 thousand) were charged to income during the years ended March 31, 2002 and 2003, respectively.

Gross gains of ¥66,529 million and ¥48,650 million (U.S.\$404,743 thousand), and gross losses of ¥37,295 million and ¥40,613 million (U.S.\$337,881 thousand) were realized on the sale of available-for-sale securities for the years ended March 31, 2002 and 2003, respectively. Total proceeds on such sales amounted to ¥2,373,399 million and ¥1,375,727 million (U.S.\$11,445,320 thousand) for the years ended March 31, 2002 and 2003, respectively.

Gross gains of ¥20,901 million (U.S.\$173,886 thousand), and gross losses of ¥1,486 million (U.S.\$12,371 thousand) were realized through the sale of policy-reserve-matching bonds for the year ended March 31, 2003. Total proceeds on such sales amounted to ¥1,333,339 million (U.S.\$11,092,672 thousand).

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During the year ended March 31, 2003, the Company sold certain held-to-maturity securities, with a net book value of ¥7,714 million (U.S.\$64,182 thousand), and recognized net gains amounted to ¥736 million (U.S.\$6,125 thousand). In addition, the Company reclassified certain held-to-maturity securities, with a net book value of ¥152,858 million (U.S.\$1,271,703 thousand), into available-for-sale securities. This is because, as described in 1 (c) above, the Company reorganized the classification for policy-reserve-matching-bonds. In that respect, certain held-to-maturity securities, related to category to be integrated into the other category, were no longer required to be remained as held-to-maturity securities due to the change of the future cash projection. As the result of the change of the classification of such held-to-maturity securities, the balance of securities increased by ¥3,279 million (U.S.\$27,285 thousand) and net unrealized gains on securities increased by ¥2,095 million (U.S.\$17,435 thousand).

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

|                            | As of March 31, 2002           |                                              |                                               |                            |                    |
|----------------------------|--------------------------------|----------------------------------------------|-----------------------------------------------|----------------------------|--------------------|
|                            | <u>Due in one year or less</u> | <u>Due after one year through five years</u> | <u>Due after five years through ten years</u> | <u>Due after ten years</u> | <u>Total</u>       |
|                            | (Millions of yen)              |                                              |                                               |                            |                    |
| Public and corporate bonds | ¥ 208,556                      | ¥ 999,887                                    | ¥ 1,069,529                                   | ¥ 256,155                  | ¥ 2,534,129        |
| Foreign securities         | 37,984                         | 165,996                                      | 254,504                                       | 51,698                     | 510,184            |
| Other securities           | -                              | 12,825                                       | 7,280                                         | -                          | 20,106             |
| Total                      | ¥ <u>246,540</u>               | ¥ <u>1,178,710</u>                           | ¥ <u>1,331,314</u>                            | ¥ <u>307,854</u>           | ¥ <u>3,064,420</u> |

|                            | As of March 31, 2003           |                                              |                                               |                            |                    |
|----------------------------|--------------------------------|----------------------------------------------|-----------------------------------------------|----------------------------|--------------------|
|                            | <u>Due in one year or less</u> | <u>Due after one year through five years</u> | <u>Due after five years through ten years</u> | <u>Due after ten years</u> | <u>Total</u>       |
|                            | (Millions of yen)              |                                              |                                               |                            |                    |
| Public and corporate bonds | ¥ 245,858                      | ¥ 1,094,790                                  | ¥ 883,471                                     | ¥ 192,412                  | ¥ 2,416,532        |
| Foreign securities         | 13,250                         | 224,403                                      | 304,960                                       | 87,798                     | 630,413            |
| Other securities           | 41                             | 13,297                                       | 15,204                                        | -                          | 28,543             |
| Total                      | ¥ <u>259,151</u>               | ¥ <u>1,332,491</u>                           | ¥ <u>1,203,636</u>                            | ¥ <u>280,210</u>           | ¥ <u>3,075,489</u> |

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|                               | <u>Due in one<br/>year or less</u> | <u>Due after one<br/>year through<br/>five years</u> | <u>Due after five<br/>years through<br/>ten years</u> | <u>Due after<br/>ten years</u> | <u>Total</u>         |
|-------------------------------|------------------------------------|------------------------------------------------------|-------------------------------------------------------|--------------------------------|----------------------|
|                               | (Thousands of U.S. dollars)        |                                                      |                                                       |                                |                      |
| Public and<br>corporate bonds | \$ 2,045,413                       | \$ 9,108,074                                         | \$ 7,350,009                                          | \$ 1,600,767                   | \$ 20,104,265        |
| Foreign securities            | 110,238                            | 1,866,914                                            | 2,537,111                                             | 730,438                        | 5,244,702            |
| Other securities              | <u>348</u>                         | <u>110,629</u>                                       | <u>126,491</u>                                        | <u>-</u>                       | <u>237,469</u>       |
| Total                         | \$ <u>2,156,000</u>                | \$ <u>11,085,619</u>                                 | \$ <u>10,013,612</u>                                  | \$ <u>2,331,205</u>            | \$ <u>25,586,437</u> |

**4. Loans**

Delinquent loans of the Company and its consolidated subsidiaries as of March 31, 2003 are summarized below:

|                                        | (Millions of<br>yen) | (Thousands of<br>U.S. dollars) |
|----------------------------------------|----------------------|--------------------------------|
| Loans to bankrupt companies            | ¥ 389                | \$ 3,241                       |
| Past due loans                         | 1,587                | 13,208                         |
| Loans overdue for three months or more | 5,709                | 47,497                         |
| Restructured loans                     | <u>3,710</u>         | <u>30,871</u>                  |
| Total                                  | ¥ <u>11,397</u>      | \$ <u>94,820</u>               |

“Loans to bankrupt companies” are loans to borrowers that are subject to bankruptcy, corporate reorganization 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 unlikely due to significant delay in payment of principal or interest or for some other reason.

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

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

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

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With respect to loans to bankrupt companies and past due loans that are covered by collateral and guarantees, the Company writes off the portion of such loans that are not collectible from collateral and guarantees, and charges such amounts to the reserve for possible loan losses. Write-offs relating to bankrupt companies for the year ended March 31, 2003 amounted to ¥950 million (U.S.\$7,911 thousand). Past due loans decreased due to write-offs by ¥90 million (U.S.\$1,585 thousand) for the year ended March 31, 2003.

The Company's outstanding loan commitments with borrowers as of March 31, 2003 are summarized as follows:

|                          | (Millions of (Thousands of<br>yen) U.S. dollars) |                  |
|--------------------------|--------------------------------------------------|------------------|
| Total loan commitment    | ¥ 11,862                                         | \$ 98,692        |
| Less amount drawn down   | <u>-</u>                                         | <u>-</u>         |
| Residual loan commitment | ¥ <u>11,862</u>                                  | \$ <u>98,692</u> |

Based on the loan agreements, the extension of credit is subject to the Company's review procedures. The review procedures provide ensuring to the use of funds and assessing the creditworthiness of the borrower. Since not all of the outstanding commitments will be drawn down, the outstanding commitments do not necessarily represent future cash requirements.

## 5. Derivative Financial Instruments

The Company uses swaps, forwards, futures and option contracts to hedge exposure to changes in interest rates, foreign exchange rates, stock and bond prices for assets in the balance sheet or for future investments, and to manage the differences in the duration of its assets and liabilities. In addition, the Company trades credit derivatives within certain internal limitations such as total notional amount, credit rating of entities to be referred under the credit derivatives.

The Company has established internal rules regarding derivative financial instruments including 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 maintain an adequate control environment for derivative financial instruments. The front, back and middle offices are performed by different departments for each dealing function. The middle office, the Total Risk Monitoring Department, periodically monitors, measures and analyzes risks related to derivative financial instruments, and periodically reports total risk, position and gains and losses to the board of directors.

Instruments are traded either over an exchange or with counterparties of high credit quality and the risk of non-performance by the counterparties is therefore considered to be remote.

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Changes in the fair values of the derivatives designated and qualifying as hedges are either charged to income, reported as other assets/liabilities in the balance sheet, or not recognized based on whether such hedges are considered a fair value, cash flow or special hedge. Special hedge relationships are not revalued but the contractual rates of the special hedge are incorporated with those of the hedged items. Fair value hedges of assets and liabilities are recognized in income as an offset to the fair value adjustments of the related hedged items. The fair value of instruments hedging anticipated transactions and referred to as cash flow hedges are recognized in the balance sheet and are reclassified as income when the related hedged item impacts income.

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 March 31, 2002 and 2003. Notional amounts do not represent exposure to credit loss.

| As of March 31, 2002                  |                             |                                             |                                     |                 |
|---------------------------------------|-----------------------------|---------------------------------------------|-------------------------------------|-----------------|
| <u>Notional amounts</u>               |                             |                                             |                                     |                 |
| <u>Over one year</u>                  | <u>One year<br/>or less</u> | <u>Current<br/>market or<br/>fair value</u> | <u>Valuation<br/>Gains (Losses)</u> |                 |
| (Millions of yen)                     |                             |                                             |                                     |                 |
| Interest rate swaps                   | ¥ 430,974                   | ¥ 40,200                                    | ¥ 17,526                            | ¥ 17,526        |
| Foreign exchange contracts sold       | -                           | 230,505                                     | 232,159                             | (1,653)         |
| Foreign currency options sold (call)  | -                           | 58,866                                      | 835                                 | (367)           |
| Foreign currency options bought (put) | -                           | 55,745                                      | 127                                 | (341)           |
| Credit derivatives sold               | <u>5,000</u>                | <u>-</u>                                    | <u>(41)</u>                         | <u>(41)</u>     |
| Total valuation gains, net            |                             |                                             |                                     | ¥ <u>15,122</u> |

| As of March 31, 2003                  |                             |                                             |                                     |                |
|---------------------------------------|-----------------------------|---------------------------------------------|-------------------------------------|----------------|
| <u>Notional amounts</u>               |                             |                                             |                                     |                |
| <u>Over one year</u>                  | <u>One year<br/>or less</u> | <u>Current<br/>market or<br/>fair value</u> | <u>Valuation<br/>Gains (Losses)</u> |                |
| (Millions of yen)                     |                             |                                             |                                     |                |
| Interest rate swaps                   | ¥ 253,447                   | ¥ 183,555                                   | ¥ 14,289                            | ¥ 14,289       |
| Foreign exchange contracts sold       | -                           | 396,180                                     | 401,455                             | (5,275)        |
| Foreign exchange contracts bought     | -                           | 27,510                                      | 27,570                              | 60             |
| Foreign currency options sold (call)  | -                           | 47,730                                      | 359                                 | (75)           |
| Foreign currency options bought (put) | -                           | 44,800                                      | 13                                  | (271)          |
| Bond options bought (call)            | -                           | 5,000                                       | 8                                   | 1              |
| Bond options bought (put)             | -                           | 22,000                                      | 27                                  | 73             |
| Credit derivatives sold               | <u>10,000</u>               | <u>-</u>                                    | <u>(69)</u>                         | <u>(69)</u>    |
| Total valuation gains, net            |                             |                                             |                                     | ¥ <u>8,733</u> |

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|                                       | As of March 31, 2003        |                     |                                           |                                    |
|---------------------------------------|-----------------------------|---------------------|-------------------------------------------|------------------------------------|
|                                       | <u>Notional amounts</u>     |                     |                                           |                                    |
|                                       | <u>Over one year</u>        | One year<br>or less | Current<br>market or<br><u>fair value</u> | Valuation<br><u>Gains (Losses)</u> |
|                                       | (Thousands of U.S. dollars) |                     |                                           |                                    |
| Interest rate swaps                   | \$ 2,108,550                | \$ 1,527,081        | \$ 118,877                                | \$ 118,877                         |
| Foreign exchange contracts sold       | -                           | 3,296,006           | 3,339,899                                 | (43,892)                           |
| Foreign exchange contracts bought     | -                           | 228,869             | 229,372                                   | 502                                |
| Foreign currency options sold (call)  | -                           | 397,089             | 2,993                                     | (624)                              |
| Foreign currency options bought (put) | -                           | 372,714             | 111                                       | (2,256)                            |
| Bond options bought (call)            | -                           | 41,597              | 69                                        | 14                                 |
| Bond options bought (put)             | -                           | 183,028             | 226                                       | 614                                |
| Credit derivatives sold               | <u>83,194</u>               | <u>-</u>            | <u>-577</u>                               | <u>(577)</u>                       |
| Total valuation gains, net            |                             |                     |                                           | \$ <u>72,657</u>                   |

**6. Separate Accounts**

The balance sheets include assets and an equivalent amount of liabilities related to separate accounts, amounting to ¥53,100 million (U.S.\$441,768 thousand), as of March 31, 2003.

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

Investment securities held under the separate accounts are deemed to be trading securities based on the accounting standards for financial instruments, and are stated at fair value. Cost is determined based on the moving average method.

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**7. Lease Transactions**

Information regarding non-ownership-transfer finance leases is as follows:

(1) As Lessee

Pro forma information of non-ownership-transfer finance leases contracted as a lessee such as acquisition cost and related accumulated depreciation of leased assets, obligation under finance leases, depreciation expense, interest expense of finance leases, which is required under Japanese accounting standards for leases for the years ended March 31, 2002 and 2003 are summarized as follows:

|                           | <u>For the years ended March 31,</u> |                |                             |
|---------------------------|--------------------------------------|----------------|-----------------------------|
|                           | <u>2002</u>                          | <u>2003</u>    | <u>2003</u>                 |
|                           | (Millions of yen)                    |                | (Thousands of U.S. dollars) |
| Acquisition cost:         |                                      |                |                             |
| Equipment                 | ¥ 2,349                              | ¥ 2,255        | \$ 18,765                   |
| Other                     | <u>49</u>                            | <u>62</u>      | <u>518</u>                  |
| Total                     | <u>2,398</u>                         | <u>2,317</u>   | <u>19,283</u>               |
| Accumulated depreciation: |                                      |                |                             |
| Equipment                 | 505                                  | 875            | 7,281                       |
| Other                     | <u>26</u>                            | <u>38</u>      | <u>319</u>                  |
| Total                     | <u>532</u>                           | <u>913</u>     | <u>7,600</u>                |
| Net carrying value:       |                                      |                |                             |
| Equipment                 | 1,843                                | 1,380          | 11,483                      |
| Other                     | <u>22</u>                            | <u>23</u>      | <u>199</u>                  |
| Total                     | ¥ <u>1,865</u>                       | ¥ <u>1,404</u> | \$ <u>11,683</u>            |

Obligation under finance leases as of March 31, 2002 and 2003 are as follows:

|                     | <u>For the years ended March 31,</u> |                |                             |
|---------------------|--------------------------------------|----------------|-----------------------------|
|                     | <u>2002</u>                          | <u>2003</u>    | <u>2003</u>                 |
|                     | (Millions of yen)                    |                | (Thousands of U.S. dollars) |
| Due within one year | ¥ 452                                | ¥ 456          | \$ 3,796                    |
| Due after one year  | <u>1,451</u>                         | <u>1,004</u>   | <u>8,360</u>                |
| Total               | ¥ <u>1,903</u>                       | ¥ <u>1,461</u> | \$ <u>12,157</u>            |

Total payments for non-ownership-transfer finance leases for the years ended March 31, 2002 and 2003 were ¥466 million and ¥541 million (U.S.\$4,502 thousand), respectively.

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Depreciation and imputed interest cost, which are not reflected the accompanying statements of operations, for the years ended March 31, 2002 and 2003 are as follows:

|                       | For the years ended March 31, |             |                             |
|-----------------------|-------------------------------|-------------|-----------------------------|
|                       | <u>2002</u>                   | <u>2003</u> | <u>2003</u>                 |
|                       | (Millions of yen)             |             | (Thousands of U.S. dollars) |
| Depreciation          | ¥ 415                         | ¥ 482       | \$ 4,013                    |
| Imputed interest cost | 75                            | 80          | 670                         |

Depreciation is computed by the straight-line method over the respective lease period. The residual value at the end of the lease period is not considered for the calculation of depreciation. Imputed interest cost is computed by the interest method.

(2) As Lessor

Information of non-ownership-transfer finance leases contracted as a lessor, required under Japanese accounting standards for the years ended March 31, 2002 and 2003 are summarized as follows.

Leased assets included in the accompanying balance sheets accounted for under the operating lease accounting are summarized as follows:

|                           | For the years ended March 31, |                 |                             |
|---------------------------|-------------------------------|-----------------|-----------------------------|
|                           | <u>2002</u>                   | <u>2003</u>     | <u>2003</u>                 |
|                           | (Millions of yen)             |                 | (Thousands of U.S. dollars) |
| Acquisition cost:         |                               |                 |                             |
| Equipment                 | ¥ 52,272                      | ¥ 53,822        | \$ 447,777                  |
| Other                     | <u>1,760</u>                  | <u>3,063</u>    | <u>25,483</u>               |
| Total                     | <u>54,032</u>                 | <u>56,885</u>   | <u>473,261</u>              |
| Accumulated depreciation: |                               |                 |                             |
| Equipment                 | 26,607                        | 27,824          | 231,485                     |
| Other                     | <u>561</u>                    | <u>1,021</u>    | <u>8,499</u>                |
| Total                     | <u>27,168</u>                 | <u>28,846</u>   | <u>239,984</u>              |
| Carrying value:           |                               |                 |                             |
| Equipment                 | 25,664                        | 25,998          | 216,292                     |
| Other                     | <u>1,199</u>                  | <u>2,041</u>    | <u>16,983</u>               |
| Total                     | ¥ <u>26,863</u>               | ¥ <u>28,039</u> | \$ <u>233,276</u>           |

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The amounts equivalent to the minimum lease payments to be received as of March 31, 2002 and 2003 are as follows:

|                     | <u>For the years ended March 31,</u> |                 |                             |
|---------------------|--------------------------------------|-----------------|-----------------------------|
|                     | <u>2002</u>                          | <u>2003</u>     | <u>2003</u>                 |
|                     | (Millions of yen)                    |                 | (Thousands of U.S. dollars) |
| Due within one year | ¥ 10,275                             | ¥ 11,633        | \$ 96,786                   |
| Due after one year  | <u>23,011</u>                        | <u>22,547</u>   | <u>187,583</u>              |
| Total               | ¥ <u>33,287</u>                      | ¥ <u>34,181</u> | \$ <u>284,369</u>           |

Gross lease income, recovery to the principal amount and net lease income if the Company applied the finance lease accounting to non-ownership-transfer finance leases for the years ended March 31, 2002 and 2003 are as follows:

|                              | <u>For the years ended March 31,</u> |             |                             |
|------------------------------|--------------------------------------|-------------|-----------------------------|
|                              | <u>2002</u>                          | <u>2003</u> | <u>2003</u>                 |
|                              | (Millions of yen)                    |             | (Thousands of U.S. dollars) |
| Gross lease income           | ¥ 9,855                              | ¥ 11,821    | \$ 98,351                   |
| Recovery to principal amount | 8,189                                | 9,993       | 83,144                      |
| Net lease income             | 1,465                                | 1,996       | 16,608                      |

## 8. Income Taxes

The Company and its domestic subsidiaries are subject to corporate (national) and inhabitants (local) taxes based on income that, in aggregate, resulted in a normal statutory tax rate of approximately 36.1 per cent. The effective tax rates for the year ended March 31, 2003 differ from the normal statutory rate for the following reasons:

|                                                                               |              |
|-------------------------------------------------------------------------------|--------------|
| Statutory tax rate                                                            | 36.1%        |
| Effect of equity in net loss of affiliated companies                          | 20.6         |
| Minimum taxes required for insurance companies under Japanese tax legislation | 13.9         |
| Other                                                                         | <u>(1.1)</u> |
| Effective tax rate                                                            | <u>69.4%</u> |

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Notes to Unaudited Consolidated Financial Statements

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

|                                                   | (Millions of<br>yen) | (Thousands of<br>U.S. dollars) |
|---------------------------------------------------|----------------------|--------------------------------|
| Deferred tax assets:                              |                      |                                |
| Policy reserves                                   | ¥ 47,177             | \$ 392,487                     |
| Reserve for possible loan losses                  | 1,134                | 9,441                          |
| Reserve for employees' retirement benefits        | 9,624                | 80,067                         |
| Reserve for price fluctuations                    | 769                  | 6,404                          |
| Impairment losses on securities                   | 62                   | 521                            |
| Tax loss carryforward                             | 20,885               | 173,752                        |
| Elimination of unrealized gains on consolidation  | 45                   | 375                            |
| Other                                             | <u>2,022</u>         | <u>16,823</u>                  |
| Total deferred tax assets                         | 81,720               | 679,872                        |
| Deferred tax liabilities:                         |                      |                                |
| Deferred gain on sale of real estate              | (377)                | (3,141)                        |
| Accrued dividend income                           | (1,235)              | (10,281)                       |
| Unrealized gain on available-for-sale securities  | (874)                | (7,273)                        |
| Deferred gain on revaluation for consolidation    | (112)                | (939)                          |
| Other                                             | <u>(10)</u>          | <u>(88)</u>                    |
| Total deferred tax liabilities                    | <u>(2,611)</u>       | <u>(21,724)</u>                |
| Net deferred tax asset                            | ¥ <u>79,109</u>      | \$ <u>658,148</u>              |
| Amounts recognized in consolidated balance sheet: |                      |                                |
| Assets                                            | ¥ 79,222             | \$ 659,087                     |
| Liabilities                                       | <u>(112)</u>         | <u>(939)</u>                   |
|                                                   | ¥ <u>79,109</u>      | \$ <u>658,148</u>              |

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Notes to Unaudited Consolidated Financial Statements

**9. Reserve for Employees' Retirement Benefits**

The components of net periodic pension cost are summarized below:

|                                       | For the year ended March 31, |                |                             |
|---------------------------------------|------------------------------|----------------|-----------------------------|
|                                       | <u>2002</u>                  | <u>2003</u>    | <u>2003</u>                 |
|                                       | (Millions of yen)            |                | (Thousands of U.S. dollars) |
| Service cost                          | ¥ 1,693                      | ¥ 1,622        | \$ 13,495                   |
| Interest cost                         | 1,021                        | 1,020          | 8,486                       |
| Expected return on assets             | (315)                        | (305)          | (2,545)                     |
| Amortization of unrecognized net loss | <u>1,539</u>                 | <u>3,944</u>   | <u>32,813</u>               |
| Net periodic pension cost             | 3,938                        | 6,280          | 52,250                      |
| Amortization of transition obligation | <u>-</u>                     | <u>-</u>       | <u>-</u>                    |
| Total pension cost                    | ¥ <u>3,938</u>               | ¥ <u>6,280</u> | \$ <u>52,250</u>            |

Assumptions used in accounting for the plans were as follows:

|                                             | For the year ended March 31, |             |
|---------------------------------------------|------------------------------|-------------|
|                                             | <u>2002</u>                  | <u>2003</u> |
| Discount rate                               | 3.0%                         | 2.5%        |
| Expected long-term rate of return on assets | 3.5%                         | 3.5%        |

Retirement benefits are allocated to periods of employees' service based on the benefit/years-of-service approach. All of unrecognized net gain or loss is charged or credited to income in the following fiscal year for the year ended March 31, 2002. However, it was charged or credited to income when recognized in order to improve the financial condition after September 30, 2002.

The plans' funded status as of March 31, 2002 and 2003 is summarized below:

|                                            | As of March 31,   |                 |                             |
|--------------------------------------------|-------------------|-----------------|-----------------------------|
|                                            | <u>2002</u>       | <u>2003</u>     | <u>2003</u>                 |
|                                            | (Millions of yen) |                 | (Thousands of U.S. dollars) |
| Projected benefit obligation               | ¥ 34,059          | ¥ 37,568        | \$ 312,551                  |
| Plan assets                                | (8,742)           | (8,410)         | (69,968)                    |
| Unrecognized net gain (loss)               | <u>(243)</u>      | <u>-</u>        | <u>-</u>                    |
| Reserve for employees' retirement benefits | ¥ <u>25,073</u>   | ¥ <u>29,158</u> | \$ <u>242,583</u>           |

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**10. Reserve for Policyholder Dividends**

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

|                                                       | (Millions of<br>yen) | (Thousands of<br>U.S. dollars) |
|-------------------------------------------------------|----------------------|--------------------------------|
| Balance at beginning of year                          | ¥ 74,036             | \$ 615,942                     |
| Transfer to reserves from surplus in<br>previous year | 10,855               | 90,309                         |
| Policyholder dividends                                | (18,162)             | (151,104)                      |
| Increase in interest                                  | <u>564</u>           | <u>4,700</u>                   |
| Balance at end of year                                | ¥ <u>67,293</u>      | \$ <u>559,846</u>              |

**11. Other Liabilities**

Other liabilities included ¥85,000 million (U.S.\$707,154 thousand) of subordinated borrowings as of March 31, 2003.

**12. Commitments**

The amount of the Company's future contributions to the Policyholder Protection Fund, which has been superseded by the Policyholder Protection Corporation under the Enactment Law for Financial System Reform in the year ended March 31, 2000, were estimated at ¥2,908 million (U.S.\$24,199 thousand) as of March 31, 2003. The contributions are charged to income as an operating expense when paid, as the amount of future contributions is not yet fixed.

The amounts of future contributions to the Policyholder Protection Corporation, which is estimated in accordance with Article 259 of the Insurance Business Law, were and ¥12,440 million (U.S.\$103,498 thousand) as of March 31, 2003. The contributions are also charged to income as an operating expense when paid, as the amount of future contributions is not yet fixed.

A portion of the Company's investments in securities, amounting to ¥19,889 million (U.S.\$165,472 thousand) were pledged for the benefit of the Policyholder Protection Corporation as of March 31, 2003, in order to secure such future contributions.

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Notes to Unaudited Consolidated Financial Statements

**13. 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 March 31,</u> |                                |
|-----------------------------------------------------------------------|------------------------|--------------------------------|
|                                                                       | <u>2003</u>            | <u>2003</u>                    |
|                                                                       | (Millions of<br>yen)   | (Thousands of<br>U.S. dollars) |
| Cash and deposits                                                     | ¥ 45,264               | \$ 376,573                     |
| Less: deposits with an original maturity of more than<br>three months | (375)                  | (3,119)                        |
| Call loans                                                            | <u>127,580</u>         | <u>1,061,397</u>               |
| Cash and cash equivalents                                             | ¥ <u>172,469</u>       | \$ <u>1,434,851</u>            |

**14. Segment Information**

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

Taiyo Life Insurance Company

Notes to Unaudited Consolidated Financial Statements

**15. 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 April 1, 2003.

(1) Subscribed capital

Equity in the balance sheet of the Company as of April 1, 2003 has been adjusted as follows in accordance with the plan of reorganization prescribed in the Article 86 of the Insurance Business Law.

(Millions of yen)

| As of March 31, 2003               |               | As of April 1, 2003                |               |
|------------------------------------|---------------|------------------------------------|---------------|
| Description                        | Amount        | Description                        | Amount        |
| (Equity)                           |               | (Equity)                           |               |
| Reserve for redemption of fund     | ¥ 10,000      | Common stock                       | ¥ 37,500      |
| Reserve for revaluation            | 13            | Capital reserve                    | 37,500        |
| Surplus:                           |               | Retained earnings:                 |               |
| Legal reserve for future losses    | 311           | Appropriated retained earnings     | 683           |
| Appropriated retained earnings     | 96,335        | Unappropriated retained earnings   | <u>60,612</u> |
| Unappropriated retained earnings   | <u>30,512</u> | Total Surplus                      | 61,296        |
| Total Surplus                      | 127,159       | Land revaluation                   | (21,470)      |
| Land revaluation                   | (21,470)      | Net unrealized gains on securities | 1,547         |
| Net unrealized gains on securities | 1,547         |                                    |               |
| Total Equity                       | ¥ 117,249     | Total Equity                       | ¥ 116,373     |

(Thousands of U.S. dollars)

| As of March 31, 2003               |                | As of April 1, 2003                |                |
|------------------------------------|----------------|------------------------------------|----------------|
| Description                        | Amount         | Description                        | Amount         |
| (Equity)                           |                | (Equity)                           |                |
| Reserve for redemption of fund     | \$ 83,194      | Common stock                       | \$ 311,980     |
| Reserve for revaluation            | 109            | Capital reserve                    | 311,980        |
| Surplus:                           |                | Retained earnings:                 |                |
| Legal reserve for future losses    | 2,589          | Appropriated retained earnings     | 5,690          |
| Appropriated retained earnings     | 801,458        | Unappropriated retained earnings   | <u>504,266</u> |
| Unappropriated retained earnings   | <u>253,850</u> | Total Surplus                      | 509,956        |
| Total Surplus                      | 1,057,898      | Land revaluation                   | (178,622)      |
| Land revaluation                   | (178,622)      | Net unrealized gains on securities | 12,873         |
| Net unrealized gains on securities | 12,873         |                                    |                |
| Total Equity                       | \$ 975,453     | Total Equity                       | \$ 968,167     |

Note: For total equity as of April 1, 2003, ¥875 million (U.S.\$7,286 thousand) has been deducted from total equity as of March 31, 2003 in accordance with Article 12 of the implementation order for the Insurance Business Law. (See (2) below)

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Notes to Unaudited Consolidated Financial Statements

These adjustments would effect to the equity of the consolidated balance sheet as follows:

(Millions of yen)

| As of March 31, 2003               |           | As of April 1, 2003                |           |
|------------------------------------|-----------|------------------------------------|-----------|
| Description                        | Amount    | Description                        | Amount    |
| (Equity)                           |           | (Equity)                           |           |
| Reserve for redemption of fund     | ¥ 10,000  | Common stock                       | ¥ 37,500  |
| Reserve for revaluation            | 13        | Capital reserve                    | 37,500    |
| Surplus                            | 125,973   | Retained earnings                  | 60,110    |
| Land revaluation                   | (21,470)  | Land revaluation                   | (21,470)  |
| Net unrealized gains on securities | 1,842     | Net unrealized gains on securities | 1,842     |
| Translation adjustments            | (51)      | Translation adjustments            | (51)      |
| Total Equity                       | ¥ 116,307 | Total Equity                       | ¥ 115,431 |

(Thousands of U.S. dollars)

| As of March 1, 2003                |            | As of April 1, 2003                |            |
|------------------------------------|------------|------------------------------------|------------|
| Description                        | Amount     | Description                        | Amount     |
| (Equity)                           |            | (Equity)                           |            |
| Reserve for redemption of fund     | \$ 83,194  | Common stock                       | \$ 311,980 |
| Reserve for revaluation            | 109        | Capital reserve                    | 311,980    |
| Surplus                            | 1,048,033  | Retained earnings                  | 500,091    |
| Land revaluation                   | (178,622)  | Land revaluation                   | (178,622)  |
| Net unrealized gains on securities | 15,328     | Net unrealized gains on securities | 15,328     |
| Translation adjustments            | (427)      | Translation adjustments            | (427)      |
| Total Equity                       | \$ 967,615 | Total Equity                       | \$ 960,328 |

Note: For total equity as of April 1, 2003, ¥875 million (U.S.\$7,286 thousand) has been deducted from total equity as of March 31, 2003 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 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 ¥875 million) was calculated by multiplying the number of total shares to be allotted to policyholders if they could receive the share allotments (12,054.9739294 shares) by the purchase price for new listing made by underwriters (¥72,652). The amount has been reclassified into accrued liabilities and paid the day after the reorganization (April 1, 2003).

**. Manufacturing, orders received and sales**

Due to the uniqueness of the life insurance business, we do not have any information to disclose regarding manufacturing, orders received and sales.