

# CONSOLIDATED FINANCIAL SUMMARY

(For the Fiscal Year Ended March 31, 2006)

May 17, 2006

Name of Company: **T&D Holdings, Inc.**  
 Stock Listings: Tokyo, Osaka  
 Security Code No.: 8795  
 Head Office: Tokyo, Japan  
 URL: <http://www.td-holdings.co.jp/e/>  
 Date of Board Meeting for Settlement of Accounts: May 17, 2006  
 Application of U.S. Accounting Standards: No

## 1. Consolidated Operating Results for the Year Ended March 31, 2006 (April 1, 2005 – March 31, 2006)

### (1) Results of Operations

Note: Since the company was established on April 1, 2004, there are no comparative data from the previous year of the year ended March 31, 2005. Amounts of less than one million yen have been eliminated, and percentages have been rounded to the nearest percent.

	Ordinary Revenues	% change	Ordinary Profit	% change	Net Income	% change
FY2005 ended March 31, 2006	¥2,444,295 million	5.5	¥136,846 million	25.7	¥35,545 million	(4.3)
FY2004 ended March 31, 2005	¥2,316,781 million	-	¥108,838 million	-	¥37,131 million	-

	Net Income Per Share	Net Income Per Share (Fully Diluted)	Ratio of Net Income to Shareholders' Equity	Ratio of Ordinary Profit to Total Assets	Ratio of Ordinary Profit to Ordinary Revenue
FY2005 ended March 31, 2006	¥146.19	-	4.3%	1.0%	5.6%
FY2004 ended March 31, 2005	¥155.41	-	6.6%	0.8%	4.7%

Notes:

- Equity in net income of affiliated companies: ¥22 million for the fiscal year ended March 31, 2006; ¥16 million for the fiscal year ended March 31, 2005
- Average number of outstanding shares during the year (consolidated): for the fiscal year ended March 31, 2006: 241,664,575; for the fiscal year ended March 31, 2005: 237,486,517
- Changes in method of accounting: Applicable
- % changes for ordinary revenues and ordinary profit, etc. are presented in comparison with the same term of the previous fiscal year.

### (2) Financial Conditions

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
As of March 31, 2006	¥13,986,233 million	¥1,080,098 million	7.7%	¥4,384.93
As of March 31, 2005	¥13,043,431 million	¥582,331 million	4.5%	¥2,410.76

Note: Number of outstanding shares at the end of the year (consolidated): as of March 31, 2006: 246,271,247; as of March 31, 2005: 241,461,460

### (3) Results of Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Term
FY2005 ended March 31, 2006	¥138,640 million	¥(196,333) million	¥27,346 million	¥834,403 million
FY2004 ended March 31, 2005	¥(33,775) million	¥200,155 million	¥27,189 million	¥870,062 million

### (4) Scope of Consolidation and Application of Equity Method

Number of consolidated subsidiaries: 16

Number of non-consolidated subsidiaries accounted for by the equity method: None

Number of affiliates accounted for by the equity method: 2

### (5) Any Change in Consolidation and Equity Method: None

## 2. Consolidated Forecasts for the Year Ending March 31, 2007 (April 1, 2006 - March 31, 2007)

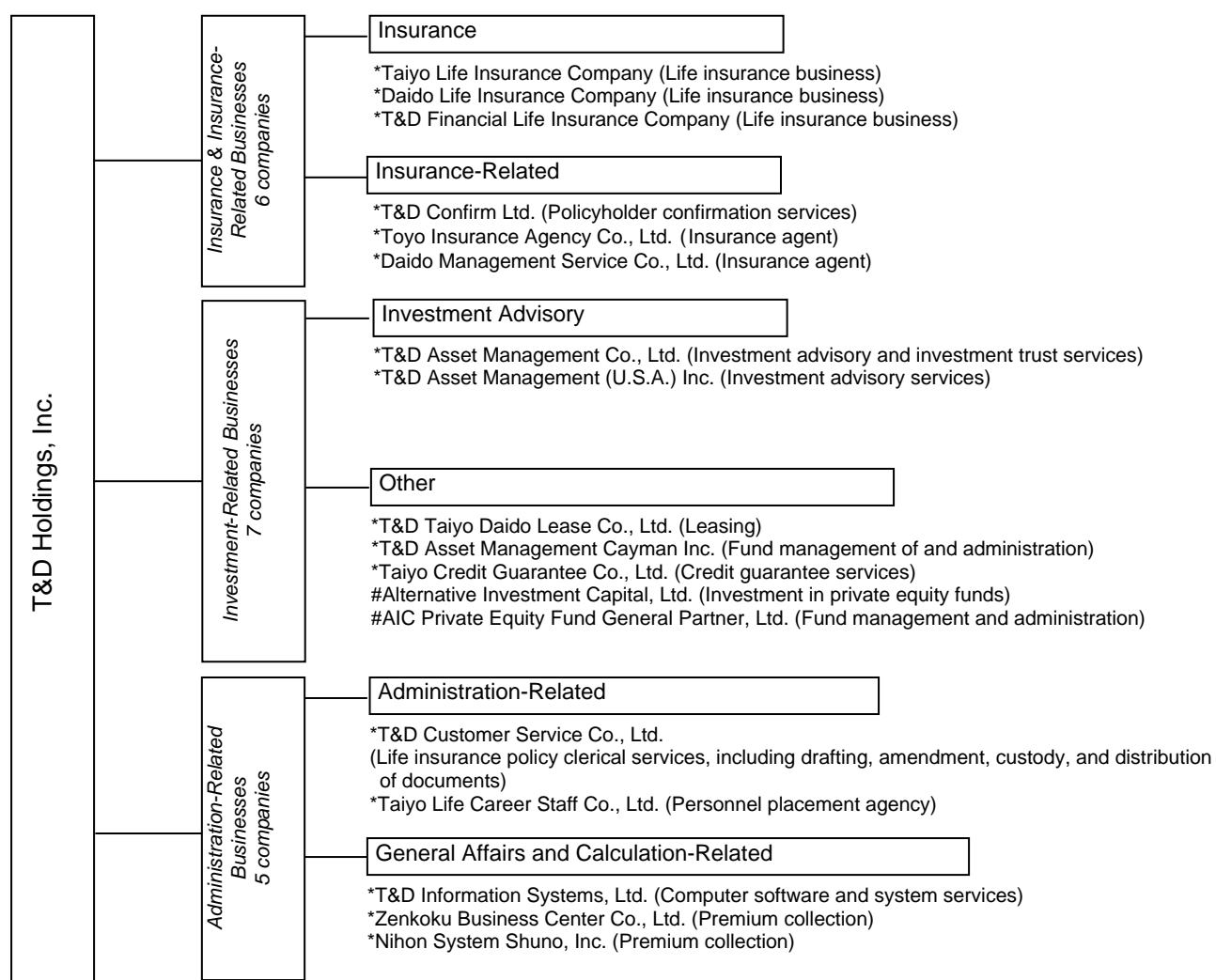
	Ordinary Revenues	Ordinary Profit	Net Income
Half-Year ending Sep.30, 2006	¥1,150,000 million	¥53,000 million	¥13,000 million
Year ending March 31, 2007	¥2,280,000 million	¥105,000 million	¥26,000 million

Note: Projected net income per share for the year ending March 31, 2007 is ¥105.57.

**The above forecasts for the year ending March 31, 2007 reflect the Company's current analysis of existing information and trends. Actual results may differ from expectations based on risks and uncertainties that may affect the Company's businesses.**

## I. Subsidiaries and Affiliates

T&D Holdings, Inc. (“T&D Holdings” and the “Company”), was established on April 1, 2004, as a holding company through the joint transfer of the stock of Taiyo Life Insurance Company (“Taiyo Life”), Daido Life Insurance Company (“Daido Life”), and T&D Financial Life Insurance Company (“T&D Financial Life”) (collectively, referred to below as the “Three Life Insurance Companies”). T&D Holdings and its subsidiaries (referred to below as the “T&D Life Group” or the “Group”) comprise the holding company, 16 subsidiaries and 2 affiliated companies as of March 31, 2006. Centered on the life insurance business, the Group’s operations are outlined below:



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

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

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

With our “Try & Discover” motto for creating value, we aim to be a group that contributes to all people and societies the Group’s four management visions are as follows:

- (1) Aim to provide the best products and services to increase customer satisfaction.
- (2) Aim to increase the value of the Group by expanding and creating value in areas where the Group can take full advantage of its strengths.
- (3) Broadly fulfill our social responsibilities with high ethical standards and strict compliance practices.
- (4) Aim to be an energetic group whose employees are encouraged to be creative and to take action.

### ***2. Basic Profit Distribution Policy***

T&D Holdings’ basic policy is to retain necessary internal reserves for the Group as a whole while seeking to maintain a sound business base for the subsidiaries. T&D Holdings simultaneously pursues policies aimed at increasing shareholder value and paying stable dividends. The Company plans to pay a dividend of ¥55 per share in fiscal year 2006 ending March 31, 2007.

### ***3. Management Goals***

The T&D Life Group aims at sustainable growth in its Embedded Value (EV)\*, which is a yardstick to evaluate the corporate value of a life insurance company. Crucial for EV enhancement are “solid growth in new policy amount and the expansion of policy amount in force” as well as “attainment of higher managerial efficiency.” Based on a time-driven management style, the Group will meet the said crucial challenges and strive to enhance its corporate value.

\*Embedded value (EV) is the sum of adjusted book value calculated from the balance sheet, and existing business value, calculated from existing policies in force. In Europe and Canada, along with other information, EV is used to evaluate the corporate value of a stock life insurance company.

### ***4. Medium-Term Management Strategy***

T&D Life Group is pursuing the following five group strategies, along with the philosophies of “growing and expanding the insurance business” by further leveraging the unique strengths inherent in the business models of each of the Three Life Insurance Companies and “increasing operational efficiency and strategic concentration of investment ” through consolidation of the Group’s management resources.

#### **(1) Growing and expanding the life insurance business**

To grow and expand the Group’s core business, a life insurance business, through the further reinforcement of the individual strengths of Taiyo Life, Daido Life, and T&D Financial Life — each of which has independent product strategies and sales strategies—within the Group.

#### **(2) Strategically reallocating the Group resources**

To enhance the Group’s corporate value through strategic reallocation of group management resources to fields with high growth potentiality and profitability.

(3) Increasing operational efficiency

To achieve greater efficiency and the provision of high-quality services through the integration of such common group infrastructure as back-office services and systems.

(4) Strengthening profit management and risk management

To win trust from customers by establishing a stronger financial basis through appropriate profit management and risk management.

(5) Expanding the Group presence

To achieve the medium- and long-term growth of the Group by expanding the insurance businesses and entering into new business areas through alliances and M&A.

## ***5. Future Tasks***

The Japanese economy is expected to show a steady recovery, reflecting export growth supported by the expansion of world economy and favorable growth in private-sector demand in the domestic market. In the Japanese life insurance market, competition is expected to intensify in offering new products and services to meet diversifying customer needs in a business environment characterized by liberalization and deregulation in the entire financial sector. In such an environment, the T&D Life Group will strive to realize its management philosophy and win the trust of customers by offering new products and services which will fulfill customer satisfaction. From a broader and long-term viewpoint, the Group will aim at sustainable business growth in harmony with society, and will address “Business Operations to Fulfill its Corporate Social Responsibility (CSR)” through proactive communication with all of its stakeholders.

## ***6. Relationships with the Parent Company***

T&D Holdings does not have the parent company.

### ***III. Financial Review***

#### ***1. Consolidated Results of Operations***

For the fiscal year ended March 31, 2006, ordinary revenues increased ¥127.5 billion (5.5 percent) from the level of the previous fiscal year, to ¥2,444.2 billion, which was a total of income from insurance premiums of ¥1,902.3 billion (up 5.7 percent), investment income of ¥465.6 billion (up 38.5 percent), other ordinary income of ¥76.2 billion (down 58.0 percent) and other income.

Ordinary expenses increased ¥99.5 billion (4.5 percent) from the level of the previous fiscal year, to ¥2,307.4 billion, which was a total of insurance claims and other payments of ¥1,746.0 billion (down 4.4 percent), provision for policy and other reserves of ¥173.1 billion (up 16,307.4 percent), investment expenses of ¥103.1 billion (up 12.1 percent), operating expenses of ¥209.7 billion (up 2.0 percent), and other ordinary expenses of ¥75.3 billion (down 9.8 percent). The sharp increase in provision for policy and other reserves was due to the policy reserve, turned from reversal for the previous fiscal year to provision, attributed to an increase in income from insurance premiums and a decrease in insurance claims and other payments.

As a result, ordinary profit increased by ¥28.0 billion (25.7 percent), to ¥136.8 billion. Ordinary profit increased, due mainly to an improvement of capital gains and losses including gains on investment in trading securities and gains on sales of securities resulting from an improved investment environment such as a rise in stock prices, despite a decrease in income from interest and dividends attributed to the lower reinvestment yields.

Extraordinary gains decreased 55.2 percent, to ¥1.8 billion, and extraordinary losses increased 143.8 percent, to ¥39.3 billion. An impairment loss of ¥3.5 billion, provision for reserve for price fluctuations of ¥31.3 billion, and other extraordinary losses of ¥2.4 billion, mainly resulting from the premium severance payment for voluntary retirements by the inter-group reorganization of the in-house sales representatives' channel of T&D Financial Life were included in the extraordinary losses.

After accounting for extraordinary gains and losses, the provision for reserve for policyholder dividends, and income taxes, net income decreased ¥1.5 billion (4.3 percent), from the level of the previous fiscal year, to ¥35.5 billion.

Net income decreased due mainly to an increase in extraordinary losses such as a provision for reserve for price fluctuations, while ordinary profit increased.

#### ***2. Consolidated Financial Position***

##### **(1) Balance Sheets**

As of March 31, 2006, total assets amounted to ¥13,986.2 billion (up 7.2 percent from March 31, 2005), mainly consisting of securities centered on public and corporate bonds amounting to ¥9,830.6 billion (up 11.3 percent), loans of ¥2,518.7 billion (down 7.9 percent) and cash and deposits of ¥447.3 billion (up 29.5 percent).

Total liabilities were ¥12,904.6 billion (up 3.6 percent), and policy reserves accounting for a substantial portion of them amounted to ¥12,250.8 billion (up 1.3 percent).

Total equity was ¥1,080.0 billion (up 85.5 percent), of which net unrealized gains on securities increased ¥451.0 billion (183.0 percent), from the level of the previous fiscal year of ¥246.4

billion, to ¥697.5 billion. The growth of total equity included an increase of ¥18.5 billion, respectively, of common stock and capital surplus (total ¥37.1 billion), resulting from the issuance of new shares by way of public offering, with its subscription payable by March 14, 2006 and by way of third party allotment, with its subscription payable by March 28, 2006.

## (2) Cash Flows

Cash flows for the fiscal year ended March 31, 2006, were as follows.

Net cash provided by operating activities was ¥138.6 billion in revenue, a gain of ¥172.4 billion from the expenditure of ¥33.7 billion recorded in the previous fiscal year. This was due mainly to an increase in income from insurance premiums and other revenues, offsetting a decrease in insurance claims and other payments.

Net cash used in investing activities recorded expenditure of ¥196.3 billion, an increase of expenditure of ¥396.4 billion compared with ¥200.1 billion in revenue recorded in the previous year. This was due mainly to an increase in the purchases of marketable securities and a decline in the revenue from the sales and redemption of marketable securities and from collection of loans.

Net cash used in financing activities was ¥27.3 billion, a gain of ¥0.1 billion from the level of the previous fiscal year. This was due mainly to proceeds in the amount of ¥37.1 billion from the issuance of common stocks, offsetting a decrease in the proceeds from sales of treasury stock.

As a result, cash and cash equivalents at the end of the fiscal year ended March 31, 2006, recorded ¥834.4 billion, a decrease of ¥35.6 billion from the position recorded at the beginning of the same fiscal year.

## (3) Shareholder's Equity Ratio and Market Capitalization Ratio

	As of March 31, 2005	As of March 31, 2006
Shareholder's equity ratio (Shareholder's equity / Total assets)	4.5%	7.7%
Market capitalization ratio (Market capitalization / Total assets)	10.1%	16.2%

## 3. Operations of Three Life Insurance Companies (Non-consolidated Basis)

### (1) Results of Operations

#### *Taiyo Life Insurance Company:*

For the fiscal year ended March 31, 2006, Taiyo Life's ordinary revenues decreased ¥65.4 billion (5.7 percent) from the level of the previous fiscal year, to ¥1,076.4 billion, which was a total of income from insurance premiums of ¥823.0 billion (up 4.4 percent), investment income of ¥198.0 billion (up 11.4 percent), and other ordinary income of ¥55.3 billion (down 68.6 percent).

Ordinary expenses decreased ¥86.3 billion (7.7 percent) from the level of the previous fiscal year, to ¥1,029.4 billion, which was a total of insurance claims and other payments of ¥857.0 billion (down 8.0 percent), investment expenses of ¥54.8 billion (down 8.5 percent), operating expenses of ¥82.5 billion (down 0.3 percent) and others.

As a result, ordinary profit increased by ¥20.9 billion, or 80.2 percent, to ¥46.9 billion. Ordinary profit increased due mainly to an improvement in capital gains and losses, including gains on sales of securities.

Extraordinary gains decreased 94.3 percent, to ¥0.4 billion, and extraordinary losses increased 156.3 percent, to ¥19.8 billion. An impairment loss of ¥3.3 billion and provision for reserve for price fluctuations of ¥16.2 billion were included in the extraordinary losses.

Net income decreased ¥0.8 billion, or 12.0 percent, to ¥6.3 billion. This was due mainly to an extraordinary factor of gains on sale of its parent company's shares posted a year earlier as well as an increase in extraordinary losses such as a provision for reserve for price fluctuations, while ordinary profit increased.

***Daido Life Insurance Company:***

For the fiscal year ended March 31, 2006, Daido Life's ordinary revenues increased ¥3.3 billion (0.3 percent) from the level of the previous fiscal year, to ¥1,062.4 billion, which was a total of income from insurance premiums of ¥871.1 billion (down 1.5 percent), investment income of ¥180.6 billion (up 23.2 percent), and other ordinary income of ¥10.6 billion (down 61.5 percent).

Ordinary expenses decreased ¥0.2 billion (0.0 percent) from the level of the previous fiscal year, to ¥963.0 billion, which was a total of insurance claims and other payments of ¥791.8 billion (down 1.6 percent) and investment expenses of ¥46.6 billion (up 41.9 percent), operating expenses of ¥109.2 billion (up 0.4 percent) and others.

As a result, ordinary profit increased by ¥3.6 billion (3.8 percent), to ¥99.4 billion. Ordinary profit increased mainly due to the improvement in capital gains and losses, including gains on investment in trading securities and other products, despite a decrease in income from interest and dividends.

Extraordinary gains decreased 89.0 percent, to ¥0.9 billion, and extraordinary losses increased 116.8 percent, to ¥16.5 billion. The provision for reserve for price fluctuations of ¥14.9 billion and an impairment loss of ¥0.2 billion were included in the extraordinary losses.

Net income increased ¥5.7 billion, or 17.4 percent, to ¥39.0 billion.

***T&D Financial Life Insurance Company:***

For the fiscal year ended March 31, 2006, T&D Financial Life's ordinary revenues increased ¥162.1 billion (108.0 percent) from the level of the previous fiscal year, to ¥312.3 billion, which was a total of income from insurance premiums of ¥208.1 billion (up 65.2 percent), investment income of ¥92.2 billion (up 601.0 percent), and other ordinary income of ¥11.9 billion (up 8.1 percent).

Ordinary expenses increased ¥161.5 billion (99.0 percent) from the level of the previous fiscal year, to ¥324.6 billion, which was a total of insurance claims and other payments of ¥97.1 billion (up 8.9 percent), provision for policy and other reserves of ¥192.9 billion (up 298.2 percent), investment expenses of ¥5.2 billion (up 1,175.2 percent), operating expenses of ¥20.2 billion (up 24.1 percent) and other factors.

As a consequence, ordinary losses decreased by ¥0.6 billion, or 5.0 percent, to ¥12.2 billion.

Extraordinary gains were ¥0.0 billion (down 69.5 percent), and extraordinary losses were ¥2.6

billion (up 311.6 percent). A ¥2.2 billion premium severance payment for voluntary retirements by the inter-group reorganization of the in-house sales representatives' channel was included in the extraordinary losses. The company did not post an impairment loss.

Net income turned into a net loss of ¥11.4 billion, a decrease of ¥16.4 billion from ¥5.0 billion recorded in the previous year. This was caused because, while ordinary losses improved, the positive effect of adopting a consolidated taxation system decreased, resulting in an increase in deferred income taxes.

## (2) Sales Results

### *Taiyo Life Insurance Company:*

The new policy amount of individual insurance and annuities (including net increase from conversions) for the fiscal year ended March 31, 2006, decreased 1.8 percent over the previous fiscal year, to ¥2,838.3 billion.

The amount of surrender and lapse of individual insurance and annuities increased 15.4 percent, to ¥1,644.0 billion.

As a consequence, the total policy amount in force of individual insurance and annuities as of March 31, 2006, increased ¥625.2 billion, or 3.7 percent over the previous fiscal year-end, to ¥17,591.5 billion.

### *Daido Life Insurance Company:*

The new policy amount of individual insurance and annuities (including the net increase from conversions) for the fiscal year ended March 31, 2006, decreased 1.4 percent over the previous fiscal year, to ¥4,292.7 billion.

The amount of surrender and lapse of individual insurance and annuities increased 0.4 percent, to ¥3,040.0 billion.

As a consequence, the total policy amount in force of individual insurance and annuities as of March 31, 2006, increased ¥313.8 billion, or 0.8 percent over the previous fiscal year-end, to ¥40,008.0 billion.

### *T&D Financial Life Insurance Company:*

The new policy amount of individual insurance and annuities for the fiscal year ended March 31, 2006, decreased 45.7 percent over the previous fiscal year, to ¥162.7 billion.

The amount of surrender and lapse of individual insurance and annuities decreased 1.5 percent, to ¥418.6 billion.

As a consequence, the total policy amount in force of individual insurance and annuities as of March 31, 2006, decreased ¥247.6 billion, or 8.5 percent over the previous fiscal year-end, to ¥2,665.4 billion.

### **(3) Other Material Items**

#### ***Taiyo Life Insurance Company:***

Taiyo Life's core profit (a measure of underlying profitability from core insurance operations on a non-consolidated basis) for the fiscal year ended March 31, 2006, recorded ¥38.1 billion, up 12.9 percent from the previous fiscal year, after compensating for a negative spread of ¥38.5 billion (down 1.6 percent).

As of March 31, 2006, Taiyo Life's solvency margin ratio (a measure of insurance companies' financial soundness) was 1,045.2 percent, up 179.5 points from the end of the previous fiscal year of 865.7 percent. The value of adjusted net assets (adjusted assets at fair value less liabilities, excluding quasi-equity liabilities) amounted to ¥757.5 billion, up ¥293.3 billion from the previous fiscal year-end of ¥464.2 billion.

#### ***Daido Life Insurance Company:***

Daido Life posted ¥96.1 billion in its core profit for the fiscal year ended March 31, 2006, a decrease of 6.4 percent from the previous fiscal year, after compensating for a negative spread of ¥29.3 billion (up 50.9 percent).

As of March 31, 2006, Daido Life's solvency margin ratio was 1,254.4 percent, up 217.2 points from the end of the previous fiscal year of 1,037.2 percent. The value of adjusted net assets amounted to ¥1,062.3 billion, up ¥392.7 billion from the previous fiscal year-end of ¥669.6 billion.

#### ***T&D Financial Life Insurance Company:***

Due mainly to amortization of goodwill of ¥6.5 billion (same as previous fiscal year) and a negative spread of ¥4.3 billion (up 9.7 percent), T&D Financial Life marked a loss of ¥7.0 billion (up 4.3 percent) in its core profit for the fiscal year ended March 31, 2006.

As of March 31, 2006, T&D Financial Life's solvency margin ratio was 1,911.8 percent, up 1,190.1 points from the end of the previous fiscal year of 721.7 percent. Furthermore, the value of adjusted net assets amounted to ¥64.5 billion, up ¥23.3 billion from the end of the previous fiscal year of ¥41.1 billion.

### **(4) Financial Position**

#### ***Taiyo Life Insurance Company:***

As of March 31, 2006, total assets amounted to ¥6,591.9 billion (up 5.0 percent from March 31, 2005), mainly consisting of securities centered on public and corporate bonds amounting to ¥4,556.8 billion (up 11.7 percent), loans of ¥1,535.8 billion (down 9.6 percent), property and equipment of ¥168.9 billion (down 4.3 percent), and monetary claims purchased of ¥124.3 billion (up 49.2 percent).

Total liabilities were ¥6,173.4 billion (up 1.9 percent), and policy reserves accounting for a substantial portion of them amounted to ¥5,899.1 billion (down 0.3 percent).

Total equity was ¥418.5 billion (up 90.4 percent), of which net unrealized gains on securities was ¥314.9 billion (up 198.8 percent).

***Daido Life Insurance Company:***

As of March 31, 2006, total assets amounted to ¥6,406.1 billion (up 7.1 percent from March 31, 2005), mainly consisting of securities centered on public and corporate bonds amounting to ¥4,435.6 billion (up 7.4 percent), loans of ¥986.2 billion (down 5.2 percent), cash and deposits of ¥304.3 billion (up 30.7 percent), monetary trust of ¥242.6 billion (up 13.0 percent), monetary claims purchased of ¥156.2 billion (up 75.5 percent), and property and equipment of ¥143.0 billion (down 2.9 percent).

Total liabilities were ¥5,815.8 billion (up 2.6 percent), and policy reserves accounting for a substantial portion of them amounted to ¥5,476.0 billion (down 0.2 percent).

Total equity was ¥590.2 billion (up 85.6 percent), of which net unrealized gains on securities was ¥383.0 billion (up 171.4 percent).

***T&D Financial Life Insurance Company:***

As of March 31, 2006, total assets amounted to ¥934.1 billion (up 28.4 percent from March 31, 2005), mainly consisting of securities amounting to ¥844.3 billion (up 35.2 percent), cash and deposits of ¥41.6 billion (down 1.9 percent), and loans of ¥13.3 billion (down 9.6 percent).

Total liabilities were ¥888.8 billion (up 26.6 percent), and policy reserves accounting for a substantial portion of them amounted to ¥874.8 billion (up 27.8 percent).

Total equity was ¥45.2 billion (up 80.4 percent), of which net unrealized losses on securities was ¥0.5 billion (up 406.3 percent). The growth of total equity was due mainly to an increase of ¥16.0 billion, respectively, of common stock and capital surplus (total ¥32.0 billion), resulting from the capital increase through shareholder allocation, with its subscription payable by March 28, 2006.

#### 4. Forecasts for the Year Ending March 31, 2007 (April 1, 2006 – March 31, 2007)

##### (1) Consolidated

( Billions of yen )

	Ordinary revenues	Ordinary profit	Net income
Interim	1,150	53	13
Change	(5.2%)	(15.6%)	(30.9%)
Year-end	2,280	105	26
Change	(6.7%)	(23.2%)	(26.8%)

*Note:* “Change” represents the amount change from the year ended March 31, 2006.

Ordinary revenues are expected to be ¥2,280 billion, a decrease of approximately ¥160 billion or 6.7 percent from the fiscal year ended March 31, 2006. Ordinary profit is expected to be ¥105 billion, a decrease of approximately ¥31 billion or 23.2 percent. This decrease is due to a decrease in capital gains and losses such as gains on investment in trading securities and gains on sales of securities, not expected the level recorded at the fiscal year ended March 31, 2006.

Net income is expected to be ¥26 billion, a decrease of approximately ¥9 billion or 26.8 percent from the fiscal year ended March 31, 2006. The extent of decrease will be smaller compared with that of ordinary profit. This is due mainly to an expected decrease of extraordinary losses, including provision for reserve for price fluctuations.

##### *Reference: Forecasts for the Year Ending March 31, 2007, of Three Life Insurance Companies (Non-consolidated Basis)*

(Billions of yen )

	Taiyo Life	Daido Life	T&D Financial Life
Ordinary revenues	940	1,010	310
Change	(12.7%)	(4.9%)	(0.7%)
Ordinary profit (loss)	30	86	(14)
Change	(36.0%)	(13.5%)	14.8%
Core profit (loss)	38	88	(8)
Change	(0.3%)	(8.4%)	14.3%
Net income (loss)	4	32	(12)
Change	(36.5%)	(17.9%)	5.3%

*Note:* “Change” represents the amount change from the year ended March 31, 2006.

**Taiyo Life Insurance Company:**

It is expected that ordinary profit will be ¥30 billion (a decrease by approximately ¥16 billion, or 36.0 percent from the fiscal year ended March 31, 2006), due to a decrease in capital gains including gains on sale of securities. Core profit is expected to be ¥38 billion (down 0.3 percent), which is almost equal to this fiscal year.

Net income is expected to be ¥4 billion, a decrease of approximately ¥2 billion or 36.5 percent from the fiscal year ended March 31, 2006. The extent of decrease will be smaller compared with that of ordinary profit because extraordinary losses, including provisions of reserve for price fluctuations, are expected to shrink.

**Daido Life Insurance Company:**

It is expected that ordinary profit will be ¥86 billion (a decrease by approximately ¥13 billion, or 13.5 percent from the fiscal year ended March 31, 2006), because income from interest and dividends as well as capital gains including gains on investment in trading securities are expected to decrease. Core profit is also expected to decrease to ¥88 billion (a decrease by approximately ¥8 billion, or 8.4 percent).

Due to a decrease of ordinary profit, net income is expected to decrease to ¥32 billion (by approximately ¥7 billion, or 17.9 percent).

**T&D Financial Life Insurance Company:**

Ordinary losses are expected to be ¥14 billion, an increase of approximately ¥2 billion or 14.8 percent from the fiscal year ended March 31, 2006. This is because, while the burden of amortization of goodwill (¥6.5 billion) will not be present from the next fiscal year, increases in operating expenses and provision for reserve for policy reserves relating to minimum guarantee risks of variable annuities accompanying growth of new policy sales are expected to offset the said positive effect. Core profit is also expected to turn into a loss of ¥8 billion, a decrease of approximately ¥1 billion or 14.3 percent from the fiscal year ended March 31, 2006.

Mainly due to a decrease of extraordinary losses, net income is expected to be a loss of ¥12 billion (net loss), which will be almost equal to this fiscal year.

**(2) Non-consolidated Forecasts for T&D Holdings**

The non-consolidated forecast for the year ending March 31, 2007, is as follows:

		( Billions of yen )		
		Operating income	Ordinary profit	Net income
Interim		15	13	13
	Change	23.0%	19.3%	19.3%
Year-end		16	13	13
	Change	17.6%	19.3%	19.3%

*Note:* "Change" represents the amount change from the year ended March 31, 2006.

Due to an increase in receipt of dividends from group companies, operating income is expected to be ¥16 billion (an increase by 17.6 percent from the fiscal year ended March 31, 2006). By the same reason, ordinary profit and net income are both also expected to increase to ¥13 billion (by 19.3 percent), and ¥13 billion (by 19.3 percent), respectively.

## ***IV. Unaudited Consolidated Financial Statements***

T&D Holdings, Inc.

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## Unaudited Consolidated Balance Sheets

As of March 31,	2005		2006		Increase (decrease)	2006
	<i>(Millions of yen)</i>	<i>(%)</i>	<i>(Millions of yen)</i>	<i>(%)</i>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
<b>Assets:</b>						
Cash and deposits	¥ 345,565	2.7	¥ 447,376	3.2	¥ 101,810	\$ 3,808,430
Call loans	225,631	1.7	192,534	1.4	(33,097)	1,639,005
Monetary claims purchased	172,339	1.3	280,577	2.0	108,237	2,388,502
Monetary trusts	221,864	1.7	250,472	1.8	28,608	2,132,226
Securities	8,828,614	67.7	9,830,655	70.3	1,002,040	83,686,516
Loans	2,735,442	21.0	2,518,726	18.0	(216,715)	21,441,447
Property and equipment	333,102	2.6	318,610	2.3	(14,492)	2,712,274
Due from agencies	1,536	0.0	1,548	0.0	11	13,180
Due from reinsurers	6,081	0.0	7,196	0.0	1,115	61,259
Other assets	162,640	1.2	141,437	1.0	(21,202)	1,204,034
Deferred tax assets	13,071	0.1	830	0.0	(12,241)	7,070
Deferred tax assets on land revaluation	2,868	0.0	-	-	(2,868)	0
Reserve for possible loan losses	(5,327)	(0.0)	(3,732)	(0.0)	1,594	(31,777)
<b>Total assets</b>	<b>¥13,043,431</b>	<b>100.0</b>	<b>¥13,986,233</b>	<b>100.0</b>	<b>¥ 942,801</b>	<b>\$ 119,062,169</b>
<b>Liabilities:</b>						
Policy reserves:						
Reserve for outstanding claims	¥ 75,033		¥ 68,674		¥ (6,358)	\$ 584,612
Policy reserve	11,813,292		11,985,462		172,169	102,029,982
Reserve for policyholder dividends	204,665		196,698		(7,966)	1,674,459
Total policy reserves	12,092,991	92.7	12,250,835	87.6	157,844	104,289,053
Due to agencies	993	0.0	849	0.0	(144)	7,228
Due to reinsurers	758	0.0	549	0.0	(208)	4,678
Commercial paper	20,000	0.2	20,000	0.1	-	170,256
Subordinated bonds	20,000	0.2	20,000	0.1	-	170,256
Other liabilities	168,323	1.3	183,379	1.3	15,056	1,561,077
Reserve for employees' retirement benefits	110,917	0.8	108,382	0.8	(2,534)	922,643
Reserve for directors' and corporate auditors' retirement benefits	3,042	0.0	3,368	0.0	326	28,675
Reserve for price fluctuations	42,669	0.3	73,995	0.6	31,325	629,909
Deferred tax liabilities	1	0.0	231,764	1.7	231,762	1,972,966
Deferred tax liabilities on land revaluation	-	-	11,494	0.1	11,494	97,853
<b>Total liabilities</b>	<b>12,459,696</b>	<b>95.5</b>	<b>12,904,619</b>	<b>92.3</b>	<b>444,923</b>	<b>109,854,600</b>
<b>Minority interests</b>	<b>1,403</b>	<b>0.0</b>	<b>1,514</b>	<b>0.0</b>	<b>111</b>	<b>12,896</b>
<b>Stockholder's equity:</b>						
Common stock:						
Authorized - 966,000,000 shares						
Issued - 246,330,000 shares	100,000	0.8	118,595	0.8	18,595	1,009,581
Capital surplus	87,515	0.7	106,104	0.7	18,589	903,246
Retained earnings	180,592	1.4	205,889	1.5	25,297	1,752,701
Land revaluation	(32,037)	(0.3)	(47,724)	(0.3)	(15,686)	(406,272)
Net unrealized gains on securities	246,458	1.9	697,511	5.0	451,053	5,937,787
Translation adjustment	(6)	(0.0)	44	0.0	50	376
Treasury stock	(190)	(0.0)	(322)	(0.0)	(132)	(2,747)
<b>Total stockholder's equity</b>	<b>582,331</b>	<b>4.5</b>	<b>1,080,098</b>	<b>7.7</b>	<b>497,766</b>	<b>9,194,672</b>
<b>Total liabilities, minority interests and stockholder's equity</b>	<b>¥13,043,431</b>	<b>100.0</b>	<b>¥13,986,233</b>	<b>100.0</b>	<b>¥ 942,801</b>	<b>\$ 119,062,169</b>

See notes to unaudited consolidated financial statements.

## Unaudited Consolidated Statements of Operations

Years ended March 31,	2005		2006		Increase (decrease)	2006
	<i>(Millions of yen)</i>	<i>(%)</i>	<i>(Millions of yen)</i>	<i>(%)</i>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
<b>Ordinary revenues:</b>						
Income from insurance premiums	¥ 1,798,983		¥ 1,902,318		¥ 103,335	\$ 16,194,076
Investment income:						
Interest, dividends and income from real estate for rent	254,274		236,154		(18,119)	2,010,342
Gains from monetary trusts, net	3,846		-		(3,846)	-
Gains on investments in trading securities, net	4,885		22,157		17,271	188,623
Gains on sales of securities	56,116		87,559		31,443	745,381
Gains on redemptions of securities	165		467		302	3,982
Other investment income	3,454		2,762		(691)	23,518
Gains on separate accounts, net	13,395		116,568		103,173	992,329
Total investment income	336,139		465,671		129,532	3,964,177
Other ordinary income:						
Reversal of policy reserve	110,886		-		(110,886)	-
Other ordinary income	70,756		76,282		5,526	649,377
Total other ordinary income	181,643		76,282		(105,360)	649,377
Equity in net income of affiliated companies	16		22		6	193
<b>Total ordinary revenues</b>	<b>2,316,781</b>	<b>100.0</b>	<b>2,444,295</b>	<b>100.0</b>	<b>127,513</b>	<b>20,807,824</b>
<b>Ordinary expenses:</b>						
Insurance claims and other payments:						
Insurance claims	812,219		790,900		(21,319)	6,732,783
Annuity payments	136,486		148,093		11,606	1,260,690
Insurance benefits	321,420		298,774		(22,645)	2,543,415
Surrender payments	395,426		369,103		(26,322)	3,142,112
Other payments	160,081		139,185		(20,896)	1,184,856
Total insurance claims and other payments	1,825,635		1,746,057		(79,577)	14,863,857
Provision for policy and other reserves:						
Provision for policy reserve	-		172,169		172,169	1,465,646
Interest portion of reserve for policyholder dividends	1,055		1,001		(53)	8,528
Total provision for policy and other reserves:	1,055		173,171		172,115	1,474,174
Investment expenses:						
Interest expense	1,646		1,663		17	14,164
Losses from monetary trusts, net	-		1,055		1,055	8,982
Losses on sales of securities	33,222		26,833		(6,388)	228,427
Devaluation losses on securities	3,761		873		(2,888)	7,431
Amortization of securities	0		1		1	16
Losses from derivatives, net	33,300		52,295		18,995	445,184
Foreign exchange losses, net	4,907		5,147		240	43,823
Write-off of loans	76		23		(53)	201
Depreciation of real estate for rent	5,813		5,391		(422)	45,896
Other investment expenses	9,308		9,846		537	83,821
Total investment expenses	92,037		103,132		11,095	877,948
Operating expenses	205,681		209,728		4,046	1,785,379
Other ordinary expenses	83,534		75,358		(8,175)	641,513
<b>Total ordinary expenses</b>	<b>2,207,943</b>	<b>95.3</b>	<b>2,307,448</b>	<b>94.4</b>	<b>99,505</b>	<b>19,642,874</b>
<b>Ordinary profit</b>	<b>108,838</b>	<b>4.7</b>	<b>136,846</b>	<b>5.6</b>	<b>28,008</b>	<b>1,164,949</b>

## Unaudited Consolidated Statements of Operations (continued)

Years ended March 31,	2005		2006		Increase (decrease)	2006
	<i>(Millions of yen)</i>	<i>(%)</i>	<i>(Millions of yen)</i>	<i>(%)</i>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
<b>Extraordinary gains:</b>						
Gains on sale of property and equipment	¥ 963		¥ 908		¥ (55)	\$ 7,734
Reversal of reserve for possible loan losses	3,020		606		(2,413)	5,163
Recoveries of bad debts previously written-off	158		224		65	1,908
Reversal of reserve for losses on sale of loans	64		-		(64)	-
Other	-		143		143	1,223
<b>Total extraordinary gains</b>	<b>4,207</b>	<b>0.2</b>	<b>1,883</b>	<b>0.0</b>	<b>(2,324)</b>	<b>16,030</b>
<b>Extraordinary losses:</b>						
Losses on sale, disposal and devaluation of property and equipment	11,982		1,962		(10,020)	16,706
Impairment loss	-		3,593		3,593	30,587
Provision for reserve for price fluctuations	4,063		31,325		27,262	266,671
Other	82		2,434		2,352	20,725
<b>Total extraordinary losses</b>	<b>16,128</b>	<b>0.7</b>	<b>39,316</b>	<b>1.6</b>	<b>23,188</b>	<b>334,691</b>
Provision for reserve for policyholder dividends	44,977	2.0	44,476	1.8	(500)	378,623
<b>Income before income taxes</b>	<b>51,940</b>	<b>2.2</b>	<b>54,936</b>	<b>2.2</b>	<b>2,995</b>	<b>467,665</b>
<b>Income taxes:</b>						
Current	1,607	0.1	30,696	1.2	29,088	261,310
Deferred	13,081	0.5	(11,428)	(0.5)	(24,509)	(97,291)
<b>Minority interests</b>	<b>120</b>	<b>0.0</b>	<b>123</b>	<b>0.0</b>	<b>3</b>	<b>1,055</b>
<b>Net income</b>	<b>¥ 37,131</b>	<b>1.6</b>	<b>¥ 35,545</b>	<b>1.5</b>	<b>¥ (1,586)</b>	<b>\$ 302,590</b>

*See notes to unaudited consolidated financial statements.*

## Unaudited Consolidated Statements of Surplus

Years ended March 31,	2005	2006	Increase (decrease)	2006
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>
<b>Capital surplus:</b>				
Balance at beginning of year	¥ 80,054	¥ 87,515	¥ 7,461	\$ 744,999
Addition:				
Issuance of new shares for capital increase	–	18,587	18,587	158,234
Gains on sale of treasury stock	7,461	1	(7,459)	12
Total additions	7,461	18,589	11,128	158,246
<b>Balance at end of year</b>	<b>87,515</b>	<b>106,104</b>	<b>18,589</b>	<b>903,246</b>
<b>Retained earnings:</b>				
Balance at beginning of year	150,637	180,592	29,954	1,537,350
Additions:				
Net income	37,131	35,545	(1,586)	302,590
Increase in retained earnings due to reversal of land revaluation	–	845	845	7,199
Total additions	37,131	36,391	(740)	309,790
Deductions:				
Dividends	6,750	10,865	4,115	92,498
Bonuses to directors	158	201	43	1,717
Bonuses to corporate auditors	22	26	3	223
Decrease in retained earnings due to reversal of land revaluation	246	–	(246)	–
Total deductions	7,177	11,093	3,916	94,439
<b>Balance at end of year</b>	<b>¥ 180,592</b>	<b>¥ 205,889</b>	<b>¥ 25,297</b>	<b>\$ 1,752,701</b>

*See notes to unaudited consolidated financial statements.*

## Unaudited Consolidated Statements of Cash Flows

Years ended March 31,	2005	2006	Increase (decrease)	2006
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>
<b>Cash flows from operating activities:</b>				
Income before income taxes	¥ 51,940	¥ 54,936	¥ 2,995	\$ 467,665
Depreciation of real estate for rent	5,813	5,391	(422)	45,896
Impairment loss	–	3,593	3,593	30,587
Amortization of goodwill due to consolidation	(23)	–	23	–
Other depreciation and amortization	21,544	20,903	(641)	177,943
Decrease in reserve for outstanding claims	(5,869)	(6,358)	(489)	(54,131)
Increase (decrease) in policy reserve	(110,886)	172,169	283,056	1,465,646
Increase in interest portion of reserve for policyholder dividends	1,055	1,001	(53)	8,528
Increase in provision for reserve for policyholder dividends	44,977	44,476	(500)	378,623
Decrease in reserve for possible loan losses	(4,234)	(716)	3,517	(6,101)
Increase (decrease) in reserve for employees' retirement benefits	2,188	(2,534)	(4,722)	(21,573)
Increase in reserve for directors' and corporate auditors' retirement benefits	362	326	(36)	2,777
Decrease in reserve for losses on sale of loans	(64)	–	64	–
Increase in reserve for price fluctuations	4,063	31,325	27,262	266,671
Interest, dividends and income from real estate for rent	(254,274)	(236,154)	18,119	(2,010,342)
Gains on investment securities	(37,579)	(199,045)	(161,466)	(1,694,440)
Interest expense	1,646	1,663	17	14,164
Exchange losses	5,089	5,203	113	44,296
Losses on sale or disposal of property and equipment	11,088	667	(10,420)	5,685
Equity in net income of affiliated companies	(16)	(22)	(6)	(193)
(Increase) decrease in amount due from agencies	365	(11)	(377)	(96)
(Increase) in amount due from reinsurers	(892)	(1,115)	(222)	(9,492)
(Increase) decrease in other assets (excluding investment activities-related and financing activities-related)	7,900	(10,766)	(18,666)	(91,652)
Increase (decrease) in amount due to agencies	541	(144)	(685)	(1,229)
Decrease in amount due to reinsurers	(143)	(208)	(65)	(1,776)
Decrease in other liabilities (excluding investment activities-related and financing activities-related)	(6,382)	(4,038)	2,343	(34,382)
Other, net	41,212	61,046	19,834	519,681
Subtotal	(220,576)	(58,411)	162,165	(497,247)
Interest, dividends and income from real estate for rent received	273,597	239,809	(33,787)	2,041,457
Interest paid	(1,654)	(1,671)	(16)	(14,227)
Policyholder dividends	(55,668)	(53,462)	2,206	(455,114)
Other, net	12,886	6,901	(5,985)	58,750
Income taxes received (paid)	(42,359)	5,474	47,833	46,601
Net cash provided by (used in) operating activities	(33,775)	138,640	172,416	1,180,219

## Unaudited Consolidated Statements of Cash Flows (continued)

Years ended March 31,	2005	2006	Increase (decrease)	2006
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>
<b>Cash flows from investing activities:</b>				
Net decrease in short-term investments	¥ 340	¥ 19	¥ (320)	\$ 170
Investments in monetary claims purchased	(90,789)	(136,593)	(45,804)	(1,162,798)
Proceeds from sale and redemption of monetary claims purchased	37,919	77,863	39,943	662,840
Investments in monetary trusts	(106,400)	(142,200)	(35,800)	(1,210,521)
Proceeds from monetary trusts	158,679	144,346	(14,333)	1,228,790
Purchase of securities	(2,753,140)	(2,817,782)	(64,642)	(23,987,252)
Sale and redemption of securities	2,640,509	2,545,276	(95,233)	21,667,457
Investments in loans	(728,843)	(695,338)	33,504	(5,919,286)
Collection of loans	1,075,964	913,847	(162,117)	7,779,410
Other, net	(31,630)	(83,459)	(51,829)	(710,474)
Subtotal	202,610	(194,021)	(396,631)	(1,651,664)
Total of net cash provided by (used in) operating activities and investment transactions as above	168,834	(55,380)	(224,215)	(471,445,055)
Purchase of property and equipment	(9,458)	(5,406)	4,052	(46,023)
Proceeds from sale of property and equipment	7,003	3,094	(3,909)	26,340
Net cash provided by (used in) investing activities	200,155	(196,333)	(396,488)	(1,671,347)
<b>Cash flows from financing activities:</b>				
Income from short-term debenture	20,000	-	(20,000)	-
Redemption of short-term debenture	-	-	-	-
Proceeds from debt	8,500	6,750	(1,750)	57,461
Repayments of debt	(6,297)	(5,903)	394	(50,252)
Redemption of commercial paper	(30,000)	-	30,000	-
Proceeds from issuance of stocks	-	37,183	37,183	316,534
Purchase of treasury stock	(190)	(139)	51	(1,183)
Sale of treasury stock	41,677	7	(41,669)	67
Dividends paid	(6,469)	(10,520)	(4,051)	(89,558)
Dividends paid to minority interests	(30)	(32)	(1)	(273)
Net cash provided by financing activities	27,189	27,346	156	232,794
Effect of exchange rate changes on cash and cash equivalents	(3,777)	(5,312)	(1,535)	(45,228)
Net increase (decrease) in cash and cash equivalents	189,791	(35,659)	(225,451)	(303,560)
Cash and cash equivalents at beginning of year	680,270	870,062	189,791	7,406,680
Cash and cash equivalents at end of year	¥ 870,062	¥ 834,403	¥ (35,659)	\$ 7,103,119

*See notes to unaudited consolidated financial statements.*

# T&D Holdings, Inc.

## Notes to Unaudited Consolidated Financial Statements

March 31, 2006

### 1. Summary of Significant Accounting Policies

#### (a) Basis of presentation

On April 1, 2004, T&D Holdings, Inc. (the “Company”) was established, as a life insurance holding company, through which Taiyo Life Insurance Company (“Taiyo Life”), Daido Life Insurance Company (“Daido Life”) and T&D Financial Life Insurance Company (“T&D Financial Life”) (the “Three Life Companies”), have become wholly-owned subsidiaries, through share transfers. The business combination was accounted for as a pooling of interests.

The Company, including its domestic consolidated subsidiaries, 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.

The accompanying consolidated condensed financial statements are compiled from the financial statements prepared by the Company in line with the “Regulations Concerning the Terminology, Forms and Preparation Methods of Financial Statements” (Ministry of Financial Ordinance). In preparing the consolidated condensed financial statements, certain items presented in the original financial statements have been reclassified and summarized for readers outside Japan. These consolidated condensed financial statements have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. 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 condensed financial statements.

Amounts of less than one million yen have been eliminated. As a result, yen 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 consolidated subsidiaries. All material inter-company balances and transactions are eliminated. The number of consolidated subsidiaries for the year ended March 31, 2006 was 16.

Investments in affiliates are accounted for under the equity method. The number of affiliated companies for the year ended March 31, 2006 was two.

## **1. Summary of Significant Accounting Policies (continued)**

### **(b) Principles of consolidation (continued)**

There are no affiliated companies which are accounted for under the cost method.

The financial statements of subsidiaries located outside Japan are prepared for the year ended December 31, 2006. Appropriate adjustments have been made for material transactions between December 31 and March 31, the date of the consolidated financial statements.

### **(c) Foreign currency translation**

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

Foreign currency assets and liabilities are translated into Japanese yen at foreign exchange rates prevailing as at March 31, 2006 except for certain hedging instruments and related hedged items, which are translated at the contracted rates of such hedging instruments.

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

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

Assets, liabilities, income and expenses of the Company's affiliates located outside Japan are translated into Japanese yen at the exchange rates in effect at the balance sheet date in accordance with generally accepted accounting principles and practices in Japan. Gains and losses resulting from translation of foreign currency financial statements are excluded from the statements of operations and are accumulated in minority interests or "Translation Adjustments" in equity.

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

Investments in securities other than those of subsidiaries and affiliates are classified as trading, held-to-maturity, available-for-sale securities or policy-reserve-matching bonds. Available-for-sale securities with readily obtainable fair values ("marketable available-for-sale securities") and trading securities are stated at fair value. Unrealized gains and losses on trading securities are reported in the statement of operations. Unrealized gains and losses on marketable available-for-sale securities are reported in a separate component of equity, net of income taxes, unless the decline of the fair value of any particular available-for-sale securities is considered to be a permanent impairment, in which case such declines are recorded as devaluation (impairment) losses and charged to income. Held-to-maturity and available-for-sale securities without readily obtainable fair values are stated at amortized cost. For the purpose of computing realized gains and losses, cost is determined on the moving average method.

## **1. Summary of Significant Accounting Policies (continued)**

### **(d) Investments in securities other than those of subsidiaries and affiliates (continued)**

Taiyo Life has set up “policy-reserve-matching bonds.” The purpose of the policy-reserve-matching bonds is to reflect Taiyo Life’s ALM (Asset Liability Management) activity in the financial statements. Taiyo Life holds these 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.

Taiyo Life’s management and investment policies for policy-reserve-matching bonds include risk management guidelines for monitoring such bonds. Based on the guidelines, Taiyo Life 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.

Taiyo Life identifies the corresponding policy-reserve-matching bonds for each category of insurance policies, which may be adjusted based upon the changing characteristics of Taiyo Life’s underlying policies. Taiyo Life also periodically examines the duration matching effectiveness, by comparison of the bond’s duration with that of underlying policies.

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

The reserve for possible loan losses is established in accordance with the Three Life Companies’ Self-Assessment Guidelines. With respect to loans to borrowers subject to bankruptcy and similar proceedings, the Three Life Companies provide specific reserves in the amount of 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 Three Life Companies provide for a general reserve by applying the historical loan loss ratio determined over a fixed period. Each loan is subject to asset assessment by the business-related division in accordance with the Three Life Companies’ Self-Assessment Guidelines, and the results of the assessment are reviewed by the internal auditing division, which is independent from the business-related division, before the reserve amount is finally determined.

Other consolidated subsidiaries also provide for their reserve for possible loan losses using the same procedures as the Three Life Companies. 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.

## **1. Summary of Significant Accounting Policies (continued)**

### **(f) Reserve for price fluctuations**

Pursuant to requirements under the Insurance Business Law, the Three Life Companies maintain a reserve for price fluctuations primarily related to stocks, 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) Policy reserve**

Pursuant to requirements under the Insurance Business Law, the Three Life Companies maintain a policy reserve for the fulfilment of future obligations under life insurance contracts. The reserve of the accompanying consolidated financial statements is established pursuant to the net level premium method. This method assumes a constant or level amount of net insurance premiums over the term of the relevant policy in calculating the amount of the reserve required to fund all future policy benefits. The net 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.

For the calculation of the reserve for the insurance contracts whose condition were changed under Article 69-4-4 of the Enforcement Regulation of the Insurance Business Law, T&D Financial Life applies Zillmer Method of which period is the premium paying year of the contracts.

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

### **(h) 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 their current rate of pay and length of service at retirement or termination of employment for reasons other than dismissal.

The Company and its consolidated subsidiaries set 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.

Net actuarial gains and losses on the employees' retirement benefits plan are charged or credited to income when incurred.

## **1. Summary of Significant Accounting Policies (continued)**

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

The Company and certain 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 rate of pay and length of service at retirement.

The Company and these certain domestic consolidated subsidiaries set up a reserve for directors' and corporate auditors' retirement benefits under the defined benefit plans based on an actuarial calculation of the 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.

### **(j) Income taxes**

The Company adopts the consolidated corporate-tax system. The consolidated corporate-tax system allows companies to pay taxes based on the combined profits or losses of a parent company and its wholly owned domestic subsidiaries. Due to the adoption of the consolidated corporate-tax system, a portion of valuation allowance for deferred tax assets was reduced in respect of certain consolidated subsidiaries' tax loss carryforwards for which there had been uncertainty regarding realization.

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

### **(k) 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 estimated useful lives ranging from 3 to 50 years for buildings and structures and from 2 to 20 years for equipment.

### **(l) Software**

Development costs for internally used software, which are included in other assets, are capitalized and amortized under the straight-line method over their estimated useful lives of 5 years.

### **(m) Goodwill**

The excess of cost over underlying net assets at acquisition, which is included in other assets, is amortized under the straight-line method over 5 years.

## **1. Summary of Significant Accounting Policies (continued)**

### **(n) Stock issuance costs**

The stock issuance costs are charged to operating expenses as incurred.

### **(o) Leases**

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 be accounted for as operating lease transactions.

The Company and its consolidated subsidiaries treat all non-ownership-transfer finance leases as operating leases. Accordingly, leased assets with respect to 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 expense 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 in the accompanying balance sheets. Depreciation of leased assets is computed by the straight-line method over the respective lease period. Lease income is recognized when incurred.

### **(p) Land revaluation**

Taiyo Life 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 are not charged to income but are reported as a separate component of equity, net of income taxes. In case the Company sells a part of such revalued land, related revaluation gains or losses are transferred to retained earnings. 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, 2006 amounted to ¥4,597 million (U.S.\$39,141 thousand).

### **(q) Derivative financial instruments**

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. Derivative financial instruments designated in special hedge relationships are not revalued but the contractual rates of the derivative financial instruments are reflected in income or expense measurement of the hedged items. Changes in fair value of derivatives designated as 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 into income when the related hedged item impacts income.

## **1. Summary of Significant Accounting Policies (continued)**

### **(q) Derivative financial instruments (continued)**

The effectiveness of the hedging is measured by reference to the market fluctuations or the cash flow fluctuations as they affect the particular hedged item and hedging instrument.

Taiyo Life uses deferral hedge and fair value hedge. The special treatment for interest rate swaps is applied only where the interest rate swaps satisfy the requirements for hedge accounting. The hedge instruments and hedge items applied the hedge accounting as of March 31, 2006 are follows.

- a. Hedge instrument: Interest rate swaps  
Hedge item: Loans
- b. Hedge instrument: Foreign exchange contracts  
Hedge item: Foreign currency denominated assets
- c. Hedge instrument: Individual stock options  
Hedge item: Domestic equities
- d. Hedge instrument: Margin transactions  
Hedge item: Domestic equities

Daido Life uses fair value hedge and deferral hedge. The assignment accounting for Foreign exchange contracts with certificates of deposit in foreign currency as the hedge item is applied only where the hedge instrument satisfy the requirements. The hedge instruments and hedge items for Daido Life are follows.

- a. Hedge instrument: Foreign exchange contracts  
Hedge item: Foreign currency denominated available for sale securities and certificates of deposit
- b. Hedge instrument: Interest rate swaps  
Hedge item: Available for sale bonds

### **(r) 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 are separately recorded on the balance sheets. 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.

### **(s) Cash and cash equivalents**

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

## 1. Summary of Significant Accounting Policies (continued)

### (t) Impairment of fixed assets

Effective the year ended March 31, 2006, the Company adopted the “Opinion Concerning Establishment of Accounting Standards for Impairment of Fixed Assets” issued by the Business Accounting Council and Financial Accounting Standard Implementation Guidance No. 6, “Implementation Guidance for Impairment of Fixed Assets” issued by Accounting Standard Board of Japan. The effect of this change was to decrease income before income tax by ¥3,593 million (U.S.\$30,587 thousand) for the year ended March 31, 2006.

Fixed assets are shown net of impairment losses.

## 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 ¥117.47 = U.S.\$1, which is the approximate rate prevailing at March 31, 2006. 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.

## 3. Income from Insurance Premiums

Income from insurance premiums includes ceded reinsurance recoveries amounting to ¥3,946 million and ¥5,885 million (U.S.\$50,104 thousand) for the years ended March 31, 2005 and 2006, respectively.

## 4. Loans

Delinquent loans of the Company and its consolidated subsidiaries as of March 31, 2006 are summarized as follows:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Loans to bankrupt companies	¥ 315	\$ 2,681
Past due loans	2,564	21,827
Loans overdue for three months or more	4,698	39,996
Restructured loans	472	4,019
Total	¥8,049	\$68,524

“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 and its consolidated subsidiaries have 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.

#### 4. Loans (continued)

“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 and its consolidated subsidiaries have 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 are overdue 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.

With respect to loans to bankrupt companies and past due loans that are covered by collateral and guarantees, the Company and its consolidated subsidiaries write off the portion of such loans that is not collectable 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, 2006 amounted to ¥6 million (U.S.\$54 thousand). Past due loans decreased due to write-offs by ¥1,337 million (U.S.\$11,382 thousand) for the year ended March 31, 2006.

The Company and its consolidated subsidiaries’ outstanding loan commitments with borrowers as of March 31, 2006 are summarized as follows:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Total loan commitments	¥1,800	\$15,323
Less amount drawn down	513	4,373
Unused loan commitments	<u>¥1,286</u>	<u>\$10,949</u>

Based on the loan commitment agreements, the extension of credit is subject to the Company and its consolidated subsidiaries’ review procedures. The review procedures consist ensuring the use of funds and assessing the creditworthiness of the borrower. Since not all of the outstanding commitments will be drawn down, the outstanding commitment amounts do not necessarily represent future cash requirements.

#### 5. Accumulated Depreciation of Property and Equipment

Accumulated depreciation of property and equipment as of March 31, 2006 was ¥198,771 million (U.S.\$1,692,106 thousand).

## 6. Separate Accounts

The balance sheet includes ¥618,093 million (U.S.\$5,261,713 thousand) of assets and liabilities in equal amounts related to separate accounts, as of March 31, 2006.

Separate account assets and liabilities reported in the accompanying consolidated balance sheet represent funds that are administered and invested by the Three Life Companies to meet specific investment objectives of the policyholders. All gains and losses relating to separate account assets and liabilities are offset by a corresponding provision for or reversal of policy reserve and do not affect the Three Life Companies' 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 they are not legally segregated in terms of their treatment in case of bankruptcy of the insurance company.

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

## 7. Reserve for Policyholder Dividends

An analysis of the reserve for policyholder dividends included in policy reserves for the year ended March 31, 2006 is as follows:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Balance at beginning of period	¥204,665	\$1,742,277
Policyholder dividends	(53,462)	(455,114)
Increase in interest	1,001	8,528
Increase due to other reasons	17	144
Provision for reserve for policyholder dividends	44,476	378,623
Balance at end of period	<u>¥196,698</u>	<u>\$1,674,459</u>

## 8. Subordinated Bonds

Taiyo Life issued domestic unsecured subordinated notes with an early redeemable option (the "Notes"). Taiyo Life, by way of the issuance of the Notes, intends to enhance its solvency margin ratio as well as to develop its relationship with domestic market investors, with a focus on investors in Japan.

The bankruptcy, commencement of corporate reorganization proceedings and commencement of civil rehabilitation proceedings are subordination events for the Notes. When a subordination event occurs, the principal amount and interest of the Notes will not be paid until the conditions for suspension are completed.

## 9. Other Liabilities

Other liabilities included ¥35,000 million (U.S.\$297,948 thousand) of subordinated borrowings as of March 31, 2006.

## **10. Commitments**

The amounts of the Three Life Companies' future contributions to the Policyholder Protection Fund, which was taken over by the Policyholder Protection Corporation under the Enactment Law for Financial System Reform in the year ended March 31, 2000, were estimated at ¥2,346 million (U.S.\$19,978 thousand) as of March 31, 2006. The contributions are charged to expense 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 are estimated in accordance with Article 259 of the Insurance Business Law, were ¥31,263 million (U.S.\$266,137 thousand) as of March 31, 2006. The contributions are also charged to income as an operating expense when paid, as the amount of future contributions is not yet fixed.

¥145,462 million (U.S.\$1,238,293 thousand) of the Three Life Companies investments in securities was mainly pledged as collateral for the overdraft limit of exclusive account of real-time gross settlement of government bonds with the Bank of Japan, the benefit of the Policyholder Protection Corporation in order to secure such future contributions and as a substitution of collateral for margin trading and margin for futures contracts as of March 31, 2006.

A portion of bonds amounting to ¥20,395 million (U.S.\$173,625 thousand) was loaned under lending contracts as of March 31, 2006.

## **11. Organizational Change Surplus**

The organizational change surplus, which is the portion of net assets attributable to contributions by past policyholders as of the date of the demutualization of Taiyo Life and Daido Life and whose distribution is restricted by Article 92 of the Insurance Business Law, amounted to ¥63,158 million (U.S.\$537,652 thousand) and ¥10,836 million (U.S.\$92,244 thousand) as of March 31, 2006, respectively.

## **12. Investments in Affiliates**

Securities included ¥186 million (U.S.\$1,590 thousand) of investments in affiliates as of March 31, 2006.

## **13. Impairment Loss**

Impairment loss relating to fixed assets as of March 31, 2006 is as follows:

### (1) Categorization of assets

The Three Life Companies categorize real estate owned for insurance marketing purposes as a single asset group. Other assets such as lease property and unused real estate are categorized separately. The other consolidated subsidiaries categorize real estate on a company by company basis.

### 13. Impairment Loss (continued)

#### (2) Background of impairment loss

Because of decreases in fair market value and rental income, impairment loss was recognized as the difference between the existing book value and recoverable amount. This decrease is reported in extraordinary losses as impairment loss.

#### (3) Impairment loss per asset group

Asset	The number of impairment loss	Impairment loss			
		Land	Buildings	Total	
		<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>	
Lease assets	16	¥2,469	¥1,123	¥3,593	\$30,587

#### (4) Calculation method of recoverable amount

The recoverable amount is based on use value and net sales value. Use value is calculated by discounting future cash flows at rates ranging from 6.45% to 9.45%. In principle, net sales value is calculated by subtracting the estimated costs of disposal from appraisal value calculated in accordance with the real estate appraisal standard.

### 14. Extraordinary Losses – Other

Other extraordinary losses include an extra early retirement allowance for voluntary retirees due to T&D Financial Life's business restructuring. This amounted to ¥2,233 million (U.S.\$19,015 thousand).

### 15. 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 cash deposits as stated in the balance sheet as of March 31, 2006:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Cash and deposits	¥ 447,376	\$ 3,808,430
Less: deposits with an original maturity of more than three months	(90)	(766)
Call loans	192,534	1,639,005
Monetary claims purchased	280,577	2,388,502
Less: monetary claims purchased other than cash and cash equivalents	(141,487)	(1,204,452)
Securities purchased	9,830,655	83,686,516
Less: securities purchased other than cash and cash equivalents	(9,775,162)	(83,214,116)
Cash and cash equivalents	¥ 834,403	\$ 7,103,119

## 16. Segment Information

Segment information is not required to be disclosed, as ordinary revenues and total assets related to the Company and its consolidated subsidiaries' insurance business in Japan exceed 90% of the total amounts of both ordinary revenues and total assets.

## 17. Lease Transactions

Information regarding non-ownership-transfer finance leases were 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 and interest expense of finance leases, which is required under Japanese accounting standards for leases as of March 31, 2005 and 2006 are summarized as follows:

	As of March 31,		
	2005	2006	2006
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Equipment:			
Acquisition cost	¥ 83	¥108	\$ 922
Accumulated depreciation	(66)	(81)	(694)
Net carrying value	¥ 16	¥ 26	\$ 228
Other:			
Acquisition cost	–	¥ 71	\$ 611
Accumulated depreciation	–	(2)	(24)
Net carrying value	–	¥ 69	\$ 587
Total:			
Acquisition cost	¥ 83	¥180	\$1,534
Accumulated depreciation	(66)	(84)	(718)
Net carrying value	¥ 16	¥ 95	\$ 816

Obligations under finance leases as of March 31, 2005 and 2006 were as follows:

	As of March 31,		
	2005	2006	2006
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Due within one year	¥14	¥23	\$ 198
Due after one year	3	72	619
Total	¥17	¥96	\$ 818

Total payments for non-ownership-transfer finance leases for the year ended March 31, 2005 and 2006 were ¥19 million and ¥18 million (U.S.\$159 thousand), respectively.

## 17. Lease Transactions (continued)

### (1) As lessee (continued)

Depreciation and imputed interest cost, which are not reflected in the accompanying statement of operations, for the year ended March 31, 2005 and 2006 were as follows:

	As of March 31,		
	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Depreciation	¥17	¥17	\$150
Imputed interest cost	0	0	5

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.

Future minimum lease payments on operating lease as of March 31, 2005 and 2006 were as follows:

	As of March 31,		
	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Due within one year	¥ 6	¥5	\$48
Due after one year	6	0	5
Total	¥13	¥6	\$54

(2) As lessor

Information of non-ownership-transfer finance leases contracted as a lessor, required under Japanese accounting standards as of March 31, 2005 and 2006 are summarized as follows.

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

	As of March 31,		
	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Other:			
Acquisition cost	¥ 43,049	¥ 49,171	\$ 418,591
Accumulated depreciation	(22,422)	(26,751)	(227,727)
Net carrying value	<u>¥ 20,627</u>	<u>¥ 22,420</u>	<u>\$ 190,864</u>

The amounts equivalent to the minimum lease payments to be received as of March 31, 2005 and 2006 were as follows:

	As of March 31,		
	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Due within one year	¥ 7,317	¥ 7,712	\$ 65,656
Due after one year	18,426	20,972	178,535
Total	<u>¥25,743</u>	<u>¥28,685</u>	<u>\$244,191</u>

Gross lease income, recovery to the principal amount and net lease income if the Company applied finance lease accounting to non-ownership-transfer finance leases for the years ended March 31, 2005 and 2006 would have been as follows:

	Year ended March 31,		
	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Gross lease income	¥7,861	¥8,366	\$71,225
Recovery of principal amount	6,750	7,347	62,544
Net lease income	1,160	1,312	11,170

Imputed interest cost is computed by the interest method.

## 18. Income Taxes

Significant components of deferred tax assets and liabilities of the Company and consolidated subsidiaries as of March 31, 2006 are summarized below:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:		
Policy reserves	¥ 82,046	\$ 698,444
Reserve for employees' retirement benefits	39,166	333,419
Reserve for price fluctuations	26,717	227,439
Devaluation losses on securities	10,146	86,374
Unrealized gains on available-for-sale securities	9,432	80,295
Deferred loss on sale of real estate	4,142	35,267
Tax loss carryforward	3,468	29,527
Reserve for bonus payment	3,336	28,406
Allowance for bad debt	1,774	15,102
Other	8,038	68,429
Subtotal	<u>188,270</u>	<u>1,602,708</u>
Valuation reserve	<u>(13,024)</u>	<u>(110,877)</u>
Total deferred tax assets	175,245	1,491,831
Deferred tax liabilities:		
Unrealized gains on available-for-sale securities	(403,639)	(3,436,103)
Accrued dividend income	(1,615)	(13,750)
Deferred gain on sale of real estate	(916)	(7,802)
Other	(8)	(71)
Total deferred tax liabilities	<u>(406,179)</u>	<u>(3,457,727)</u>
Net deferred tax asset	<u>¥(230,933)</u>	<u>\$ 1,965,895</u>

Since the difference between the enacted tax rate used and the corporate tax rate used is less than 5% of the enacted tax rates, the footnote disclosure of reconciliation between the enacted tax rate and the corporate tax rate is omitted.

## 19. Investments in Securities

(1) As of March 31, 2005

Securities classified as trading securities by the Company and its consolidated subsidiaries as of March 31, 2005 are summarized as follows:

Carrying amount	Valuation difference charged to earnings
<i>(Millions of yen)</i>	
<u>¥476,373</u>	<u>¥8,746</u>

Investments in held-to-maturity securities with readily obtainable fair value as of March 31, 2005 are summarized as follows:

	Carrying amount	Fair value	Gross unrealized gains
	<i>(Millions of yen)</i>		
<b>Items with fair value exceeding carrying amount:</b>			
Domestic bonds:			
Government bonds	¥ 336,457	¥ 348,760	¥12,302
Municipal bonds	590,443	612,409	21,966
Corporate bonds	658,746	680,917	22,170
Total domestic bonds	1,585,647	1,642,087	56,439
Foreign bonds	86,658	88,893	2,235
Other securities	48,903	49,478	575
Total	1,721,208	1,780,458	59,249
<b>Items with fair value not exceeding carrying amount:</b>			
Domestic bonds:			
Government bonds	42,435	40,984	(1,450)
Municipal bonds	7,630	6,878	(752)
Corporate bonds	128,971	125,393	(3,577)
Total domestic bonds	179,037	173,256	(5,780)
Foreign bonds	16,400	15,878	(521)
Other securities	20,998	20,997	(0)
Total	216,436	210,132	(6,303)
Grand total	<u>¥1,937,645</u>	<u>¥1,990,591</u>	<u>¥52,946</u>

Note: Available-for-sale securities include certificates of deposits amounting to ¥5,000 million that are shown as cash and deposit, commercial paper amounting to ¥30,997 million and beneficiary trust certificates amounting to ¥33,903 million that are shown as monetary claims purchased on the balance sheet as of March 31, 2005.

## 19. Investments in Securities (continued)

(1) As of March 31, 2005 (continued)

Bonds for policy-reserve-matching with readily obtainable fair value as of March 31, 2005 are summarized as follows:

	<u>Carrying amount</u>	<u>Fair value</u>	<u>Gross unrealized gains (losses)</u>
	<i>(Millions of yen)</i>		
<b>Items with fair value exceeding carrying amount:</b>			
Domestic bonds:			
Government bonds	¥ 440,056	¥ 447,017	¥ 6,960
Municipal bonds	230,065	234,214	4,148
Corporate bonds	752,952	767,533	14,581
Total	<u>1,423,074</u>	<u>1,448,765</u>	<u>25,691</u>
<b>Items with fair value not exceeding carrying amount:</b>			
Domestic bonds:			
Government bonds	90,413	87,193	(3,220)
Municipal bonds	8,316	8,113	(203)
Corporate bonds	81,856	79,051	(2,805)
Total	<u>180,586</u>	<u>174,358</u>	<u>(6,228)</u>
Grand total	<u>¥1,603,661</u>	<u>¥1,623,123</u>	<u>¥19,462</u>

## 19. Investments in Securities (continued)

(1) As of March 31, 2005 (continued)

Available-for-sale securities with readily obtainable fair value as of March 31, 2005 are summarized as follows:

	Acquisition cost	Carrying amount	Difference
	(Millions of yen)		
<b>Items with carrying amount exceeding acquisition cost:</b>			
Domestic bonds:			
Government bonds	¥ 201,758	¥ 213,722	¥ 11,964
Municipal bonds	642,272	664,920	22,647
Corporate bonds	755,081	779,551	24,469
Total domestic bonds	1,599,112	1,658,193	59,080
Domestic stocks	474,769	732,738	257,969
Foreign securities:			
Foreign bonds	670,327	708,758	38,431
Foreign stocks	27,519	29,647	2,127
Foreign other securities	60,460	62,144	1,683
Total foreign securities	758,307	800,550	42,243
Other securities	568,877	608,764	39,887
Total	3,401,067	3,800,248	399,181
<b>Items with carrying amount not exceeding acquisition cost:</b>			
Domestic bonds:			
Government bonds	305,314	305,100	(213)
Municipal bonds	18,672	18,377	(295)
Corporate bonds	59,473	56,443	(3,029)
Total domestic bonds	383,460	379,921	(3,539)
Domestic stocks	143,399	135,630	(7,769)
Foreign securities:			
Foreign bonds	213,546	207,971	(5,574)
Foreign stocks	18,959	18,033	(925)
Foreign other securities	38,123	36,131	(1,991)
Total foreign securities	270,629	262,136	(8,492)
Other securities	216,057	214,141	(1,915)
Total	1,013,546	991,829	(21,716)
Grand total	¥4,414,613	¥4,792,078	¥377,464

Note 1: Available-for-sale securities include certificates of deposits amounting to ¥25,000 million that are shown as cash and deposits, commercial paper amounting to ¥88,996 million and beneficiary trust certificates amounting to ¥18,440 million that are shown as monetary claims purchased on the balance sheet as of March 31, 2005.

Note 2: Impairment losses with respect to the other securities as of March 31, 2005, ¥2,139 million was charged to income. Impairment loss was recognized when the fair market value of securities as of March 31, 2005 decreased from the acquisition cost by 30% or more.

## 19. Investments in Securities (continued)

### (1) As of March 31, 2005 (continued)

Gross gains of ¥60,882 million and gross losses of ¥30,536 million were recorded on the sale of securities classified as available-for-sale for the year ended March 31, 2005, respectively. Total proceeds on such sales amounted to ¥1,469,068 million for the year ended March 31, 2005.

Gross gains of ¥936 million and gross losses of ¥2,685 were recorded through the sale of securities classified as policy-reserve-matching bonds for the year ended March 31, 2005, respectively. Total proceeds on such sales amounted to ¥365,147 million for the year ended March 31, 2005.

Securities without readily obtainable fair value held by the Company as of March 31, 2005 are summarized as follows:

	<u>Carrying amount</u> <i>(Millions of yen)</i>
Available-for-sale securities:	
Unlisted stocks (excluding over-the-counter stocks)	¥ 29,264
Foreign securities/unlisted stocks (excluding over-the-counter stocks)	150,000
Foreign securities/other securities	27,269
Other securities	14,498
Total	<u>¥221,032</u>

The Company reclassified certain bonds originally classified as held-to-maturity securities, with a net book value of ¥154,697 million, into available-for-sale securities. To secure asset redemptions and to be ready for cash outflows due to significant market interest rate increases regarding single premium endowment insurance and single premium valuable insurance, the held-to-maturity securities related to these two products were reclassified. As a result of the reclassification, the balance of available-for-sale securities increased by ¥6,395 million and net unrealized gains on available-for-sale securities increased by ¥4,085 million.

The carrying value of bonds classified as available-for-sale and held-to-maturity securities at March 31, 2005, by contractual maturity date, is as follows:

	<u>Due in</u> <u>one year or less</u>	<u>Dues after one</u> <u>year through</u> <u>five years</u>	<u>Due after five</u> <u>years through</u> <u>ten years</u>	<u>Due after</u> <u>ten years</u>
	<i>(Millions of yen)</i>			
Government bonds	¥409,496	¥ 401,334	¥ 396,003	¥221,351
Municipal bonds	159,228	728,908	606,976	24,639
Corporate bonds	164,044	969,968	920,398	404,110
Foreign bonds	66,424	521,603	307,306	124,454
Foreign stocks	-	-	3,278	-
Other foreign securities	176	21,716	24,694	41,259
Other securities	160,159	12,430	6,445	54,104
Total	<u>¥959,530</u>	<u>¥2,655,961</u>	<u>¥2,265,103</u>	<u>¥869,920</u>

## 19. Investments in Securities (continued)

(2) As of March 31, 2006

Securities classified as trading securities by the Company and its consolidated subsidiaries as of March 31, 2006 are summarized as follows:

Carrying amount	Valuation difference charged to earnings
<i>(Millions of yen)</i>	
<u>¥747,069</u>	<u>¥116,015</u>
Carrying amount	Valuation difference charged to earnings
<i>(Thousands of U.S. dollars)</i>	
<u>\$6,359,663</u>	<u>\$987,620</u>

Investments in held-to-maturity securities with readily obtainable fair value as of March 31, 2006 are summarized as follows:

	Carrying amount	Fair value	Gross unrealized gains
	<i>(Millions of yen)</i>		
<b>Items with fair value exceeding carrying amount:</b>			
Domestic bonds:			
Government bonds	¥ 181,546	¥ 186,872	¥ 5,326
Municipal bonds	349,033	354,834	5,801
Corporate bonds	352,857	360,319	7,462
Total domestic bonds	883,436	902,026	18,590
Foreign bonds	40,849	41,492	642
Other securities	24,219	24,256	36
Total	948,505	967,775	19,269
<b>Items with fair value not exceeding carrying amount:</b>			
Domestic bonds:			
Government bonds	208,209	204,860	(3,348)
Municipal bonds	227,518	222,056	(5,461)
Corporate bonds	432,979	422,234	(10,744)
Total domestic bonds	868,706	849,150	(19,555)
Foreign bonds	36,897	36,516	(381)
Other securities	127,304	124,244	(3,059)
Total	1,032,908	1,009,911	(22,996)
Grand total	<u>¥1,981,414</u>	<u>¥1,977,687</u>	<u>¥ (3,727)</u>

## 19. Investments in Securities (continued)

(2) As of March 31, 2006 (continued)

	Carrying amount	Fair value	Gross unrealized gains
<i>(Thousands of U.S. dollars)</i>			
<b>Items with fair value exceeding carrying amount:</b>			
Domestic bonds:			
Government bonds	\$ 1,545,469	\$ 1,590,810	\$ 45,341
Municipal bonds	2,971,252	3,020,640	49,388
Corporate bonds	3,003,808	3,067,332	63,523
Total domestic bonds	<u>7,520,529</u>	<u>7,678,783</u>	<u>158,253</u>
Foreign bonds	347,745	353,218	5,473
Other securities	<u>206,177</u>	<u>206,489</u>	<u>312</u>
Total	8,074,452	8,238,491	164,039
<b>Items with fair value not exceeding carrying amount:</b>			
Domestic bonds:			
Government bonds	1,772,445	1,743,937	(28,507)
Municipal bonds	1,936,819	1,890,325	(46,493)
Corporate bonds	<u>3,685,868</u>	<u>3,594,399</u>	<u>(91,469)</u>
Total domestic bonds	7,395,133	7,228,662	(166,470)
Foreign bonds	314,105	310,853	(3,251)
Other securities	<u>1,083,716</u>	<u>1,057,670</u>	<u>(26,045)</u>
Total	<u>8,792,955</u>	<u>8,597,187</u>	<u>(195,767)</u>
Grand total	<u><u>\$16,867,407</u></u>	<u><u>\$16,835,678</u></u>	<u><u>\$ (31,728)</u></u>

Note: Available-for-sale securities include certificates of deposits amounting to ¥5,000 million (U.S.\$42,564 thousand) that are shown as cash and deposit, commercial paper amounting to ¥28,998 million (U.S.\$246,855 thousand) and beneficiary trust certificates amounting to ¥117,525 million (U.S.\$1,000,473 thousand) that are shown as monetary claims purchased on the balance sheet as of March 31, 2006.

## 19. Investments in Securities (continued)

(2) As of March 31, 2006 (continued)

Bonds for policy-reserve-matching with readily obtainable fair value as of March 31, 2006 are summarized as follows:

	Carrying amount	Fair value	Gross unrealized gains (losses)
	<i>(Millions of yen)</i>		
<b>Items with fair value exceeding carrying amount:</b>			
Domestic bonds:			
Government bonds	¥ 192,548	¥ 193,288	¥ 740
Municipal bonds	23,731	24,067	335
Corporate bonds	120,889	122,513	1,623
Total	<u>337,169</u>	<u>339,870</u>	<u>2,700</u>
<b>Items with fair value not exceeding carrying amount:</b>			
Domestic bonds:			
Government bonds	350,739	345,996	(4,743)
Municipal bonds	288,386	282,308	(6,077)
Corporate bonds	797,003	782,770	(14,232)
Total	<u>1,436,129</u>	<u>1,411,075</u>	<u>(25,053)</u>
Grand total	<u>¥1,773,298</u>	<u>¥1,750,945</u>	<u>¥(22,353)</u>

	Carrying amount	Fair value	Gross unrealized gains (losses)
	<i>(Thousands of U.S. dollars)</i>		
<b>Items with fair value exceeding carrying amount:</b>			
Domestic bonds:			
Government bonds	\$ 1,639,127	\$ 1,645,432	\$ 6,304
Municipal bonds	202,025	204,884	2,859
Corporate bonds	1,029,108	1,042,932	13,824
Total	<u>2,870,261</u>	<u>2,893,249</u>	<u>22,987</u>
<b>Items with fair value not exceeding carrying amount:</b>			
Domestic bonds:			
Government bonds	2,985,781	2,945,399	(40,382)
Municipal bonds	2,454,976	2,403,239	(51,736)
Corporate bonds	6,784,738	6,663,580	(121,158)
Total	<u>12,225,497</u>	<u>12,012,218</u>	<u>(213,278)</u>
Grand total	<u>\$15,095,758</u>	<u>\$14,905,468</u>	<u>\$(190,290)</u>

## 19. Investments in Securities (continued)

(2) As of March 31, 2006 (continued)

Available-for-sale securities with readily obtainable fair value as of March 31, 2006 are summarized as follows:

	Acquisition cost	Carrying amount	Difference
	<i>(Millions of yen)</i>		
<b>Items with carrying amount exceeding acquisition cost:</b>			
Domestic bonds:			
Government bonds	¥ 127,742	¥ 134,965	¥ 7,223
Municipal bonds	410,981	417,852	6,871
Corporate bonds	462,602	471,343	8,740
Total domestic bonds	1,001,326	1,024,162	22,835
Domestic stocks	681,219	1,429,572	748,352
Foreign securities:			
Foreign bonds	476,628	499,196	22,568
Foreign stocks	73,980	88,546	14,566
Foreign other securities	54,469	60,277	5,808
Total foreign securities	605,077	648,021	42,943
Other securities	562,214	815,428	253,214
Total	2,849,838	3,917,184	1,067,346
<b>Items with carrying amount not exceeding acquisition cost:</b>			
Domestic bonds:			
Government bonds	148,291	145,950	(2,340)
Municipal bonds	199,179	194,911	(4,267)
Corporate bonds	337,066	331,641	(5,425)
Total domestic bonds	684,537	672,503	(12,033)
Domestic stocks	19,156	18,175	(980)
Foreign securities:			
Foreign bonds	349,103	341,624	(7,479)
Foreign stocks	16,006	15,123	(883)
Foreign other securities	64,275	62,560	(1,715)
Total foreign securities	429,386	419,308	(10,077)
Other securities	355,536	352,784	(2,752)
Total	1,488,616	1,462,772	(25,844)
Grand total	¥4,338,454	¥5,379,957	¥1,041,502

## 19. Investments in Securities (continued)

(2) As of March 31, 2006 (continued)

	Acquisition cost	Carrying amount	Difference
	<i>(Thousands of U.S. dollars)</i>		
<b>Items with carrying amount exceeding acquisition cost:</b>			
Domestic bonds:			
Government bonds	\$ 1,087,448	\$ 1,148,940	\$ 61,491
Municipal bonds	3,498,607	3,557,103	58,496
Corporate bonds	3,938,045	4,012,455	74,410
Total domestic bonds	<u>8,524,100</u>	<u>8,718,499</u>	194,398
Domestic stocks	5,799,097	12,169,677	6,370,580
Foreign securities:			
Foreign bonds	4,057,447	4,249,567	192,119
Foreign stocks	629,780	753,783	124,003
Foreign other securities	463,684	513,134	49,449
Total foreign securities	<u>5,150,913</u>	<u>5,516,485</u>	365,572
Other securities	<u>4,786,023</u>	<u>6,941,591</u>	2,155,568
Total	<u>24,260,134</u>	<u>33,346,253</u>	9,086,119
<b>Items with carrying amount not exceeding acquisition cost:</b>			
Domestic bonds:			
Government bonds	1,262,376	1,242,451	(19,924)
Municipal bonds	1,695,573	1,659,247	(36,326)
Corporate bonds	2,869,385	2,823,199	(46,185)
Total domestic bonds	<u>5,827,335</u>	<u>5,724,898</u>	(102,436)
Domestic stocks	163,076	154,725	(8,350)
Foreign securities:			
Foreign bonds	2,971,856	2,908,186	(63,669)
Foreign stocks	136,263	128,744	(7,518)
Foreign other securities	547,167	532,565	(14,602)
Total foreign securities	<u>3,655,287</u>	<u>3,569,496</u>	(85,790)
Other securities	<u>3,026,616</u>	<u>3,003,188</u>	(23,428)
Total	<u>12,672,315</u>	<u>12,452,308</u>	(220,006)
Grand total	<u><u>\$36,932,450</u></u>	<u><u>\$45,798,562</u></u>	<u><u>\$8,866,112</u></u>

Note 1: Other securities include certificates of deposits amounting to ¥63,000 million (U.S.\$536,307 thousand) that are shown as cash and deposits, commercial paper amounting to ¥116,091 million (U.S.\$988,267 thousand) and beneficiary trust certificates amounting to ¥17,961 million (U.S.\$152,905 thousand) that are shown as monetary claims purchased on the balance sheet as of March 31, 2006.

Note 2: Impairment losses with respect to the other securities as of March 31, 2006, ¥314 million (U.S.\$2,680 thousand) was charged to income. Impairment loss was recognized when the fair market value of securities as of March 31, 2006 decreased from the acquisition cost by 30% or more.

## 19. Investments in Securities (continued)

(2) As of March 31, 2006 (continued)

Gross gains of ¥86,692 million (U.S.\$737,997 thousand), and gross losses of ¥19,844 million (U.S.\$168,932 thousand) were recorded on the sale of securities classified as available-for-sale for the year ended March 31, 2006, respectively. Total proceeds on such sales amounted to ¥1,366,507 million (U.S.\$11,632,821 thousand) for the year ended March 31, 2006.

Gross gains of ¥812 million (U.S.\$6,916 thousand), and gross losses of ¥6,988 million (U.S.\$59,495 thousand) were recorded through the sale of securities classified as policy-reserve-matching bonds for the year ended March 31, 2006, respectively. Total proceeds on such sales amounted to ¥370,366 million (U.S.\$3,152,857 thousand) for the year ended March 31, 2006.

Net gains of ¥54 million (U.S.\$467 thousand) were recorded through the sale of securities classified as held-to-maturity bonds for the year ended March 31, 2006. Total proceeds on such sales amounted to ¥4,947 million (U.S.\$42,114 thousand), and total acquisition costs for such bonds amounted to ¥4,892 million (U.S.\$41,647 thousand), respectively.

In order to prevent the decrease of holding asset liquidity and the forecast of future cash flow, this transaction was performed so that the liquidity of group insurance asset would be maintained.

Securities without readily obtainable fair value held by the Company as of March 31, 2006 are summarized as follows:

	Carrying amount	
	(Millions of yen)	(Thousands of U.S. dollars)
Available-for-sale securities:		
Unlisted stocks (excluding over-the-counter stocks)	¥ 31,138	\$ 265,073
Foreign securities/other securities	246,763	2,100,649
Other securities	19,590	166,773
Total	<u>¥297,492</u>	<u>\$2,532,497</u>

The carrying value of bonds classified as available-for-sale and held-to-maturity securities at March 31, 2006, by contractual maturity date, is as follows:

	Due in	Dues after one	Due after five	Due after
	one year or less	year through five years	years through ten years	ten years
	(Millions of yen)			
Government bonds	¥278,337	¥ 270,059	¥ 281,477	¥ 382,959
Municipal bonds	120,796	758,227	595,588	26,821
Corporate bonds	132,675	1,106,904	780,608	483,113
Foreign bonds	72,379	432,431	276,571	137,207
Other foreign securities	1,308	26,390	49,405	52,229
Other securities	213,333	21,280	18,910	132,024
Total	<u>¥818,832</u>	<u>¥2,615,294</u>	<u>¥2,002,562</u>	<u>¥1,214,354</u>

## 19. Investments in Securities (continued)

(2) As of March 31, 2006 (continued)

	Due in one year or less	Dues after one year through five years	Due after five years through ten years	Due after ten years
	<i>(Thousands of U.S. dollars)</i>			
Government bonds	\$2,369,436	\$ 2,298,969	\$ 2,396,164	\$ 3,260,061
Municipal bonds	1,028,320	6,454,648	5,070,133	228,322
Corporate bonds	1,129,444	9,422,868	6,645,169	4,112,654
Foreign bonds	616,156	3,681,205	2,354,402	1,168,018
Other foreign securities	11,140	224,659	420,580	444,618
Other securities	1,816,068	181,158	160,984	1,123,895
Total	<u>\$6,970,566</u>	<u>\$22,263,509</u>	<u>\$17,047,433</u>	<u>\$10,337,570</u>

## 20. Investment in Monetary Trusts

(1) As of March 31, 2005

Monetary trusts classified as trading purpose trusts by the Company and its consolidated subsidiaries as of March 31, 2005 are summarized as follows:

Carrying amount	Valuation difference charged to earnings
<i>(Millions of yen)</i>	
<u>¥7,036</u>	<u>¥(6,870)</u>

There are no monetary trusts for held-to-maturity or policy-reserve-matching purposes as of March 31, 2005.

Monetary trusts other than investment, held-to-maturity and policy-reserve-matching purpose as of March 31, 2005 are summarized as follows:

	Acquisition cost	Carrying amount	Difference
	<i>(Millions of yen)</i>		
Monetary trusts	<u>¥78,034</u>	<u>¥83,077</u>	<u>¥5,042</u>

Note 1: In addition to the monetary trusts above, investments in short term monetary trusts amounting to ¥80,000 million and joint monetary trusts amounting to ¥51,750 million are stated at acquisition cost on the balance sheet as of March 31, 2005.

Note 2: Impairment losses with respect to monetary trusts other than investment, held-to-maturity, and policy-reserve-matching as of March 31, 2005 of ¥615 million were charged to income. Impairment loss was recognized when the fair market value of securities as of March 31, 2005 decreased from the acquisition cost by 30% or more.

## 20. Investment in Monetary Trusts (continued)

(2) As of March 31, 2006

Monetary trusts classified as trading purpose trusts by the Company and its consolidated subsidiaries as of March 31, 2006 are summarized as follows:

Carrying amount	Valuation difference charged to earnings
<i>(Millions of yen)</i>	
<u>¥7,748</u>	<u>¥(4,406)</u>
Carrying amount	Valuation difference charged to earnings
<i>(Thousands of U.S. dollars)</i>	
<u>\$65,958</u>	<u>\$(37,512)</u>

There are no monetary trusts for held-to-maturity or policy-reserve-matching purposes as of March 31, 2006.

Monetary trusts other than investment, held-to-maturity and policy-reserve-matching purpose as of March 31, 2006 are summarized as follows:

	Acquisition cost	Carrying amount	Difference
	<i>(Millions of yen)</i>		
Monetary trusts	<u>¥160,634</u>	<u>¥198,374</u>	<u>¥37,740</u>
	Acquisition cost	Carrying amount	Difference
	<i>(Thousands of U.S. dollars)</i>		
Monetary trusts	<u>\$1,367,447</u>	<u>\$1,688,724</u>	<u>\$321,277</u>

Note 1: In addition to the monetary trusts above, joint monetary trusts amounting to ¥44,350 million (U.S.\$377,543 thousand) are stated at acquisition cost on the balance sheet as of March 31, 2006.

Note 2: Impairment losses with respect to monetary trusts other than investment, held-to-maturity, and policy-reserve-matching as of March 31, 2006 of ¥21 million (U.S.\$187 thousand) were charged to income. Impairment loss was recognized when the fair market value of securities as of March 31, 2006 decreased from the acquisition cost by 30% or more.

## 21. Derivative Financial Instruments

The Company uses swaps, forwards, futures and option contracts to hedge exposure to changes in interest rates, foreign exchange rates and 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 guidelines such as total notional amount and 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. All dealing functions, such as the front, back and middle offices, are completely separated into different departments. 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.

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

The Company uses derivative financial instruments for the purpose of complementing risk hedges, which are linked with cash product assets. Accordingly, the Company does not transact speculative trades.

Taiyo Life focuses on the stable investment management of assets and leverages risks linking hedge purposes with holding cash product assets. Daito Life focuses on efficient investment management of assets and complementing trades of cash product assets. Daido Life uses derivative financial instruments where trades are limited for the above policy.

In order to minimize the risks of minimum death guaranty and guaranteed minimum living benefit for individual variable annuities. T&D Financial Life, uses derivative trades in Monetary Trusts for hedge purposes against increasing risks due to falling prices related to the subjected cash product assets in separate accounts.

The following tables show a summary of the notional amounts and current market or fair values of derivative financial instruments held as of March 31, 2005 and 2006. Notional amounts do not represent exposure to credit loss.

## 21. Derivative Financial Instruments (continued)

	As of March 31, 2005			
	Notional amounts		Current market or fair value	Valuation gains (losses)
	Over one year	One year or less		
	<i>(Millions of yen)</i>			
Interest rate swap (fixed interest receipt)	¥117,288	¥ 97,635	¥ 3,795	¥ 3,795
Interest rate swap (fixed interest pay)	142,382	2,600	(1,575)	(1,575)
Foreign exchange contracts sold	–	805,459	825,882	(20,423)
Foreign exchange contracts bought	–	140	140	0
Bond futures contracts sold	–	34,385	34,852	(467)
Stock index futures bought	–	29,977	30,126	148
Stock index options bought (put)	–	79,993	1,561	(1,607)
Total valuation gains, net				<u>¥(20,129)</u>

	As of March 31, 2006			
	Notional amounts		Current market or fair value	Valuation gains (losses)
	Over one year	One year or less		
	<i>(Millions of yen)</i>			
Interest rate swap (fixed interest receipt)	¥123,240	¥ 15,046	¥ (2,083)	¥(2,083)
Interest rate swap (fixed interest pay)	139,782	2,600	3,309	3,309
Foreign exchange contracts sold	–	684,568	692,495	(7,927)
Foreign exchange contracts bought	–	156	156	(0)
Bond futures contracts sold	–	27,233	26,958	274
Stock index futures bought	–	26,375	28,417	(2,041)
Stock index options bought (put)	–	19,996	340	(986)
Total valuation gains, net				<u>¥(9,454)</u>

	As of March 31, 2006			
	Notional amounts		Current market or fair value	Valuation gains (losses)
	Over one year	One year or less		
	<i>(Thousands of U.S. dollars)</i>			
Interest rate swap (fixed interest receipt)	\$1,049,119	\$ 128,086	\$ (17,732)	\$(17,732)
Interest rate swap (fixed interest pay)	1,189,937	22,133	28,173	28,173
Foreign exchange contracts sold	–	5,827,602	5,895,085	(67,482)
Foreign exchange contracts bought	–	1,331	1,330	(1)
Bond futures contracts sold	–	231,834	229,496	2,338
Stock index futures bought	–	224,528	241,911	(17,382)
Stock index options bought (put)	–	170,222	2,896	(8,397)
Total valuation gains, net				<u>\$(80,483)</u>

Note 1: The transactions that apply deferral hedge and fair value hedge accounting including special treatment for interest rate swaps are included above.

Note 2: Foreign currency monetary assets or liabilities that are fixed at the yen amount at settlement time by employing foreign exchange forward contracts and are stated in yen in the accompanying balance sheet are excluded above.

## 21. Derivative Financial Instruments (continued)

T&D Financial Life uses Monetary Trusts to execute derivatives trades. The following tables show a summary of the notional amounts and current market or fair values of derivative financial instruments held as of March 31, 2005 and 2006.

	As of March 31, 2005			
	Notional amounts		Current market or fair value	Valuation gains (losses)
	Over one year	One year or less		
	<i>(Millions of yen)</i>			
Currency options bought (put)	¥22,328	¥2,322		
Options	(2,585)	(21)	¥(2,578)	¥(28)
Currency options bought (put) in USD	12,528	1,261		
Options	(1,564)	(14)	(1,669)	91
Currency options bought (put) in EUR	9,800	1,061		
Options	(1,021)	(8)	(909)	(120)
Stock index options bought (put)	31,128	3,176		
Options	(2,443)	(16)	(2,538)	78
Total valuation gains, net				<u>¥ 49</u>

	As of March 31, 2006			
	Notional amounts		Current market or fair value	Valuation gains (losses)
	Over one year	One year or less		
	<i>(Millions of yen)</i>			
Currency options bought (put)	¥26,945	¥2,455		
Options	(3,393)	(53)	¥(1,918)	¥(1,528)
Currency options bought (put) in USD	15,536	1,429		
Options	(2,125)	(33)	(1,203)	(955)
Currency options bought (put) in EUR	11,408	1,026		
Options	(1,267)	(19)	(714)	(572)
Stock index options bought (put)	59,531	4,409		
Options	(6,908)	(105)	(4,185)	(2,828)
Total valuation gains, net				<u>¥(4,356)</u>

	As of March 31, 2006			
	Notional amounts		Current market or fair value	Valuation gains (losses)
	Over one year	One year or less		
	<i>(Thousands of U.S. dollars)</i>			
Currency options bought (put)	\$229,382	\$20,904		
Options	28,885	452	\$16,329	\$(13,009)
Currency options bought (put) in USD	132,262	12,165		
Options	18,092	288	10,246	(8,135)
Currency options bought (put) in EUR	97,119	8,738		
Options	10,793	164	6,083	(4,873)
Stock index options bought (put)	506,777	37,534		
Options	58,811	898	35,630	(24,079)
Total valuation gains, net				<u>\$(37,088)</u>

Note 1: The transactions that apply deferral hedge and fair value hedge accounting including special treatment for interest rate swaps are included above.

Note 2: Foreign currency monetary assets or liabilities that are fixed at the yen amount at settlement time by employing foreign exchange forward contracts and are stated in yen in the accompanying balance sheet are excluded above.

## 22. Reserve for Employees' Retirement Benefits

The components of net periodic pension cost are summarized below:

	Year ended March 31,		
	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥5,617	¥5,752	\$48,968
Interest cost	2,508	2,567	21,854
Expected return on assets	(167)	(332)	(2,827)
Amortization of unrecognized net actuarial loss	688	480	4,087
Amortization of unrecognized net obligation at translation	1,106	—	—
Net periodic pension cost	9,753	8,467	72,082
Other	144	149	1,273
Total pension cost	¥9,898	¥8,617	\$73,355

Assumptions used in accounting for the plans were as follows:

	Year ended March 31,	
	2005	2005
Discount rate	2.0% - 2.3%	1.9% - 2.3%
Expected long-term rate of return on assets	1.0% - 1.25%	1.25% - 2.6%

The plans' funded status as of March 31, 2005 and 2006 is summarized below:

	As of March 31,		
	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligation	¥127,079	¥127,369	\$1,084,271
Plan assets	(16,162)	(18,986)	(161,627)
Reserve for employees' retirement benefits	¥110,917	¥108,382	\$ 922,643

### 23. Per Share Information

Net income per share calculated based on the weighted average number of shares of common stock outstanding during the year ended March 31, 2005 and 2006 were ¥155.41 and ¥146.19 (U.S. \$1.24), respectively. Net assets per share calculated based on the number of shares of common stock outstanding as of March 31, 2005 and 2006 were ¥2,410.76 and ¥4,384.93 (U.S.\$37.32), respectively.

Summary of the net income per share computations is as follows:

	As of March 31,		
	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Net income	¥37,131	¥35,545	\$302,590
Bonuses to directors and corporate auditors	(225)	(216)	(1,842)
Net income available to common stockholders	<u>¥36,906</u>	<u>¥35,328</u>	<u>\$300,748</u>
	(Shares)		
Weighted average common shares outstanding	<u>237,486,517</u>	<u>241,664,575</u>	

### 24. Subsequent Events

There were no applicable subsequent events in 2005 and 2006.

# NON-CONSOLIDATED FINANCIAL SUMMARY

(For the Fiscal Year 2005 ended March 31, 2006)

May 17, 2006

Name of Company: **T&D Holdings, Inc.**  
 Stock Listings: Tokyo, Osaka  
 Security Code No.: 8795  
 Head Office: Tokyo, Japan  
 URL: <http://www.td-holdings.co.jp/e/>  
 Date of Board Meeting for Settlement of Accounts: May 17, 2006  
 Date of Ordinary General Meeting of Shareholders: June 28, 2006  
 Projected Starting Date of Dividend Distribution: June 29, 2006  
 Interim Dividends: Applicable  
 Application of Share Unit System: Yes (50 shares for a unit)

## 1. Non-Consolidated Operating Results for the Year Ended March 31, 2006 (April 1, 2005 - March 31, 2006)

### (1) Results of Operations

Note: Since the company was established on April 1, 2004, there are no comparative data from the previous year of the year ended March 31, 2005. Amounts of less than one million yen are omitted, and percentages have been rounded to the nearest percent.

	Operating Income		Operating Profit		Ordinary Profit	
		% change		% change		% change
FY2005 ended March 31, 2006	¥13,643 million	(47.6)	¥11,216 million	(51.5)	¥10,994 million	(50.8)

	Net Income		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
		% change				
FY2005 ended March 31, 2006	¥10,930 million	(51.4)	¥45.07	-	1.9%	80.6%
FY2004 ended March 31, 2005	¥22,493 million	-	¥92.99	-	4.1%	85.9%

Notes:

- Average number of outstanding shares during the year (consolidated): for the fiscal year ended March 31, 2006: 241,664,575; for the fiscal year ended March 31, 2005: 241,481,037
- Changes in method of accounting: Applicable
- % changes for operating income, operating profit, ordinary profit, and net income are presented in comparison with the previous fiscal year.

### (2) Dividends

	Annual Dividends per Share			Dividends Paid for the Year	Payout Ratio	Dividends on Equity
		Interim	Year-End			
As of March 31, 2006	¥55.00	-	¥55.00	¥13,544 million	122.0%	2.3%
As of March 31, 2005	¥45.00	-	¥45.00	¥10,865 million	48.4%	2.0%

### (3) Financial Conditions

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
	As of March 31, 2006	¥619,277 million	¥591,698 million	95.5%
As of March 31, 2005	¥575,331 million	¥554,619 million	96.4%	¥2,296.77

Notes:

- Number of outstanding shares at the end of the year: as of March 31, 2006: 246,271,247; as of March 31, 2005: 241,461,460
- Number of treasury stock at the end of the year: as of March 31, 2006: 58,753; as of March 31, 2005: 38,540

## 2. Non-Consolidated Forecasts for the Year Ending March 31, 2007 (April 1, 2006 - March 31, 2007)

	Operating Income	Ordinary Profit	Net Income	Annual Dividends per Share		
				Interim	Year-End	
Half-Year ending Sep. 30, 2006	¥15,000 million	¥13,000 million	¥13,000 million	-	-	-
Year ending March 31, 2007	¥16,000 million	¥13,000 million	¥13,000 million	-	¥55.00	¥55.00

Note: Projected net income per share for the year ending March 31, 2007 is ¥52.79.

**The above forecasts for the year ending March 31, 2007 reflect the Company's current analysis of existing information and trends. Actual results may differ from expectations based on risks and uncertainties that may affect the Company's businesses.**

## ***I. Unaudited Non-Consolidated Financial Statements***

T&D Holdings, Inc.

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Unaudited Non-Consolidated Statements of Surplus

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## Unaudited Non-Consolidated Balance Sheets

As of March 31,	2005		2006		Increase (decrease)	
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(Thousands of U.S. dollars)
<b>Assets:</b>						
Current assets:						
Cash and deposits	¥ 10,549		¥ 19,056		¥ 8,507	\$ 162,226
Prepaid expenses	21		23		1	197
Deferred tax assets	68		99		31	851
Accounts receivable	7,340		27,086		19,745	230,579
Income tax refundable receivable	17,932		–		(17,932)	
Other current assets	0		0		0	1
Total current assets	<u>35,912</u>	6.2	<u>46,266</u>	7.5	<u>10,353</u>	<u>393,856</u>
Fixed assets:						
Tangible fixed assets:						
Buildings	123		67		(55)	576
Machinery and equipment	0		0		0	4
Total tangible fixed assets	<u>123</u>	0.0	<u>67</u>	0.0	<u>(55)</u>	<u>580</u>
Intangible fixed assets:						
Trademark	3		3		0	27
Software	3		2		0	19
Total intangible fixed assets	<u>6</u>	0.0	<u>5</u>	0.0	<u>(1)</u>	<u>46</u>
Investments and other assets:						
Investments in subsidiaries	539,066		571,066		32,000	4,861,378
Deferred tax assets	55		65		9	557
Deposit for rent	167		1,805		1,638	15,372
Total investments and other assets	<u>539,289</u>	93.8	<u>572,937</u>	92.5	<u>33,648</u>	<u>4,877,308</u>
Total fixed assets	<u>539,419</u>	93.8	<u>572,937</u>	92.5	<u>33,648</u>	<u>4,877,308</u>
<b>Total assets</b>	<u>¥ 575,331</u>	100.0	<u>¥ 619,277</u>	100.0	<u>¥ 43,945</u>	<u>\$ 5,271,792</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable	¥ 20,380		¥ 9,129		¥ (11,251)	\$ 77,717
Accrued expenses	93		95		2	816
Income tax payable	78		16,614		16,536	141,439
Consumption tax payable	56		29		(26)	250
Deposits received	4		4		0	36
Total current liabilities	<u>20,613</u>	3.6	<u>25,873</u>	4.2	<u>5,260</u>	<u>220,260</u>
Fixed liabilities:						
Reserve for directors' and corporate auditors' retirement benefits	99		160		60	1,362
Deposits received	–		1,545		1,545	13,153
Total fixed liabilities	<u>99</u>	0.0	<u>1,705</u>	0.3	<u>1,606</u>	<u>14,516</u>
<b>Total liabilities</b>	<u>20,712</u>	3.6	<u>27,579</u>	4.5	<u>6,866</u>	<u>234,776</u>
<b>Stockholders' equity:</b>						
Common stock:						
Authorized – 966,000,000 shares						
Issued – 246,330,000 shares	100,000	17.4	118,595	19.2	18,595	1,009,581
Capital surplus:						
Additional paid-in capital	432,316		450,903		18,587	3,838,459
Gains on sale of treasury stock	–		1		1	12
Total capital surplus	<u>432,316</u>	75.1	<u>450,905</u>	72.8	<u>18,589</u>	<u>3,838,472</u>
Retained earnings	22,493	3.9	22,520	3.6	27	191,710
Treasury stock – 58,753 shares	(190)	(0.0)	(322)	(0.1)	(132)	(2,747)
<b>Total stockholders' equity</b>	<u>554,619</u>	96.4	<u>591,698</u>	95.5	<u>37,079</u>	<u>5,037,016</u>
<b>Total liabilities and stockholders' equity</b>	<u>¥ 575,331</u>	100.0	<u>¥ 619,277</u>	100.0	<u>¥ 43,945</u>	<u>\$ 5,271,792</u>

See notes to unaudited non-consolidated financial statements.

## Unaudited Non-Consolidated Statements of Operations

Years ended March 31,	2005		2006		Increase (decrease)	2006
	<i>(Millions of yen)</i>	<i>(%)</i>	<i>(Millions of yen)</i>	<i>(%)</i>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
<b>Operating income:</b>						
Dividends on Investments in subsidiaries	¥ 23,050		¥ 10,867		¥(12,183)	\$ 92,512
Fees and commissions received from subsidiaries	2,966		2,776		(189)	23,634
<b>Total operating income</b>	<b>26,016</b>	<b>100.0</b>	<b>13,643</b>	<b>100.0</b>	<b>(12,372)</b>	<b>116,147</b>
<b>Operating expenses:</b>						
General and administrative expenses	2,872	11.0	2,427	17.8	(445)	20,662
<b>Operating profit</b>	<b>23,144</b>	<b>89.0</b>	<b>11,216</b>	<b>82.2</b>	<b>(11,927)</b>	<b>95,485</b>
<b>Non-operating income:</b>						
Interest income	0		0		0	7
Fees and commissions received	17		-		(17)	-
Interest on tax refund	-		12		12	110
Fee income	-		3		3	29
Other income	0		0		0	4
<b>Total non-operating income</b>	<b>18</b>	<b>0.1</b>	<b>17</b>	<b>0.1</b>	<b>(0)</b>	<b>152</b>
<b>Non-operating expenses:</b>						
Interest expense	10		-		(10)	-
Amortization for organization costs	700		-		(700)	-
Stock offering expense	114		-		(114)	-
Amortization for stock issuance costs	-		239		239	2,042
<b>Total non-operating expenses</b>	<b>825</b>	<b>3.2</b>	<b>239</b>	<b>1.8</b>	<b>(585)</b>	<b>2,042</b>
<b>Ordinary profit</b>	<b>22,337</b>	<b>85.9</b>	<b>10,994</b>	<b>80.6</b>	<b>(11,342)</b>	<b>93,596</b>
<b>Income before income taxes</b>	<b>22,337</b>	<b>85.9</b>	<b>10,994</b>	<b>80.6</b>	<b>(11,342)</b>	<b>93,596</b>
<b>Income taxes:</b>						
Current	(31)	(0.1)	105	0.8	136	896
Deferred	(124)	(0.5)	(41)	(0.3)	82	(352)
<b>Net income</b>	<b>22,493</b>	<b>86.5</b>	<b>10,930</b>	<b>80.1</b>	<b>(11,562)</b>	<b>93,052</b>
<b>Unappropriated retained earnings at beginning of year</b>	<b>-</b>		<b>11,589</b>		<b>11,589</b>	<b>98,658</b>
<b>Unappropriated retained earnings at end of year</b>	<b>¥ 22,493</b>		<b>¥ 22,520</b>		<b>¥ 27</b>	<b>\$ 191,710</b>

*See notes to unaudited non-consolidated financial statements.*

## Unaudited Non-Consolidated Statements of Surplus

Years ended March 31,	2005	2006	Increase (decrease)	2006
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>
<b>Unappropriated retained earnings at end of year</b>	¥ 22,493	¥ 22,520	¥ 27	\$ 191,710
<b>Appropriation retained earnings:</b>				
Dividends to shareholders (cash dividends per share: ¥45 in 2005, ¥55 in 2006)	10,865	13,544	2,679	115,305
Bonus to directors	28	28	0	244
Bonus to corporate auditors	9	10	1	89
<b>Total appropriation of retained earnings</b>	<b>10,903</b>	<b>13,584</b>	<b>2,680</b>	<b>115,639</b>
<b>Unappropriated retained earnings carried forward</b>	<b>¥ 11,589</b>	<b>¥ 8,936</b>	<b>¥ (2,653)</b>	<b>\$ 76,071</b>

*See notes to unaudited non-consolidated financial statements.*

# T&D Holdings, Inc.

## Notes to Unaudited Non-Consolidated Financial Statements

March 31, 2006

### **1. Summary of Significant Accounting Policies**

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

On April 1, 2004, T&D Holdings, Inc. (the “Company”) was established, as a life insurance holding company, through which Taiyo Life Insurance Company (“Taiyo Life”), Daido Life Insurance Company (“Daido Life”) and T&D Financial Life Insurance Company (“T&D Financial Life”) (the “Three Life Companies”), have become wholly-owned subsidiaries, through share transfers. The business combination was accounted for as a pooling of interests.

The Company maintains its accounting records and prepares its financial statements in Japanese yen in conformity with generally accepted accounting principles and practices in Japan.

The accompanying non-consolidated financial statements are compiled from the financial statements prepared by the Company in line with the “Regulations Concerning the Terminology, Forms and Preparation Methods of Financial Statements” (Ministry of Financial Ordinance). In preparing the non-consolidated financial statements, certain items presented in the original financial statements have been reclassified and summarized for readers outside Japan. These financial statements have been prepared in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of accounting principles generally accepted in the United States. 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 condensed financial statements.

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

#### **(b) Valuation of securities**

Investments in subsidiaries that do not have readily determinable fair values are valued at cost determined by the moving average method.

## **1. Summary of Significant Accounting Policies (continued)**

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

The Company has 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 rate of pay and length of service at retirement.

The Company set up a reserve for directors' and corporate auditors' retirement benefits under the defined benefit plans based on an actuarial calculation of the 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.

For the fiscal year ended March 31, 2006, the Company provided the estimated annual provision.

### **(d) Income taxes**

The Company files a consolidated tax return in Japan.

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

### **(e) Fixed assets**

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method for buildings and by the declining-balance method for other property and equipment, based on the following estimated useful lives:

Buildings and structures	8 to 50 years
Equipment	5 to 6 years

Depreciation of intangible assets is computed by the straight-line method. The Company's internal use software is depreciated based on estimated useful lives (five years).

### **(f) Stock issuance costs**

The stock issuance costs are charged to operating expenses as incurred.

## **1. Summary of Significant Accounting Policies (continued)**

### **(g) Leases**

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

The Company treats all non-ownership-transfer financial leases as operating leases. Accordingly, leased assets with respect to non-ownership-transfer financial leases where the Company is the lessee are not recognized in the accompanying balance sheet and lease payments are charged to expense when incurred.

### **(h) Accounting for consumption taxes**

Consumption taxes received or paid by the Company are not included in income and expenses. The net amount 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.

### **(i) Impairment of fixed assets**

Effective the year ended March 31, 2006, the Company adopted the “Opinion Concerning Establishment of Accounting Standards for Impairment of Fixed Assets” issued by the Business Accounting Council and Financial Accounting Standard Implementation Guidance No. 6, “Implementation Guidance for Impairment of Fixed Assets,” issued by Accounting Standard Board of Japan. There were no effects on income this change for the year ended March 31, 2006.

## **2. Accumulated Depreciation of Tangible Assets**

Accumulated depreciation of tangible assets as of March 31, 2006 was ¥66 million (U.S.\$569 thousand).

## **3. Assets in Subsidiaries**

Assets in subsidiaries as of March 31, 2006 amounted to ¥27,085 million (U.S.\$230,572 thousand) and were included in accounts receivable.

#### 4. Liabilities in Subsidiaries

Liabilities in subsidiaries as of March 31, 2006 amounted to ¥8,407 million (U.S.\$71,573 thousand) included in accounts payable.

#### 5. Stocks

The Company has 966,000,000, 246,330,000 and 58,753 shares of stock authorized, issued and in treasury, respectively, at March 31, 2006.

The details of increase in issued shares for the year ended March 31, 2006 were as follows:

- (a) The issuance of new shares for capital increase through public offering on March 14, 2006

		<u>(Thousands of U.S. dollars)</u>
Number of new shares issued	4,200,000 shares	–
Offer price	¥8,026 per share	–
Issue price	¥7,698.40 per share	–
The amount classified as stated capital	¥16,170,000,000 (¥3,850 per share)	\$137,652

- (b) The issuance of new shares for capital increase through third party allotment on March 28, 2006

		<u>(Thousands of U.S. dollars)</u>
Number of new shares issued	630,000 shares	–
Issue price	¥7,698.40 per share	–
The amount classified as stated capital	¥2,425,500,000 (¥3,850 per share)	\$20,647

#### 6. Transaction with Subsidiaries

	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
Dividends from subsidiaries	¥10,867	\$92,512
Fees and commissions received from subsidiaries	2,776	23,634

## 7. General and Administrative Expenses

The main components of general and administrative expenses for the year ended March 31, 2006 were as follows:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Remuneration for directors and corporate auditors	¥151	\$1,289
Salaries	470	4,005
Bonuses	203	1,734
Reserve for directors' and corporate auditors' retirement benefits	78	669
Depreciation expense	58	497
Rent for land, buildings, equipment	201	1,711
Commissions	429	3,654
Service cost	169	1,438

## 8. Leases

Information of non-ownership-transfer finance leases contracted as a lessee, such as acquisition cost and related accumulated depreciation of leased assets, and obligations under finance leases (i.e., depreciation expense and interest expense of finance leases), which is required under Japanese accounting standards for leases for the year ended March 31, 2005 and 2006 are summarized as follows:

	As of March 31,		
	2005	2006	2006
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Equipment:			
Acquisition cost	¥28	¥32	\$ 274
Accumulated depreciation	(5)	(13)	(112)
Net carrying value	¥23	¥ 18	\$ 161

Obligations under finance leases as of March 31, 2005 and 2006 were as follows:

	As of March 31,		
	2005	2006	2006
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Due within one year	¥6	¥7	\$ 64
Due after one year	18	12	102
Total	¥25	¥19	\$167

Total payments for non-ownership-transfer finance leases for the year ended March 31, 2005 and 2006 were ¥6 million and ¥8 million (U.S.\$69 thousand), respectively.

## 8. Leases (continued)

Depreciation and imputed interest cost, which are not reflected in the accompanying statement of operations, for the year ended March 31, 2005 and 2006 were as follows:

	As of March 31,		
	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Depreciation	¥5	¥7	\$63
Imputed interest cost	0	1	8

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.

Future minimum lease payments on operating lease as of March 31, 2005 and 2006 were as follows:

	As of March 31,		
	2005	2006	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Due within one year	¥3	¥2	\$24
Due after one year	2	—	—
Total	¥5	¥2	\$24

## 9. Investments in Subsidiaries

There are no investments in subsidiaries that have readily determinable fair values in 2005 and 2006.

## 10. 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 40.7 percent. The effective tax rate for the year ended March 31, 2006 differs from the normal statutory rate for the following reasons:

Statutory tax rate	40.7%
Dividend excluded from gross revenue	(40.2)
Other	0.1
Effective tax rate	0.6%

## 10. Income Taxes (continued)

Significant components of deferred tax assets of the Company and its consolidated subsidiaries as of March 31, 2006 are summarized below:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:		
Reserve for directors' and corporate auditors' retirement benefits	¥ 65	\$ 554
Reserve for employees' bonuses	33	284
Enterprise tax payable	41	353
Other	25	216
Total deferred tax assets	<u>165</u>	<u>1,408</u>
Net deferred tax asset	<u>¥165</u>	<u>\$1,408</u>

## 11. Per Share Information

Net income per share calculated based on the weighted average number of shares of common stock outstanding during the year ended March 31, 2005 and 2006 were ¥92.99 and ¥45.07 (U.S. \$0.38), respectively. Net assets per share calculated based on the number of shares of common stock outstanding as of March 31, 2005 and 2006 were ¥2,296.77 and ¥2,402.47 (U.S. \$20.45), respectively.

Summary of the net income per share computations is as follows:

	As of March 31,		
	2005	2006	2006
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Net income	¥22,493	¥10,930	\$93,052
Bonuses to directors and corporate auditors	(38)	(39)	(334)
Net income available to common stockholders	<u>¥22,455</u>	<u>¥10,891</u>	<u>\$92,717</u>
	(Shares)		
Weighted average common shares outstanding	<u>241,481,037</u>	<u>241,664,575</u>	

## 12. Subsequent Events

There were no applicable subsequent events in 2005 and 2006.

## ***II. Change in Directors***

The Board of Directors of T&D Holdings passed a resolution changing in directors and auditors as follows:

### ***1. Change in Director***

New Position	Name	Current Position
Director	Katsuro Oishi	Representative Director and President of Taiyo Life Insurance Company
Director	Haruo Kuramochi	Representative Director and President of Daido Life Insurance Company

Effective as of June 28, 2006 subject to the approval of the General Meeting of Shareholders

### ***2. Change in Auditor***

New Position	Name	Current Position
Alternate Corporate Auditor	Shigetake Ogata	Corporate Auditor of Taiyo Life Insurance Company

Effective as of June 28, 2006 subject to the approval of the General Meeting of Shareholders