CHAPTER

# 5

## FINANCIAL DATA

### Consolidated Financial Review



### Non-Consolidated Financial Review

## Report of Independent Auditors

Nippon Life Insurance Company and Subsidiaries

### Report of Independent Auditors

The Board of Directors of
NIPPON LIFE INSURANCE COMPANY

We have audited the accompanying consolidated balance sheets of NIPPON LIFE INSURANCE COMPANY and its subsidiaries as of March 31, 2004, 2005 and 2006, and the related consolidated statements of operations, surplus, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principals used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NIPPON LIFE INSURANCE COMPANY and its subsidiaries as of March 31, 2004, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principals generally accepted in Japan.

As described in Note 2, effective from the year ended March 31, 2006, NIPPON LIFE INSURANCE COMPANY and its domestic consolidated subsidiaries have adopted new Japanese accounting standards for impairment of fixed assets.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Osaka, Japan
May 22, 2006

# 1. Consolidated Balance Sheets

Nippon Life Insurance Company and Subsidiaries

| | Millions of Yen | | | Millions of U.S. Dollars |
|---|---|---|---|---|
| **As of March 31** | **2006** | **2005** | **2004** | **2006** |
| **Assets:** | | | | |
| **Cash and deposits** | **¥ 1,048,805** | **¥ 511,376** | **¥ 394,613** | **$ 8,928** |
| **Call loans** | **553,700** | **363,100** | **437,400** | **4,713** |
| **Monetary receivables purchased** | **1,391,624** | **1,456,619** | **901,904** | **11,846** |
| **Trading securities** | **2,099** | **2,999** | **2,999** | **17** |
| **Money held in trust** | **177,038** | **144,615** | **155,055** | **1,507** |
| **Investments in securities** (Note 3) | **35,210,880** | **31,213,322** | **29,856,490** | **299,743** |
| **Loans receivable** (Notes 11 and 12) | **9,994,705** | **10,298,415** | **10,993,883** | **85,083** |
| **Real estate and movables, net of accumulated depreciation** (Notes 4 and 14) | **1,796,081** | **1,880,583** | **1,937,312** | **15,289** |
| **Reinsurance receivables** | **465** | **497** | **419** | **3** |
| **Other assets** | **691,456** | **951,429** | **893,837** | **5,886** |
| **Deferred tax assets** (Note 15) | **4,869** | **4,499** | **4,937** | **41** |
| **Customers' liabilities for acceptances and guarantees** | **3,222** | **1,574** | **3,085** | **27** |
| **Allowance for doubtful accounts** | **(43,744)** | **(51,068)** | **(89,584)** | **(372)** |
| **Total assets** | **¥50,831,204** | **¥46,777,966** | **¥45,492,355** | **$432,716** |
| **Liabilities:** | | | | |
| **Policy reserves:** | | | | |
| Reserve for outstanding claims | ¥ 230,431 | ¥ 241,262 | ¥ 247,880 | $ 1,961 |
| Policy reserve | 39,419,816 | 38,796,547 | 38,645,018 | 335,573 |
| Reserve for dividends to policyholders (Note 6) | 1,312,057 | 1,357,447 | 1,415,625 | 11,169 |
| | **40,962,304** | **40,395,257** | **40,308,524** | **348,704** |
| **Agency account payable** | **28** | **37** | **27** | **0** |
| **Reinsurance payables** | **490** | **499** | **409** | **4** |
| **Other liabilities** | **2,033,700** | **1,841,026** | **1,041,161** | **17,312** |
| **Accrued bonus for directors and corporate auditors** | **103** | **—** | **—** | **0** |
| **Accrued severance indemnities** (Note 8) | **412,068** | **393,941** | **452,662** | **3,507** |
| **Accrued losses from supporting closely related companies** | **603** | **656** | **705** | **5** |
| **Reserve for price fluctuations of investments in securities** | **441,263** | **390,262** | **255,261** | **3,756** |
| **Deferred tax liabilities** (Note 15) | **1,380,184** | **355,207** | **305,279** | **11,749** |
| **Deferred tax liabilities for revaluation reserve for land** | **181,525** | **34,962** | **38,770** | **1,545** |
| **Acceptances and guarantees** | **3,222** | **1,574** | **3,085** | **27** |
| **Total liabilities** | **¥45,415,496** | **¥43,413,426** | **¥42,405,887** | **$386,613** |
| **Minority interests** | **10,305** | **9,065** | **7,650** | **87** |
| **Capital:** | | | | |
| **Foundation funds** (Note 9) | **300,000** | **200,000** | **250,000** | **2,553** |
| **Reserve for redemption of foundation funds** (Note 9) | **600,000** | **550,000** | **500,000** | **5,107** |
| **Reserve for revaluation** | **651** | **651** | **651** | **5** |
| **Surplus** | **438,305** | **428,234** | **411,095** | **3,731** |
| **Revaluation reserve for land, net of taxes** | **(93,688)** | **61,881** | **68,620** | **(797)** |
| **Net unrealized gains on securities, net of taxes** | **4,171,825** | **2,167,583** | **1,898,076** | **35,513** |
| **Cumulative translation adjustments** | **(11,691)** | **(52,876)** | **(49,625)** | **(99)** |
| **Total capital** | **5,405,402** | **3,355,475** | **3,078,817** | **46,015** |
| **Total liabilities, minority interests and capital** | **¥50,831,204** | **¥46,777,966** | **¥45,492,355** | **$432,716** |

*The accompanying notes are an integral part of the financial statements.*

## 2. Consolidated Statements of Operations

Nippon Life Insurance Company and Subsidiaries

| For the years ended March 31 | Millions of Yen 2006 | 2005 | 2004 | Millions of U.S. Dollars 2006 |
|---|---|---|---|---|
| **Revenues:** | | | | |
| **Income from insurance and reinsurance premiums** | **¥4,866,096** | **¥4,852,854** | **¥5,169,262** | **$41,424** |
| **Investment income:** | | | | |
| Interest, dividend and other income | 1,053,305 | 992,769 | 995,820 | 8,966 |
| Gains from money held in trust, net | 36,817 | 18,869 | 24,184 | 313 |
| Gains on sales of securities | 174,453 | 201,805 | 189,082 | 1,485 |
| Gains from redemption of securities | 6,528 | 217 | 30 | 55 |
| Foreign exchange gains, net | — | — | 2,119 | — |
| Other investment income | 25,397 | 22,701 | 17,474 | 216 |
| Gains from separate accounts, net | 388,277 | 86,089 | 348,404 | 3,305 |
| | **1,684,781** | **1,322,452** | **1,577,116** | **14,342** |
| **Other revenues** (Note 14) | **373,489** | **329,024** | **464,793** | **3,179** |
| **Total revenues** | **6,924,367** | **6,504,331** | **7,211,172** | **58,945** |
| **Expenditures:** | | | | |
| **Insurance claims and other payments:** | | | | |
| Death and other claims | 1,410,107 | 1,254,272 | 1,581,421 | 12,003 |
| Annuity payments | 416,219 | 410,990 | 388,094 | 3,543 |
| Health and other benefits | 791,275 | 828,828 | 894,880 | 6,735 |
| Surrender benefits | 1,186,750 | 1,228,264 | 1,284,092 | 10,102 |
| Other refunds | 657,666 | 944,312 | 1,296,060 | 5,598 |
| | **4,462,020** | **4,666,668** | **5,444,550** | **37,984** |
| **Provision for policy reserves:** | | | | |
| Provision for policy reserve | 623,837 | 151,591 | 29,193 | 5,310 |
| Interest on reserve for dividends to policyholders | 39,066 | 41,000 | 43,495 | 332 |
| | **662,903** | **192,591** | **72,689** | **5,643** |
| **Expenses for investment:** | | | | |
| Interest expense | 2,667 | 3,933 | 2,932 | 22 |
| Losses from trading securities, net | 9 | 3 | 48 | 0 |
| Losses on sales of securities | 114,910 | 53,123 | 57,432 | 978 |
| Losses on valuation of securities | 9,195 | 31,382 | 23,505 | 78 |
| Losses on redemption of securities | 209 | — | 0 | 1 |
| Losses from derivative financial instruments, net | 97,879 | 66,340 | 47,561 | 833 |
| Foreign exchange losses, net | 4,879 | 2,155 | — | 41 |
| Provision for doubtful accounts | 15,065 | — | — | 128 |
| Write-down of loans | 656 | 506 | 1,705 | 5 |
| Depreciation for rental real estate and other assets | 27,861 | 31,636 | 34,066 | 237 |
| Other expenses for investment | 36,776 | 34,678 | 32,779 | 313 |
| | **310,110** | **223,760** | **200,032** | **2,639** |
| **Operating expenses** | **551,745** | **564,994** | **576,937** | **4,696** |
| **Other expenditures** | **507,700** | **483,263** | **534,703** | **4,321** |
| **Total expenditures** | **6,494,480** | **6,131,279** | **6,828,913** | **55,286** |
| **Operating income** | **429,887** | **373,052** | **382,259** | **3,659** |

| For the years ended March 31 | Millions of Yen 2006 | 2005 | 2004 | Millions of U.S. Dollars 2006 |
|---|---|---|---|---|
| **Extraordinary profits:** | | | | |
| Gains on disposal of assets | ¥ 1,395 | ¥ 4,871 | ¥ 6,584 | $ 11 |
| Reversal of allowance for doubtful accounts | — | 36,701 | 15,954 | — |
| Other | 64 | 295 | — | 0 |
| | **1,459** | **41,868** | **22,539** | **12** |
| **Extraordinary losses:** | | | | |
| Losses on disposal of assets | 36,121 | 47,709 | 23,104 | 307 |
| Provision for reserve for price fluctuations of investments in securities | 51,000 | 135,000 | 105,000 | 434 |
| Losses on valuation of real estate | — | 2,476 | 2,124 | — |
| Impairment loss (Note 14) | 77,807 | — | — | 662 |
| Other (Note 16) | 1,532 | 1,864 | 7,046 | 13 |
| | **166,461** | **187,050** | **137,276** | **1,417** |
| **Surplus before income taxes** | **264,885** | **227,870** | **267,522** | **2,254** |
| **Income taxes** (Note 15)**:** | | | | |
| Current | 153,200 | 130,755 | 147,203 | 1,304 |
| Deferred | (94,431) | (106,482) | (78,993) | (803) |
| **Minority interests** | **904** | **866** | **682** | **7** |
| **Surplus in the current year** | **¥205,212** | **¥202,730** | **¥198,628** | **$1,746** |

*The accompanying notes are an integral part of the financial statements.*

## 3. Consolidated Statements of Cash Flows

Nippon Life Insurance Company and Subsidiaries

| For the years ended March 31 | Millions of Yen 2006 | 2005 | 2004 | Millions of U.S. Dollars 2006 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Surplus before income taxes | ¥ 264,885 | ¥ 227,870 | ¥ 267,522 | $ 2,254 |
| Depreciation | 92,138 | 90,593 | 95,870 | 784 |
| Impairment loss | 77,807 | — | — | 662 |
| Amortization of goodwill | (30) | (454) | — | (0) |
| Net increase (decrease) in reserve for outstanding claims | (11,161) | (6,561) | (33,358) | (95) |
| Net increase (decrease) in policy reserve | 623,031 | 151,590 | 29,168 | 5,303 |
| Interest on reserve for dividends to policyholders | 39,066 | 41,000 | 43,495 | 332 |
| Net increase (decrease) in allowance for doubtful accounts | 14,285 | (21,812) | (10,924) | 121 |
| Net increase (decrease) in accrued severance indemnities | 18,235 | (58,721) | 25,364 | 155 |
| Net increase (decrease) in reserve for price fluctuations of investments in securities | 51,000 | 135,000 | 105,000 | 434 |
| Interest, dividend and other income | (1,053,305) | (992,769) | (995,820) | (8,966) |
| Net losses (gains) on securities investment | (56,667) | (117,550) | (108,174) | (482) |
| Interest expense | 2,667 | 3,933 | 2,932 | 22 |
| Foreign exchange losses (gains), net | 4,879 | 2,155 | (2,119) | 41 |
| Net losses (gains) on real estate investment | 35,005 | 45,502 | 22,291 | 297 |
| Equity in earnings of affiliates | (3,223) | (2,200) | (1,878) | (27) |
| Losses (gains) from separate accounts, net | (388,277) | (86,089) | (348,404) | (3,305) |
| Net decrease (increase) in trading securities | 899 | — | 3,000 | 7 |
| Net decrease (increase) in reinsurance receivables | 32 | (78) | 27 | 0 |
| Net decrease (increase) in other assets | 17,168 | (17,396) | 2,258 | 146 |
| Net decrease (increase) in agency account payable | (9) | 10 | (19) | (0) |
| Net decrease (increase) in reinsurance payables | (8) | 90 | 0 | (0) |
| Net increase (decrease) in other liabilities | (6,874) | (24,228) | (20,548) | (58) |
| Other, net | 40,964 | 111,319 | 55,445 | 348 |
| **Subtotal** | **(237,489)** | **(518,795)** | **(868,871)** | **(2,021)** |
| Interest, dividend and other income received | 1,030,452 | 1,008,630 | 1,018,345 | 8,772 |
| Interest paid | (2,679) | (3,988) | (2,889) | (22) |
| Dividends to policyholders paid | (217,950) | (221,325) | (243,468) | (1,855) |
| Other, net | 51,600 | 39,947 | 36,722 | 439 |
| Income taxes paid | (131,352) | (206,713) | 14,140 | (1,118) |
| **Net cash provided by (used in) operating activities** | **492,580** | **97,755** | **(46,022)** | **4,193** |

| For the years ended March 31 | Millions of Yen 2006 | 2005 | 2004 | Millions of U.S. Dollars 2006 |
|---|---|---|---|---|
| **Cash flows from investing activities:** | | | | |
| Net change in deposits | ¥ (4,600) | ¥ — | ¥ (469) | $ (39) |
| Purchases of monetary receivables purchased | (319,939) | (631,939) | (207,297) | (2,723) |
| Proceeds from sales and redemption of monetary receivables purchased | 468,328 | 215,973 | 246,243 | 3,986 |
| Purchases of money held in trust | (20,043) | (13,632) | (9,732) | (170) |
| Proceeds from sales of money held in trust | 3,955 | 29,906 | 115,664 | 33 |
| Purchases of securities | (8,473,227) | (6,980,723) | (6,911,387) | (72,130) |
| Proceeds from sales and redemption of securities | 7,892,822 | 6,333,298 | 6,681,420 | 67,190 |
| Investments in loans | (3,891,177) | (3,858,467) | (4,125,820) | (33,124) |
| Collections of loans | 4,251,003 | 4,560,926 | 4,735,476 | 36,187 |
| Other, net | 53,068 | 460,468 | (123,486) | 451 |
| **Subtotal** | **(39,812)** | **115,810** | **400,609** | **(338)** |
| Purchases of real estate and movables | (83,929) | (112,762) | (57,313) | (714) |
| Proceeds from sales of real estate and movables | 37,971 | 55,390 | 20,651 | 323 |
| **Net cash provided by (used in) investing activities** | **(85,769)** | **58,438** | **363,947** | **(730)** |
| **Cash flows from financing activities:** | | | | |
| Proceeds from debt issuance | 112,152 | 190,758 | 34,703 | 954 |
| Repayments of debt | (88,411) | (192,480) | (36,353) | (752) |
| Raising of foundation funds | 150,000 | — | — | 1,276 |
| Redemption of foundation funds | (50,000) | (50,000) | (50,000) | (425) |
| Interest on foundation funds paid | (2,849) | (3,645) | (4,291) | (24) |
| Other, net | — | 864 | (35) | — |
| **Net cash provided by (used in) financing activities** | **120,891** | **(54,502)** | **(55,976)** | **1,029** |
| **Effect of exchange rate changes on cash and cash equivalents** | **11,500** | **(4,564)** | **(16,151)** | **97** |
| **Net increase (decrease) in cash and cash equivalents** | **539,202** | **97,127** | **245,796** | **4,590** |
| **Cash and cash equivalents at the beginning of the year** | **1,470,387** | **1,381,179** | **1,135,382** | **12,517** |
| **Decrease in cash and cash equivalents due to the exclusion of subsidiaries from the consolidation** | **(3,586)** | **(7,919)** | **—** | **(30)** |
| **Cash and cash equivalents at the end of the year** | **¥2,006,003** | **¥1,470,387** | **¥1,381,179** | **$ 17,076** |

*The accompanying notes are an integral part of the financial statements.*

## 4. Notes to the Consolidated Financial Statements

Nippon Life Insurance Company and Subsidiaries

### 1. Basis of Presenting the Consolidated Financial Statements

**(1) Accounting principles and presentation**

The accompanying consolidated financial statements have been prepared from the accounts and records maintained by NIPPON LIFE INSURANCE COMPANY (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Insurance Business Law and the related rules and regulations applicable to the mutual life insurance industry in general and in conformity with accounting principles generally accepted in Japan, which are different in certain respects to the application and disclosure requirements of International Financial Reporting Standards. Certain accounting and reporting practices required to be followed by the industry are regulated by the Financial Services Agency and the related ministry by means of ministry ordinances and guidances. The accompanying consolidated financial statements of the Company and its consolidated subsidiaries are in compliance with such requirements.

Relevant notes have been added and certain reclassifications or summarizations of the account balances in the basic consolidated financial statements disclosed in Japan have been made to achieve presentation deemed appropriate for foreign readers of the consolidated financial statements.

Amounts of less than one million have been eliminated. As a result, totals may not add up exactly.

**(2) United States Dollar amounts**

The Company prepares its consolidated financial statements in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥117.47=US$1, the effective rate of exchange at the balance sheet date of March 31, 2006. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at ¥117.47=US$1 or at any other rate.

### 2. Summary of Significant Accounting Policies

**(1) Principles of consolidation**

i) *Consolidated subsidiaries*

The consolidated financial statements include the accounts of the Company and its subsidiaries. Consolidated subsidiaries in the year ended March 31, 2006 are listed below:

Nissay Computer Co., Ltd. (Japan)
Nissay Asset Management Corporation (Japan)
Nissay Information Technology Co., Ltd. (Japan)
Nissay Capital Co., Ltd. (Japan)
Nippon Life Insurance Company of America (U.S.A.)
NLI Properties East, Inc. (U.S.A.)
NLI Properties Central, Inc. (U.S.A.)
NLI Properties West, Inc. (U.S.A.)
NLI Commercial Mortgage Fund, LLC (U.S.A.)
NLI Commercial Mortgage Fund II, LLC (U.S.A.)
Nissay Credit Guarantee Co., Ltd. (Japan)
Nissay Leasing Co., Ltd. (Japan)

NLI Commercial Mortgage Fund, LLC has been established and treated as a consolidated subsidiary in the year ended March 31, 2004.

NLI Properties UK Limited was excluded from the consolidation due to its liquidation in the year ended March 31, 2005.

NLI Commercial Mortgage Fund II, LLC has been established and treated as a consolidated subsidiary in the year ended March 31, 2005.

Nissay Card Service Co., Ltd was excluded from the consolidation due to its transfer of credit card business in the year ended March 31, 2006.

The major subsidiaries excluded from consolidation are Tokyo Agency of Nippon Life Insurance Co., Ltd., Japan Insurance Services, Inc., and Nissay Business Service Co., Ltd. The respective and aggregate effects of the companies, which are excluded from consolidation, on total assets, revenues, surplus in the current year and surplus at the end of the year are immaterial. This exclusion from the consolidation does not prevent reasonable judgment of the consolidated financial position of the Company and its subsidiaries and the result of their operations.

ii) *Affiliates*

Affiliates accounted for under the equity method in the year ended March 31, 2006 are listed below:

Nissay Dowa General Insurance Company, Limited (Japan)
The Master Trust Bank of Japan, Ltd. (Japan)
Corporate-Pension Business Service Co., Ltd. (Japan)
Nippon Life Insurance Company of the Philippines, Inc. (Philippines)
Nissay-SVA Life Insurance Co., Ltd. (China)
Bangkok Life Assurance Limited (Thailand)

Nissay-SVA Life Insurance Co., Ltd. has been established and treated as an affiliate accounted for under the equity method in the year ended March 31, 2004.

Bangkok Life Assurance Limited has been treated as an affiliate accounted for under the equity method effective from the year ended March 31, 2004, due to acquisition of its shares.

The subsidiaries not consolidated, e.g., Tokyo Agency of Nippon Life Insurance Co., Ltd. and Japan Insurance Services, Inc., and affiliates other than those listed above, e.g., Japan Affinity Marketing, Inc., are not accounted for under the equity method. The respective and aggregate effects of such companies to surplus in the current year and surplus at the end of the year are immaterial.

The number of consolidated subsidiaries and affiliates in the years ended March 31, 2004, 2005 and 2006 were as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Consolidated subsidiaries | 12 | 13 | 13 |
| Subsidiaries not consolidated but accounted for under the equity method | 0 | 0 | 0 |
| Affiliates accounted for under the equity method | 6 | 6 | 6 |

iii) *Balance sheet date of subsidiaries*

The financial statements of consolidated overseas subsidiaries, the fiscal year-ends of which are all December 31, are included in the consolidated financial statements on the basis of their respective fiscal years after making appropriate adjustments for material transactions during the periods from their respective year-ends to the date of the consolidated financial statements.

iv) *Valuation of subsidiary's assets and liabilities on acquisition*

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair value.

v) *Goodwill arising on consolidation*

Goodwill arising on consolidation is charged or credited to income in the year in which it is incurred.

vi) *Treatment of appropriation of surplus*

Consolidated statements of surplus are prepared based on appropriation of surplus approved during the current year.

**(2) Cash and cash equivalents**

Cash and cash equivalents, for the purpose of reporting cash flows, are composed of cash in hand, deposits held at call with banks and all highly liquid short term investments, with maturity of three months or less when purchased and which are readily convertible into cash and present insignificant risk of change in value.

**(3) Securities and hedging activities**

Valuations of trading securities, investments in securities, financial instruments similar to securities included in deposits and monetary receivables purchased, and also securities included in money held in trust, are mainly as follows:

i) Trading securities are stated at market value prevailing at the balance sheet date. Costs of their sales are determined by the moving average method.

ii) Held-to-maturity debt securities are stated at amortized cost under the straight-line method, cost being determined by the moving average method.

iii) Policy-reserve-matching bonds are stated at amortized cost under the straight-line method, cost being determined by the moving average method in accordance with the Industry Audit Committee Report No.21 "Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching bonds in Insurance Industry" issued by the Japanese Institute of Certified Public Accountants (the "JICPA").

iv) Investments in non-consolidated subsidiaries and affiliates which are not accounted for under the equity method are stated at cost, cost being determined by the moving average method.

v) Available-for-sale securities for which market quotations are available are stated at fair value, determined as described below. Costs of their sales are determined by the moving average method. Adjustments to fair value, net of taxes are recorded as an increase or decrease in capital.

Available-for-sale securities for which market quotations are unavailable are stated at cost, cost being determined by the moving average method, except for public and corporate bonds including foreign bonds, of which the difference between purchase price and face value is due to interest rate adjustment. Such bonds are stated at amortized cost under the straight-line method, cost being determined by the moving average method.

***The Company's derivative financial instruments are stated at market value.***

The Company applies the mark-to-market method of hedge accounting mainly for hedging activities against exposures to foreign exchange rate fluctuations on certain bonds and others denominated in foreign currencies. The Company also applies the special treatment prescribed under the Accounting Standards for Financial Instruments for interest swap agreements satisfying the conditions of the accounting standards to manage cash flow volatility associated with interest rate changes on certain loans receivable. In addition, the Company matches forward foreign exchange contracts with certain financial assets denominated in foreign currencies.

Effectiveness of hedging activities is mainly evaluated by ratio analysis to compare market value movements on the hedging instruments and the positions being hedged in accordance with the Company's internal risk management policies.

Effective from the year ended March 31, 2003, deferred gains on certain interest swap agreements, previously recorded on the balance sheet, are credited to income over the residual term of the swap agreements, three or four years, on a straight-line basis in accordance with the temporary provision prescribed in the Industry Audit Committee Report No.26 "Treatment of Accounting and Auditing Concerning Application of Accounting Standards for Financial Instruments in Insurance Industry" issued by the JICPA. Such deferred gains outstanding as at March 31, 2004, 2005 and 2006 amounted to ¥17,596 million, ¥7,572 million and ¥47 million (US$0 million) respectively.

**(4) Policy-reserve-matching bonds**

The Company's securities that are held to match the duration of the sub-groups of individual insurance and annuities, workers' asset-formation insurance and annuities, and group insurance and annuities set by insurance type, remaining period and investment policy, etc. are categorized as policy-reserve-matching bonds in accordance with the Industry Audit Committee Report No. 21 "Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching Bonds in the Insurance Industry" issued by the Japanese Institute of Certified Public Accountants (JICPA).

The book value and market value of policy-reserve-matching bonds as of March 31, 2006 amounted to ¥16,724,615 million (US$142,373 million) and ¥16,808,437 million (US$143,087 million), respectively.

**(5) Foreign currency translation**

The Company's assets and liabilities denominated in foreign currencies, except for investments in non-consolidated subsidiaries and affiliates which are not accounted for under the equity method, are translated into Japanese yen at the current exchange rate prevailing at the balance sheet date. Investments in non-consolidated subsidiaries and affiliates which are not accounted for under the equity method are translated into Japanese yen at the historical exchange rates prevailing at the transaction dates.

Where a significant change in exchange rates occurs and there is no expectation of upward recovery, the assets and liabilities denominated in foreign currencies are translated into Japanese yen at the current exchange rate prevailing at the balance sheet date, not changed for subsequent recoveries.

Assets and liabilities denominated in foreign currencies, which are held by consolidated subsidiaries, are mainly converted into yen at the exchange rates prevailing at the respective fiscal year-ends of the consolidated subsidiaries.

**(6) Real estate and movables**

Depreciation of real estate and movables held by the Company, except for buildings newly acquired on and after April 1, 1998 which are depreciated based on the straight-line method, is computed based on the declining balance method. Depreciation of real estate and movables held by consolidated subsidiaries is mainly computed based on the straight-line method.

In accordance with the Law for the Revaluation of Land, the Company's business use land has been revalued at March 31, 2002 on the basis of appraisal values disclosed in public and the road tax rating, with rational adjustments, which are prescribed in Article 2 Item 1 and Item 4 of the Enforcement Regulation of the Law for the Revaluation of Land, respectively. The difference between the amount revalued and the historical cost, net of tax has been credited to revaluation reserve for land in capital, resulting in deferred tax liabilities in respect of revaluation reserve for land being included in liabilities.

Changes in the total value of business use land revalued, as compared with its aggregate carrying amount after revaluation, amounted to ¥102,224 million, ¥98,446 million and ¥40,605 million (US$345million) as of March 31, 2004, 2005 and 2006, respectively, which is required to be disclosed in accordance with Article 10 of the Law of the Revaluation of Land.

**(7) Software**

Depreciation of the Company's software, which is included in other assets, is computed based on the straight-line method.

**(8) Leases**

Where financial leases of the Company do not transfer ownership of the leased properties to the lessee during the terms of the leases, the leased properties are not capitalized and the related lease expenses are charged to income for the year in which they are incurred.

**(9) Allowance for doubtful accounts**

The allowance for doubtful accounts of the Company is provided as follows, in accordance with the Company's asset valuation regulation and writing-down/provision rule:

i) The allowance for credits of borrowers, who are legally or substantially bankrupt, is provided based on the amounts remaining after deductions of amounts expected to be collected through the disposal of collateral or execution of guarantees from the balance of loans receivable after write-down described below.

ii) The allowance for credits of borrowers, who are not currently legally bankrupt but have high possibility of bankruptcy, is provided based on the amounts deemed necessary considering the borrowers' overall solvency assessment, within the amounts remaining after deductions of amounts expected to be collected through the disposal of collateral or the execution of guarantees.

iii) The allowance for credits of borrowers other than the above is provided based on the borrowers' balance multiplied by the actual average percentage of bad debt losses on defaults during a certain past period.

iv) The allowance for specialized overseas debts is provided based on the expected amounts of overseas investment losses caused by political and economic difficulties of respective countries, and is included in allowance for doubtful accounts.

All credits are assessed by the sections concerned in accordance with the Company's asset valuation regulation. The assessments are audited by the specific credit assessment department, which is independent from the sections described above, and are reflected in the calculation of the allowance for doubtful accounts.

The allowance for doubtful accounts of consolidated subsidiaries is mainly provided based on the asset assessment standard and writing-down/provision rule.

In respect of credits of legally or substantially bankrupt borrowers including credits secured and/or guaranteed, the amounts remaining after deductions of collateral value or the amounts collectible through execution of guarantees or other methods is written-down directly from the balance of loans receivable as uncollectible amounts estimated. The amounts were ¥30,794 million, including ¥17,121 million of credits secured and/or guaranteed, ¥15,889 million, including ¥10,881 million of credits secured and/or guaranteed, and ¥26,786 million (US$228 million), including ¥6,290 million (US$53 million) of credits secured and/or guaranteed, as of March 31, 2004, 2005 and 2006, respectively.

**(10) Impairment of Fixed Asset**

The Company and its consolidated subsidiaries adopted "Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council in Japan on August 2002 and No.6 of Business Accounting Standard Adaptation Guideline "Adaptation Guideline for Accounting Standard for Impairment of Fixed Assets" on October 2003 from the year ended March 31, 2006. As a result, surplus before income taxes for the year ended March 31, 2006 decreased by ¥77,807 million (US$662 million) compared to the former method.

**(11) Accrued bonus for directors and corporate auditors**

The Company's accrued bonus for directors and corporate auditors are provided based on the estimation of bonus payment for directors and corporate auditors in accordance with Article 32-14 of the Enforcement Regulation of the Insurance Business Law.

*(Information)*

Bonus for directors and corporate auditors was previously treated as appropriation of surplus. The Company adopted the Business Accounting Standard Committee Practice Report No. 13 "Temporary Treatment of Accounting for Bonus for Directors and Corporate Auditors" and recorded bonus for directors and corporate auditors as an expense on the accrual basis from the year ended March 31, 2006.

As a result, operating income and surplus before income taxes for the year ended March 31, 2006 decreased by ¥103 million (US$0 million) compared to the former method.

**(12) Accrued severance indemnities**

Accrued severance indemnities of the Company are provided based on the estimated amounts of projected benefit obligations in excess of the fair value of pension plan assets for future severance payments of employees.

**(13) Accrued losses from supporting closely related companies**

Accrued losses from supporting closely related companies of the Company are provided for in accordance with Article 32-14 of the Enforcement Regulation of the Insurance Business Law, formerly Article 287-2 of the Commercial Code, and represent the loss amount estimated for restructuring and financial support to closely related companies in the future.

**(14) Reserve for price fluctuations of investments in securities**

Reserve for price fluctuations of investments in securities of the Company is computed based on Article 115 of the Insurance Business Law.

**(15) Accounting for consumption taxes**

Consumption taxes withheld or borne by the Company and its domestic subsidiaries are separately recorded with no inclusion in each account of revenues and expenditures. The consumption taxes paid on certain real estate transactions, which are not deductible from consumption taxes withheld and that are stipulated to be deferred under the Consumption Tax Law, are deferred as prepaid expenses and amortized to income over a five-year period on a straight-line basis. Consumption taxes other than deferred consumption taxes are charged to income as they are incurred.

**(16) Policy reserve**

Policy reserve of the Company is provided in accordance with Article 116 of the Insurance Business Law. Reserve for life policies and contracts included in policy reserve is computed as follows:

Reserves for contracts subject to the standard policy reserve are computed in accordance with the method, which the Prime Minister prescribed, by means of the ordinance No.48 issued by the Ministry of Finance in 1996. Reserve for other contracts is computed based on the net level premium method.

**(17) Deferred income taxes**

The Company and its subsidiaries account for their income taxes using accounting for deferred income taxes, which requires the recognition of deferred tax assets and liabilities.

**3. Securities Loaned**

The balances of securities loaned for consumption were ¥1,861,197 million, ¥2,185,972 million, and ¥3,057,231 million (US$26,025 million) as of March 31, 2004, 2005 and 2006, respectively.

**4. Accumulated Depreciation**

Accumulated depreciation for real estate and movables amounted to ¥1,053,491 million, ¥1,058,241 million and ¥1,039,441 million (US$8,848 million) as of March 31, 2004, 2005 and 2006, respectively.

**5. Separate Accounts**

Total assets in the Separate Accounts provided for in Article 118 of the Insurance Business Law were ¥2,276,451 million, ¥2,149,186 million, and ¥2,334,507 million (US$19,873 million) as of March 31, 2004, 2005 and 2006, respectively. The amounts of liabilities were the same as these figures.

**6. Reserve for Dividends to Policyholders**

Changes in the reserve for dividends to policyholders included in policy reserves for the years ended March 31, 2004, 2005 and 2006 were as follows:

| | Millions of Yen | | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Balance at the end of previous fiscal year | ¥1,357,447 | ¥1,415,625 | ¥1,500,148 | $11,555 |
| Transfer to reserves from surplus in previous fiscal year | 146,977 | 135,123 | 116,158 | 1,251 |
| Policyholders dividends paid out in fiscal year | (231,434) | (234,302) | (244,177) | (1,970) |
| Increase in interest | 39,066 | 41,000 | 43,495 | 332 |
| Balance at the end of fiscal year | ¥1,312,057 | ¥1,357,447 | ¥1,415,625 | $11,169 |

**7. Net Assets Provided for in Article 24-2 Paragraph 2 Item 2 of the Enforcement Regulation of the Insurance Business Law**

The Company's net assets provided for in Article 24-2 Paragraph 2 Item 2 of the Enforcement Regulation of the Insurance Business Law, formerly Article 55 Paragraph 2 Item 6 of the Insurance Business Law, were ¥1,863,043 million, ¥2,126,453 million, and ¥4,113,235 million (US$35,015 million) as of March 31, 2004, 2005 and 2006, respectively.

## 8. Accrued Severance Indemnities

Accrued severance indemnities as of March 31, 2004, 2005 and 2006 were analyzed as follows:

| | | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Benefit obligations | ¥(791,126) | ¥(717,874) | ¥(770,398) | $(6,734) |
| Fair value of pension plan assets | 320,739 | 291,132 | 255,746 | 2,730 |
| Funded status | (470,386) | (426,741) | (514,652) | (4,004) |
| Unrecognized transition amount | — | — | 120 | — |
| Unrecognized actuarial differences | 87,825 | 70,625 | 61,385 | 747 |
| Unrecognized prior service cost | (29,507) | (37,824) | 483 | (251) |
| Accrued severance indemnities | ¥(412,068) | ¥(393,941) | ¥(452,662) | $(3,507) |

Components of net periodic benefit cost for the years ended March 31, 2004, 2005 and 2006 were summarized as follows:

| | | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Service cost | ¥24,207 | ¥29,059 | ¥30,057 | $206 |
| Interest cost | 17,924 | 19,216 | 19,062 | 152 |
| Expected return on plan assets | (7,269) | (7,636) | (6,942) | (61) |
| Amortization of transition amount | — | 15 | 60 | — |
| Amortization of actuarial differences | 27,798 | 21,593 | 24,835 | 236 |
| Amortization of prior service cost | (7,135) | (559) | 241 | (60) |
| Others | 284 | (435) | (495) | 2 |
| | 55,810 | 61,252 | 66,818 | 475 |
| Profit resulting from the transfer to defined contribution pension plans of subsidiaries | — | (326) | — | — |
| Net periodic benefit cost | ¥55,810 | ¥60,926 | ¥66,818 | $475 |

The following sets forth the assumptions used in developing the benefit obligations of the Company for the years ended March 31, 2004, 2005 and 2006.

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Discount rate | 1.6% | 2.5% | 2.5% |
| Expected rate of return on plan assets | 2.5 | 3.0 | 3.0 |

The projected benefits are attributed to periods based on years of service. Actuarial differences are amortized using the straight-line method over 5 years, being within the limit of the average remaining service period counting from the next year in which they arise. Prior service cost is amortized on the straight-line basis over 5 years, being within the limit of the average remaining service period.

In the year ended March 31, 2005 the Company has amended a part of its severance indemnities regulation, shifting from a tax qualified pension plan to a defined contribution pension plan and a new corporate defined benefit pension plan. As a result, additional prior service cost amounting to ¥35,634 million (US$331 million) was incurred. Such a prior service cost is amortized over 5 years, counting from this year.

## 9. Foundation Funds

In the year ended March 31, 2004, the Company redeemed ¥50,000 million of foundation funds, and credited the same amount to reserve for redemption of foundation funds provided for in Article 56 of the Insurance Business Law.

In the year ended March 31, 2005, the Company redeemed ¥50,000 million of foundation funds, and credited the same amount to reserve for redemption of foundation funds provided for in Article 56 of the Insurance Business Law.

In the year ended March 31, 2006, the Company raised ¥150,000 million (US$1,276 million) of foundation funds in accordance with Article 60 of the Insurance Business Law and redeemed ¥50,000 million (US$425 million) of foundation funds, and credited the same amount to reserve for redemption of foundation funds provided for in Article 56 of the Insurance Business Law.

## 10. Pledged Assets

Assets pledged as collateral amounted to ¥534,281 million, ¥1,066,967 million, and ¥1,526,661 million (US$12,996 million) as of March 31, 2004, 2005 and 2006, respectively. Debts secured amounted to ¥331,647 million, ¥876,046 million and ¥1,204,533 million (US$10,253 million) as of March 31, 2004, 2005 and 2006, respectively.

These amounts included ¥321,860 million, ¥822,609 million and ¥1,226,073 million (US$10,437 million) of securities deposited, and ¥316,782 million, ¥819,077 million, and ¥1,126,165 million (US$9,586 million) of cash received as collateral, under securities lending contracts secured by cash, as of March 31, 2004, 2005 and 2006, respectively.

## 11. Loans Receivable

The total amounts of credits of bankrupt borrowers, delinquent loans, delinquent loans past 3 months or more and restructured loans, which were included in loans receivable, were ¥120,637 million, ¥86,213 million and ¥90,238 million (US$768 million) as of March 31, 2004, 2005 and 2006, respectively.

i) The balances of credits of bankrupt borrowers were ¥7,727 million, ¥5,229 million, and ¥4,243 million (US$36 million) as of March 31, 2004, 2005 and 2006, respectively. Credits of bankrupt borrowers are the loans, except for a portion of loans written-down, whose borrowers satisfy the conditions prescribed in Article 96 Paragraph 1 Item 3 or Item 4 of the Enforcement Regulations of the Corporation Tax Law. In addition, accruing interest is not recorded as income since principal of or interest on such loans is unlikely to be recovered in view of the considerable period of postponement of the principal or interest payments or other circumstances.

ii) The balances of delinquent loans were ¥81,164 million, ¥64,372 million, and ¥69,575 million (US$592 million) as of March 31, 2004, 2005 and 2006, respectively. Delinquent loans are credits whose accruing interest is not recorded as income due to the same reason as described above, and exclude credits of bankrupt borrowers and the loans to which postponement of interest payment was made with the object of reconstructing and supporting the borrowers.

iii) The balances of delinquent loans past 3 months or more from the due date of interest or principal under terms of the related loan agreements were ¥496 million, ¥572 million, and ¥540 million (US$4 million), which did not include the amounts of credits of bankrupt borrowers and delinquent loans described above, as of March 31, 2004, 2005 and 2006, respectively.

iv) The balances of restructured loans, where certain concessions favorable to borrowers, such as interest reduction or exemption, postponement of principal or interest payment, release of credit, and other methods, were made with the object of reconstructing and supporting the borrowers, and which did not include the amount of credits of bankrupt borrowers, delinquent loans and delinquent loans past 3 months or more described above, were ¥31,249 million, ¥16,038 million, and ¥15,880 million (US$135 million) as of March 31, 2004, 2005 and 2006, respectively.

The direct write-down of loans receivable decreased credits of bankrupt borrowers described above by ¥13,394 million, ¥4,340 million and ¥2,669 million (US$22 million) as of March 31, 2004, 2005 and 2006, respectively.

The direct write-down of loans receivable decreased delinquent loans described above by ¥17,399 million, ¥11,549 million and ¥24,117 million (US$205 million) as of March 31, 2004, 2005 and 2006, respectively.

### 12. Loan Commitments

The outstanding commitments contracted but not provided for and similar agreements were ¥141,259 million, ¥193,786 million, and ¥199,970 million (US$1,702 million) as of March 31, 2004, 2005 and 2006, respectively.

### 13. Contribution to Policyholder Protection Fund and Organization

The amounts of future contributions to the Policyholder Protection Fund, which has been taken over by the Life Insurance Policyholder Protection Corporation of Japan in accordance with Supplementary Article 140 Paragraph 5 of the Enactment Law of Financial System Reform Legislation, were estimated at ¥16,996 million, ¥11,921 million and ¥7,178 million (US$61 million) as of March 31, 2004, 2005 and 2006, respectively. The contribution is charged to income as operating expenses when paid.

The amounts of future contributions to the Life Insurance Policyholder Protection Corporation of Japan, which were in accordance with Article 259 of the Insurance Business Law, were estimated at ¥91,298 million, ¥67,889 million, and ¥97,366 million (US$828 million) as of March 31, 2004, 2005 and 2006, respectively. The contribution is also charged to income as operating expenses when paid.

### 14. Losses on Impaired Asset

i) Method of grouping

The Company groups its fixed assets by purpose of use and measure impairment loss for each of the group. Lease assets and unused property are each classified as one group. Assets for insurance business operations are each classified as one group.

ii) The circumstances causing the impairment losses

Due to a decline in the real estate market, the Company observed marked decrease in profitability and fair value of some fixed asset groups, Book value was therefore impaired to recoverable amount and impairment losses were recognized as extraordinary losses.

iii) Asset groups recognized impairment losses by asset group and by fixed asset for the year ended March 31, 2006 were as follows:

| | Millions of Yen | | | | Millions of U.S. Dollars |
|---|---|---|---|---|---|
| Purpose of use | Land | Leasehold | Buildings | Total | Total |
| Lease | ¥4,056 | ¥48,736 | ¥17,242 | ¥70,034 | $596 |
| Unused | 5,251 | 51 | 2,469 | 7,772 | 66 |
| Total | ¥9,308 | ¥48,787 | ¥19,711 | ¥77,807 | $662 |

iv) Method of calculation of recoverable amount

Recoverable amount used for the measurement of impairment loss on lease assets is determined at net realizable value on sale or future cash flows. Recoverable amount for unused assets is determined at net realizable value on sale. The discount rate used for calculation of future cash flows is 4.0%. Net realizable values are determined based on real estate appraisal or posted land price.

### 15. Income Taxes

Deferred tax assets/liabilities consisted of the following:

| | Millions of Yen | | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Deferred tax assets | ¥ 1,055,244 | ¥ 936,395 | ¥ 829,424 | $ 8,983 |
| Valuation allowance for deferred tax assets | (65,684) | (43,096) | (43,199) | (559) |
| | 989,560 | 893,298 | 786,225 | 8,423 |
| Deferred tax liabilities | (2,364,875) | (1,244,006) | (1,086,567) | (20,131) |
| Net deferred tax assets (liabilities) | ¥(1,375,315) | ¥ (350,707) | ¥ (300,341) | $(11,707) |

The major components causing deferred tax assets/liabilities were as follows:

| | Millions of Yen | | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Deferred tax assets: | | | | |
| Policy reserves | ¥ 622,519 | ¥ 568,751 | ¥ 478,098 | $ 5,299 |
| Accrued severance indemnities | 148,660 | 138,763 | 156,737 | 1,265 |
| Allowance for doubtful accounts | 18,757 | 15,356 | 32,864 | 159 |
| Reserve for price fluctuations of investments in securities | 159,304 | 140,892 | 92,154 | 1,356 |
| Deferred tax liabilities: | | | | |
| Net unrealized gains on securities | ¥2,323,572 | ¥1,207,625 | ¥1,054,580 | $19,780 |

The statutory tax rate of the Company for the years ended March 31, 2004, 2005 and 2006 was 36.1%. The major differences between the statutory tax rate and the effective income tax rate were as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Reserve for dividends to policyholders | (24.5)% | (23.3)% | (18.2)% |
| Losses on valuation of securities | 8.5 | — | 9.0 |

### 16. Extraordinary Losses

For the year ended March 31, 2004, other extraordinary losses included ¥597 million of losses from the cancellation of outsourcing contracts with a group company, and ¥50 million of losses from supporting closely related companies.

### 17. Subsequent Events

The Board of Directors of the Company approved the following appropriation of surplus on May 8, 2006. This appropriation will be proposed at the policyholder meeting which will be held on July 4, 2006.

| | Millions of Yen | Millions of U.S. Dollars |
|---|---|---|
| **The Company's unappropriated surplus at March 31, 2006** | ¥236,830 | $2,016 |
| Reversal of voluntary surplus reserve | 853 | 7 |
| | 237,684 | 2,023 |
| **Appropriations:** | | |
| Transfer to reserve for dividends to policyholders | 179,929 | 1,531 |
| Transfer to legal reserve for deficiency | 714 | 6 |
| Transfer to reserve for redemption of foundation funds | 50,000 | 425 |
| Interest on foundation funds | 3,632 | 30 |
| Transfer to voluntary surplus reserve | 3,408 | 29 |
| | ¥237,684 | $2,023 |

# Report of Independent Auditors

Nippon Life Insurance Company

## Report of Independent Auditors

The Board of Directors of
NIPPON LIFE INSURANCE COMPANY

We have audited the accompanying non-consolidated balance sheets of NIPPON LIFE INSURANCE COMPANY as of March 31, 2004, 2005 and 2006, and the related non-consolidated statements of operations for the years then ended, all expressed in Japanese Yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of NIPPON LIFE INSURANCE COMPANY as of March 31, 2004, 2005 and 2006, and the non-consolidated results of their operations for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2, effective from the year ended March 31, 2006, NIPPON LIFE INSURANCE COMPANY has adopted new Japanese accounting standards for impairment of fixed assets.

The accounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying non-consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Osaka, Japan
May 22, 2006

## 5. Non-Consolidated Balance Sheets

Nippon Life Insurance Company

| As of March 31 | Millions of Yen 2006 | 2005 | 2004 | Millions of U.S. Dollars 2006 |
|---|---|---|---|---|
| **Assets:** | | | | |
| **Cash and deposits** | **¥ 915,044** | **¥ 364,059** | **¥ 233,864** | **$ 7,789** |
| **Call loans** | **553,700** | **363,100** | **437,400** | **4,713** |
| **Monetary receivables purchased** | **1,391,624** | **1,456,619** | **901,904** | **11,846** |
| **Trading securities** | **2,099** | **2,999** | **2,999** | **17** |
| **Money held in trust** | **177,037** | **144,614** | **155,054** | **1,507** |
| **Investments in securities** (Note 3)**:** | | | | |
| Domestic bonds | 16,426,527 | 16,078,795 | 15,069,343 | 139,835 |
| Domestic stocks | 11,250,725 | 8,176,676 | 7,943,353 | 95,775 |
| Foreign securities | 7,039,703 | 6,372,121 | 6,186,812 | 59,927 |
| Other securities | 566,511 | 704,231 | 800,156 | 4,822 |
| | **35,283,468** | **31,331,825** | **29,999,666** | **300,361** |
| **Loans receivable** (Notes 13 and 14)**:** | | | | |
| Industrial and consumer loans | 8,735,705 | 8,991,365 | 9,639,801 | 74,365 |
| Policy loans | 1,263,464 | 1,325,898 | 1,371,769 | 10,755 |
| | **9,999,170** | **10,317,263** | **11,011,571** | **85,121** |
| **Real estate and movables, net of accumulated depreciation** (Notes 4 and 19)**:** | | | | |
| Land | 1,088,376 | 1,111,781 | 1,139,070 | 9,265 |
| Buildings | 581,688 | 650,887 | 644,273 | 4,951 |
| Other | 38,440 | 38,060 | 55,411 | 327 |
| | **1,708,506** | **1,800,729** | **1,838,755** | **14,544** |
| **Reinsurance receivables** | **465** | **497** | **419** | **3** |
| **Other assets** | **549,401** | **824,286** | **773,281** | **4,676** |
| **Customers' liabilities for acceptances and guarantees** | **2,000** | **—** | **734** | **17** |
| **Allowance for doubtful accounts** | **(39,953)** | **(46,537)** | **(84,893)** | **(340)** |
| **Total assets** | **¥50,542,565** | **¥46,559,458** | **¥45,270,759** | **$430,259** |

*The accompanying notes are an integral part of the financial statements.*

| As of March 31 | Millions of Yen 2006 | 2005 | 2004 | Millions of U.S. Dollars 2006 |
|---|---|---|---|---|
| **Liabilities:** | | | | |
| **Policy reserves:** | | | | |
| Reserve for outstanding claims | ¥ 227,222 | ¥ 239,230 | ¥ 245,772 | $ 1,934 |
| Policy reserves (Note15) | 39,418,163 | 38,794,345 | 38,642,672 | 335,559 |
| Reserve for dividends to policyholders (Note 7) | 1,312,057 | 1,357,447 | 1,415,625 | 11,169 |
| | **40,957,442** | **40,391,023** | **40,304,070** | **348,663** |
| **Accrued bonus for directors and corporate auditors** | **103** | **—** | **—** | **0** |
| **Reinsurance payables** | **490** | **499** | **409** | **4** |
| **Accrued severance indemnities** (Note 9) | **410,874** | **392,937** | **451,614** | **3,497** |
| **Accrued losses from supporting closely related companies** | **603** | **656** | **705** | **5** |
| **Other liabilities** | **1,900,279** | **1,731,450** | **927,864** | **16,176** |
| **Reserve for price fluctuations of investments in securities** | **441,263** | **390,262** | **255,261** | **3,756** |
| **Deferred tax liabilities** (Note 20) | **1,380,040** | **354,911** | **305,574** | **11,748** |
| **Deferred tax liabilities for revaluation reserve for land** | **181,525** | **34,962** | **38,770** | **1,545** |
| **Acceptances and guarantees** | **2,000** | **—** | **734** | **17** |
| **Total liabilities** | **45,274,623** | **43,296,703** | **42,285,004** | **385,414** |
| **Capital:** | | | | |
| **Foundation funds** (Note 10) | **300,000** | **200,000** | **250,000** | **2,553** |
| **Reserve for redemption of foundation funds** (Note10) | **600,000** | **550,000** | **500,000** | **5,107** |
| **Reserve for revaluation** | **651** | **651** | **651** | **5** |
| **Surplus:** | | | | |
| Legal reserve for deficiency | 7,409 | 6,783 | 6,199 | 63 |
| Voluntary surplus reserve | 105,957 | 103,704 | 100,697 | 901 |
| Unappropriated surplus | 236,830 | 203,951 | 193,859 | 2,016 |
| (Surplus in the current year) | (229,830) | (195,713) | (187,476) | (1,956) |
| | **350,197** | **314,438** | **300,755** | **2,981** |
| **Revaluation reserve for land, net of taxes** | **(93,688)** | **61,881** | **68,620** | **(797)** |
| **Net unrealized gains on securities, net of taxes** | **4,110,781** | **2,135,782** | **1,865,728** | **34,994** |
| **Total capital** | **5,267,941** | **3,262,754** | **2,985,755** | **44,844** |
| **Total liabilities and capital** | **¥50,542,565** | **¥46,559,458** | **¥45,270,759** | **$430,259** |

*The accompanying notes are an integral part of the financial statements.*

## 6. Non-Consolidated Statements of Operations

Nippon Life Insurance Company

| For the years ended March 31 | Millions of Yen 2006 | 2005 | 2004 | Millions of U.S. Dollars 2006 |
|---|---|---|---|---|
| **Revenues:** | | | | |
| **Income from insurance and reinsurance premiums** | **¥4,842,280** | **¥4,829,784** | **¥5,142,809** | **$41,221** |
| **Investment income** (Note 17)**:** | | | | |
| Interest, dividend and other income | 1,070,088 | 980,473 | 980,099 | 9,109 |
| Gains from money held in trust, net | 36,414 | 18,409 | 24,016 | 309 |
| Gains on sales of securities | 174,290 | 201,749 | 188,761 | 1,483 |
| Gains from redemption of securities | 6,528 | 217 | 30 | 55 |
| Foreign exchange gains, net | — | — | 2,145 | — |
| Other investment income | 2,426 | 1,597 | 1,635 | 20 |
| Gains from separate accounts, net | 388,006 | 85,909 | 348,404 | 3,303 |
| | **1,677,754** | **1,288,357** | **1,545,095** | **14,282** |
| **Other revenues** | **319,432** | **279,878** | **413,999** | **2,719** |
| **Total revenues** | **6,839,468** | **6,398,020** | **7,101,905** | **58,223** |
| **Expenditures:** | | | | |
| **Insurance claims and other payments:** | | | | |
| Death and other claims | 1,409,481 | 1,253,711 | 1,580,871 | 11,998 |
| Annuity payments | 416,219 | 410,990 | 388,094 | 3,543 |
| Health and other benefits | 772,494 | 810,849 | 874,013 | 6,576 |
| Surrender benefits | 1,186,750 | 1,228,264 | 1,284,092 | 10,102 |
| Other refunds | 656,391 | 943,099 | 1,295,117 | 5,587 |
| Reinsurance premiums | 964 | 934 | 695 | 8 |
| | **4,442,302** | **4,647,849** | **5,422,885** | **37,816** |
| **Provision for policy reserves:** | | | | |
| Provision for policy reserve | 623,817 | 151,673 | 29,101 | 5,310 |
| Interest on reserve for dividends to policyholders | 39,066 | 41,000 | 43,495 | 332 |
| | **662,883** | **192,673** | **72,597** | **5,643** |
| **Expenses for investment** (Note 17)**:** | | | | |
| Interest expense | 1,421 | 1,339 | 1,468 | 12 |
| Losses from trading securities, net | 9 | 3 | 48 | 0 |
| Losses on sales of securities | 114,735 | 52,814 | 57,286 | 976 |
| Losses on valuation of securities | 8,857 | 31,175 | 23,344 | 75 |
| Losses from redemption of securities | 209 | — | — | 1 |
| Losses from derivative financial instruments, net | 97,879 | 66,340 | 47,561 | 833 |
| Foreign exchange losses, net | 3,746 | 2,183 | — | 31 |
| Allowance for doubtful accounts | 15,136 | — | — | 128 |
| Write-down of loans | 160 | 20 | 348 | 1 |
| Depreciation for rental real estate and other assets | 27,468 | 31,250 | 32,737 | 233 |
| Other expenses for investment | 22,091 | 25,683 | 25,774 | 188 |
| | **291,716** | **210,811** | **188,571** | **2,483** |
| **Operating expenses** | **536,324** | **545,234** | **558,951** | **4,565** |
| **Other expenditures** | **462,448** | **444,029** | **492,749** | **3,936** |
| **Total expenditures** | **6,395,674** | **6,040,598** | **6,735,755** | **54,445** |
| **Operating income** | **¥ 443,793** | **¥ 357,421** | **¥ 366,149** | **$ 3,777** |

*The accompanying notes are an integral part of the financial statements.*

| For the years ended March 31 | Millions of Yen 2006 | 2005 | 2004 | Millions of U.S. Dollars 2006 |
|---|---|---|---|---|
| **Extraordinary profits:** | | | | |
| Gains on disposal of assets | ¥ 1,394 | ¥ 4,692 | ¥ 6,584 | $ 11 |
| Reversal of allowance for doubtful accounts | — | 37,312 | 16,587 | — |
| | **1,394** | **42,004** | **23,172** | **11** |
| **Extraordinary losses:** | | | | |
| Losses on disposal of assets | 36,041 | 47,629 | 23,008 | 306 |
| Impairment losses (Note 19) | 77,807 | — | — | 662 |
| Provision for reserve for price fluctuations of investments in securities | 51,000 | 135,000 | 105,000 | 434 |
| Losses on valuation of real estate | — | 2,476 | 1,628 | — |
| Contribution for assisting social public welfare | 1,245 | 1,500 | 2,752 | 10 |
| Other (Note 22) | 279 | 188 | 4,294 | 2 |
| | **166,374** | **186,794** | **136,684** | **1,416** |
| **Surplus before income taxes** | **278,813** | **212,631** | **252,637** | **2,373** |
| **Income taxes** (Note 20)**:** | | | | |
| Current | 142,969 | 124,050 | 140,069 | 1,217 |
| Deferred | (93,985) | (107,132) | (74,907) | (800) |
| **Surplus in the current year** | **¥229,830** | **¥195,713** | **¥187,476** | **$1,956** |
| **Reversal of revaluation reserve for land** | **5,755** | **6,738** | **3,630** | **48** |
| **Reversal of reserve for assisting social public welfare** | **1,245** | **1,500** | **2,752** | **10** |
| **Unappropriated surplus** | **¥236,830** | **¥203,951** | **¥193,859** | **$2,016** |

*The accompanying notes are an integral part of the financial statements.*

# 7. Notes to the Non-Consolidated Financial Statements

Nippon Life Insurance Company

**1. Basis of Presenting the Non-Consolidated Financial Statements**

**(1) Accounting principles and presentation**

The accompanying non-consolidated financial statements have been prepared from the accounts and records maintained by NIPPON LIFE INSURANCE COMPANY (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code, the Insurance Business Law and the related rules and regulations applicable to the mutual life insurance industry in general and in conformity with accounting principles generally accepted in Japan, which are different in certain respects to the application and disclosure requirements of International Financial Reporting Standards. Certain accounting and reporting practices required to be followed by the industry are regulated by the Financial Services Agency and the related ministry by means of ministry ordinances and guidances. The accompanying non-consolidated financial statements of the Company are in compliance with such requirements. However, while the business report and supporting schedules have been prepared by the management of the Company as a part of whole disclosure required by the Japanese Commercial Code and the Insurance Business Law, they have not been provided herein.

Relevant notes have been added and certain reclassifications or summarizations of the account balances in the basic non-consolidated financial statements disclosed in Japan have been made to achieve presentation deemed appropriate for foreign readers of the non-consolidated financial statements.

Amounts of less than one million have been eliminated. As a result, totals may not add up exactly.

**(2) United States Dollar amounts**

The Company prepares its non-consolidated financial statements in yen. The dollar amounts included in the non-consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥117.47=US$1, the effective rate of exchange at the balance sheet date of March 31, 2006. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at ¥117.47=US$1 or at any other rate.

**2. Summary of Significant Accounting Policies**

**(1) Securities and hedging activities**

Valuations of trading securities, investments in securities, financial instruments similar to securities included in deposits and monetary receivables purchased, and also securities included in money held in trust, are mainly as follows:

i) Trading securities are stated at market value prevailing at the balance sheet date. Costs of their sales are determined by the moving average method.

ii) Held-to-maturity debt securities are stated at amortized cost under the straight-line method, cost being determined by the moving average method.

iii) Policy-reserve-matching bonds are stated at amortized cost under the straight-line method, cost being determined by the moving average method in accordance with the Industry Audit Committee Report No.21 "Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching bonds in Insurance Industry" issued by the Japanese Institute of Certified Public Accountants (the "JICPA").

iv) Investments in subsidiaries and affiliates which are not accounted for under the equity method are stated at cost, cost being determined by the moving average method.

v) Available-for-sale securities for which market quotations are available are stated at fair value, determined as described below. Costs of their sales are determined by the moving average method. Adjustments to fair value, net of taxes are recorded as an increase or decrease in capital.

Available-for-sale securities for which market quotations are unavailable are stated at cost, cost being determined by the moving average method, except for public and corporate bonds including foreign bonds, of which the difference between purchase price and face value is due to interest rate adjustment. Such bonds are stated at amortized cost under the straight-line method, cost being determined by the moving average method.

***Derivative financial instruments are stated at market value.***

The Company applies the mark-to-market method of hedge accounting mainly for hedging activities against exposures to foreign exchange rate fluctuations on certain bonds denominated in foreign currencies. The Company also applies the special treatment prescribed under the Accounting Standards for Financial Instruments for interest swap agreements satisfying the conditions of the accounting standards to manage cash flow volatility associated with interest rate changes on certain loans receivable. In addition, The Company matches forward foreign exchange contracts with certain financial assets denominated in foreign currencies.

Effectiveness of hedging activities is mainly evaluated by ratio analysis to compare market value movements on the hedging instruments and the positions being hedged in accordance with the Company's internal risk management policies.

Effective from the year ended March 31, 2003, deferred gains on certain interest swap agreements, previously recorded on the balance sheet, are credited to income over the residual term of the swap agreements, three or four years, on a straight-line basis in accordance with the temporary provision prescribed in the Industry Audit Committee Report No.26 "Treatment of Accounting and Auditing Concerning Application of Accounting Standards for Financial Instruments in Insurance Industry" issued by the JICPA. Such deferred gains outstanding as at March 31, 2004, 2005 and 2006 amounted to ¥17,596 million, ¥7,572 million and ¥47 million (US$0 million), respectively.

**(2) Policy-reserve-matching bonds**

Securities that are held to match the duration of the sub-groups of individual insurance and annuities, workers' asset-formation insurance and annuities, and group insurance and annuities set by insurance type, remaining period and investment policy, etc. are categorized as policy-reserve-matching bonds in accordance with the Industry Audit Committee Report No. 21 "Temporary Treatment of Accounting and Auditing Concerning Policy-reserve-matching Bonds in the Insurance Industry" issued by the Japanese Institute of Certified Public Accountants (JICPA).

The book value and market value of policy-reserve-matching bonds as of March 31, 2006 amounted to ¥16,724,615 million (US$142,373 million) and ¥16,808,437 million (US$143,087 million), respectively.

**(3) Foreign currency translation**

Assets and liabilities denominated in foreign currencies, except for investments in subsidiaries and affiliates, are translated into Japanese yen at the current exchange rate prevailing at the balance sheet date. Investments in subsidiaries and affiliates are translated into Japanese yen at the historical exchange rates prevailing at the transaction dates.

Where a significant change in exchange rates occurs and there is no expectation of upward recovery, the assets and liabilities denominated in foreign currencies are translated into Japanese yen at the current exchange rate prevailing at the balance sheet date, not changed for subsequent recoveries.

**(4) Real estate and movables**

Depreciation of real estate and movables held by the Company, except for buildings newly acquired on and after April 1, 1998 which are depreciated based on the straight-line method, is computed based on the declining balance method.

In accordance with the Law for the Revaluation of Land, the Company's business use land has been revalued at March 31, 2002 on the basis of appraisal values disclosed in public and the road tax rating, with rational adjustments, which are prescribed in Article 2 Item 1 and Item 4 of the Enforcement Regulation of the Law for the Revaluation of Land, respectively. The difference between the amount revalued and the historical cost, net of tax has been credited to revaluation reserve for land in capital, resulting in deferred tax liabilities in respect of revaluation reserve for land being included in liabilities.

Changes in the total value of business use land revalued, as compared with its aggregate carrying amount after revaluation, amounted to ¥102,224 million, ¥98,446 million and ¥40,605 million (US$345 million) as of March 31, 2004, 2005 and 2006, respectively, which is required to be disclosed in accordance with Article 10 of the Law of the Revaluation of Land.

**(5) Software**

Depreciation of software, which is included in other assets, is computed based on the straight-line method.

**(6) Allowance for doubtful accounts**

The allowance for doubtful accounts is provided as follows, in accordance with the Company's internal asset valuation regulation and writing-down/provision rule:

i) The allowance for credits of borrowers, who are legally or substantially bankrupt, is provided based on the amounts remaining after deductions of amounts expected to be collected through the disposal of collateral or execution of guarantees from the balance of loans receivable after write-down described below.

ii) The allowance for credits of borrowers, who are not currently legally bankrupt but have high possibility of bankruptcy, is provided based on the amounts deemed necessary considering the borrowers' overall solvency assessment, within the amounts remaining after deductions of amounts expected to be collected through the disposal of collateral or the execution of guarantees.

iii) The allowance for credits of borrowers other than the above is provided based on the borrowers' balance multiplied by the actual average percentage of bad debt losses on defaults during a certain past period.

iv) The allowance for specialized overseas debts is provided based on the expected amounts of overseas investment losses caused by political and economic difficulties of respective countries, and is included in allowance for doubtful accounts.

All credits are assessed by the sections concerned in accordance with the Company's asset valuation regulation. The assessments are audited by the specific credit assessment department, which is independent from the sections described above, and are reflected in the calculation of the allowance for doubtful accounts.

In respect of credits of legally or substantially bankrupt borrowers including credits secured and/or guaranteed, the amounts remaining after deductions of collateral value or the amounts collectible through execution of guarantees or other methods is written-down directly from the balance of loans receivable as uncollectible amounts estimated. The amounts were ¥25,476 million, including ¥15,155 million of credits secured and/or guaranteed, ¥11,474 million, including ¥9,013 million of credits secured and/or guaranteed and ¥22,586 million (US$192 million), including ¥4,380 million (US$37 million) of credits secured and/or guaranteed, as of March 31, 2004, 2005 and 2006, respectively.

**(7) Impairment of Fixed Asset**

The Company adopted "Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council in Japan on August 2002 and No.6 of Business Accounting Standard Adaptation Guideline "Adaptation Guideline for Accounting Standard for Impairment of Fixed Assets" on October 2003 from the year ended March 31, 2006. As a result, surplus before income taxes for the year ended March 31, 2006 decreased by ¥77,807 million (US$662 million) compared to the former method.

**(8) Accrued bonus for directors and corporate auditors**

Accrued bonus for directors and corporate auditors are provided based on the estimation of bonus payment for directors and corporate auditors in accordance with Article 32-14 of the Enforcement Regulation of the Insurance Business Law.

***(Information)***

Bonus for directors and corporate auditors was previously treated as an appropriation of surplus. The Company adopted the Business Accounting Standard Committee Practice Report No. 13 "Temporary Treatment of Accounting for

Bonus for Directors and Corporate Auditors" and recorded bonus for directors and corporate auditors as an expense on the accrual basis from the year ended March 31, 2006.

As a result, operating income and surplus before income taxes for the year ended March 31, 2006 decreased by ¥103 million (US$0 million) compared to the former method.

### (9) Accrued severance indemnities

Accrued severance indemnities are provided based on the estimated amounts of projected benefit obligations in excess of the fair value of pension plan assets for future severance payments of employees.

### (10) Accrued losses from supporting closely related companies

Accrued losses from supporting closely related companies are provided for in accordance with Article 32-14 of the Enforcement Regulation of the Insurance Business Law, formerly Article 287-2 of the Commercial Code, and represent the loss amount estimated for restructuring and financial support to closely related companies in the future.

### (11) Reserve for price fluctuations of investments in securities

Reserve for price fluctuations of investments in securities is computed based on Article 115 of the Insurance Business Law.

### (12) Accounting for consumption taxes

Consumption taxes withheld or borne by the Company are separately recorded with no inclusion in each account of revenues and expenditures. The consumption taxes paid on certain real estate transactions, which are not deductible from consumption taxes withheld and that are stipulated to be deferred under the Consumption Tax Law, are deferred as prepaid expenses and amortized to income over a five-year period on a straight-line basis. Consumption taxes other than deferred consumption taxes are charged to income as they are incurred.

### (13) Policy reserve

Policy reserve is provided in accordance with Article 116 of the Insurance Business Law. Reserve for life policies and contracts included in policy reserve are computed as follows:

Reserves for contracts subject to the standard policy reserve are computed in accordance with the method, which the Prime Minister prescribed, by means of the ordinance No.48 issued by the Ministry of Finance in 1996. Reserve for other contracts is computed based on the net level premium method.

### (14) Deferred income taxes

The Company accounts for income taxes using accounting for deferred income taxes, which requires the recognition of deferred tax assets and liabilities.

## 3. Securities Loaned

The balances of securities loaned for consumption were ¥1,861,197 million, ¥2,185,972 million and ¥3,057,231 million (US$26,025 million) as of March 31, 2004, 2005 and 2006, respectively.

## 4. Accumulated Depreciation

Accumulated depreciation for real estate and movables amounted to ¥935,917 million, ¥946,247 million and ¥926,549 million (US$7,887 million) as of March 31, 2004, 2005 and 2006, respectively.

## 5. Separate Accounts

Total assets in the Separate Accounts provided for in Article 118 of the Insurance Business Law were ¥2,276,451 million, ¥2,149,186 million and ¥2,334,507 million (US$19,873 million) as of March 31, 2004, 2005 and 2006, respectively. The amounts of liabilities were the same as these figures.

## 6. Receivables from/Payables to Subsidiaries

Total balances owed by / to subsidiaries as of March 31, 2004, 2005 and 2006 were as follows:

| | Millions of Yen | | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Monetary receivables | ¥123,329 | ¥108,327 | ¥46,446 | $1,049 |
| Monetary liabilities | 5,782 | 3,356 | 3,261 | 49 |

## 7. Reserve for Dividends to Policyholders

Changes in the reserve for dividends to policyholders included in policy reserves for the years ended March 31, 2004, 2005 and 2006 were as follows:

| | Millions of Yen | | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Balance at the end of previous fiscal year | ¥1,357,447 | ¥1,415,625 | ¥1,500,148 | $11,555 |
| Transfer to reserves from surplus in previous fiscal year | 146,977 | 135,123 | 116,158 | 1,251 |
| Policyholders dividends paid out in fiscal year | (231,434) | (234,302) | (244,177) | (1,970) |
| Increase in interest | 39,066 | 41,000 | 43,495 | 332 |
| Balance at the end of fiscal year | ¥1,312,057 | ¥1,357,447 | ¥1,415,625 | $11,169 |

## 8. Net Assets Provided for in Article 24-2 Paragraph 2 Item 2 of the Enforcement Regulation of the Insurance Business Law

Net assets provided for in Article 24-2 Paragraph 2 Item 2 of the Enforcement Regulation of the Insurance Business Law, formerly Article 55 Paragraph 2 Item 6 of the Insurance Business Law, were ¥1,863,043 million, ¥2,126,453 million and ¥4,113,235 million (US$35,015 million) as of March 31, 2004, 2005 and 2006, respectively.

### 9. Accrued Severance Indemnities

Accrued severance indemnities as of March 31, 2004, 2005 and 2006 were analyzed as follows:

| | Millions of Yen | | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Benefit obligations | ¥(789,325) | ¥(716,283) | ¥(767,530) | $(6,719) |
| Fair value of pension plan assets | 320,127 | 290,544 | 254,289 | 2,725 |
| Funded status | (469,197) | (425,739) | (513,240) | (3,994) |
| Unrecognized actuarial differences | 87,831 | 70,627 | 61,143 | 747 |
| Unrecognized prior service cost | (29,507) | (37,824) | 483 | (251) |
| Accrued severance indemnities | ¥(410,874) | ¥(392,937) | ¥(451,614) | $(3,497) |

Components of net periodic benefit cost for the years ended March 31, 2004, 2005 and 2006 were summarized as follows:

| | Millions of Yen | | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Service cost | ¥24,168 | ¥28,838 | ¥29,817 | $205 |
| Interest cost | 17,907 | 19,188 | 19,005 | 152 |
| Expected return on plan assets | (7,263) | (7,628) | (6,929) | (61) |
| Amortization of actuarial differences | 27,798 | 21,584 | 24,805 | 236 |
| Amortization of prior service cost | (7,135) | (559) | 241 | (60) |
| Others | — | (576) | (595) | — |
| Net periodic benefit cost | ¥55,475 | ¥60,846 | ¥66,344 | $472 |

The following sets forth the assumptions used in developing the benefit obligations for the years ended March 31, 2004, 2005 and 2006.

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Discount rate | 1.6% | 2.5% | 2.5% |
| Expected rate of return on plan assets | 2.5 | 3.0 | 3.0 |

All of transition amount was amortized until March 31, 2003. The projected benefits are attributed to periods based on years of service. Actuarial differences are amortized using the straight-line method over 5 years, being within the limit of the average remaining service period counting from the next year in which they arise. Prior service cost is amortized on the straight-line basis over 5 years, being within the limit of the average remaining service period.

In the year ended March 31, 2005 the Company has amended a part of its severance indemnities regulation, shifting from a tax qualified pension plan to a defined contribution pension plan and a new corporate defined benefit pension plan. As a result, additional prior service cost amounting to ¥35,634 million was incurred. Such a prior service cost is amortized over 5 years, counting from the year ended March 31, 2006.

### 10. Foundation Funds

In the year ended March 31, 2004, the Company redeemed ¥50,000 million of foundation funds, and credited the same amount to reserve for redemption of foundation funds provided for in Article 56 of the Insurance Business Law.

In the year ended March 31, 2005, the Company redeemed ¥50,000 million of foundation funds, and credited the same amount to reserve for redemption of foundation funds provided for in Article 56 of the Insurance Business Law.

In the year ended March 31, 2006, the Company raised ¥150,000 million (US$1,276 million) of foundation funds in accordance with Article 60 of the Insurance Business Law and redeemed ¥50,000 million (US$425 million) of foundation funds, and credited the same amount to reserve for redemption of foundation funds provided for in Article 56 of the Insurance Business Law.

### 11. Pledged Assets

Assets pledged as collateral amounted to ¥511,763 million, ¥1,000,908 million and ¥1,436,505 million (US$12,228 million) as of March 31, 2004, 2005 and 2006, respectively. Debts secured amounted to ¥317,043 million, ¥819,301 million and ¥1,126,316 million (US$9,588 million) as of March 31, 2004, 2005 and 2006, respectively.

These amounts included ¥321,860 million, ¥822,609 million and ¥1,226,073 million (US$10,437 million) of securities deposited, and ¥316,782 million, ¥819,077 million and ¥1,126,165 million (US$9,586 million) of cash received as collateral, under securities lending contracts secured by cash, as of March 31, 2004, 2005 and 2006, respectively.

### 12. Investments in Subsidiaries

Investments in subsidiaries aggregated ¥264,546 million, ¥269,064 million and ¥269,184 million (US$2,291 million) as of March 31, 2004, 2005 and 2006, respectively.

### 13. Loans Receivable

The total amounts of credits of bankrupt borrowers, delinquent loans, delinquent loans past 3 months or more and restructured loans, which were included in loans receivable, were ¥107,828 million, ¥73,703 million and ¥76,537 million (US$651 million) as of March 31, 2004, 2005 and 2006, respectively.

i) The balances of credits of bankrupt borrowers were ¥7,621 million, ¥5,164 million and ¥4,177 million (US$35 million) as of March 31, 2004, 2005 and 2006, respectively. Credits of bankrupt borrowers are the loans, except for a portion of loans written-down, whose borrowers satisfy the conditions prescribed in Article 96 Paragraph 1 Item 3 or Item 4 of the Enforcement Regulations of the Corporation Tax Law. In addition, accruing interest is not recorded as income since principal of or interest on such loans is unlikely to be recovered in view of the considerable period of postponement of the principal or interest payments or other circumstances.

ii) The balances of delinquent loans were ¥78,564 million, ¥61,756 million and ¥67,075 million (US$570 million) as of March 31, 2004, 2005 and 2006, respectively. Delinquent loans are credits whose accruing interest is not recorded as income due to the same reason as described above, and exclude credits of bankrupt borrowers and the loans to which postponement of interest payment was made with the object of reconstructing and supporting the borrowers.

iii) The balances of delinquent loans past 3 months or more from the due date of interest or principal under terms of the related loan agreements were ¥496 million, ¥572 million and ¥540 million (US$4 million), which did not include the amounts of credits of bankrupt borrowers and delinquent loans described above, as of March 31, 2004, 2005 and 2006, respectively.

iv) The balances of restructured loans, where certain concessions favorable to borrowers, such as interest reduction or exemption, postponement of principal or interest payment, release of credit, and other methods, were made with the object of reconstructing and supporting the borrowers, and which did not include the amount of credits of bankrupt borrowers, delinquent loans and delinquent loans past 3 months or more described above, were ¥21,145 million, ¥6,210 million and ¥4,744 million (US$40 million) as of March 31, 2004, 2005 and 2006, respectively.

The direct write-down of loans receivable decreased credits of bankrupt borrowers described above by ¥12,974 million, ¥4,021 million and ¥2,489 million (US$21 million) as of March 31, 2004, 2005 and 2006, respectively.

The direct write-down of loans receivable decreased delinquent loans described above by ¥12,502 million, ¥7,453 million and ¥20,097 million (US$171 million) as of March 31, 2004, 2005 and 2006, respectively.

## 14. Loan Commitments

The outstanding commitments contracted but not provided for and similar agreements were ¥146,678 million, ¥222,698 million and ¥234,185 million (US$1,993 million) as of March 31, 2004, 2005 and 2006, respectively.

## 15. Policy Reserves for the Reinsurance Contracts Provided in Accordance with Article 71 Item 1 of the Enforcement Regulation of the Insurance Business Law

Policy reserve for the reinsurance contracts provided in accordance with Article 71 Item 1 of the Enforcement Regulation of the Insurance Business Law were ¥169 million and ¥151 million (US$1 million) as of March 31, 2005 and 2006, respectively.

## 16. Contribution to Policyholder Protection Fund and Organization

The amounts of future contributions to the Policyholder Protection Fund, which has been taken over by the Life Insurance Policyholder Protection Corporation of Japan in accordance with Supplementary Article 140 Paragraph 5 of the Enactment Law of Financial System Reform Legislation, were estimated at ¥16,996 million, ¥11,921 million and ¥7,178 million (US$61 million) as of March 31, 2004, 2005 and 2006, respectively. The contribution is charged to income as operating expenses when paid.

The amounts of future contributions to the Life Insurance Policyholder Protection Corporation of Japan, which were in accordance with Article 259 of the Insurance Business Law, were estimated at ¥91,298 million, ¥67,889 million and ¥97,366 million (US$828 million) as of March 31, 2004, 2005 and 2006, respectively. The contribution is also charged to income as operating expenses when paid.

## 17. Investment Income and Expenses

Major items of gains on sales of securities were as follows:

| | | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Domestic bonds | ¥ 9,963 | ¥ 2,669 | ¥ 2,523 | $ 84 |
| Domestic stocks and other | 144,482 | 181,768 | 142,267 | 1,229 |
| Foreign securities | 19,752 | 17,311 | 43,963 | 168 |

Major items of losses on sales of securities were as follows:

| | | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Domestic bonds | ¥71,329 | ¥ 7,034 | ¥ 6,864 | $607 |
| Domestic stocks and other | 9,147 | 5,855 | 21,572 | 77 |
| Foreign securities | 34,006 | 39,343 | 28,840 | 289 |

Major items of losses on valuation of securities were as follows:

| | | Millions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Domestic bonds | ¥ — | ¥ — | ¥ — | $— |
| Domestic stocks and other | 4,861 | 3,568 | 3,413 | 41 |
| Foreign securities | 3,995 | 27,607 | 19,926 | 34 |

Major items of gains/losses from trading securities, net were as follows:

| | Millions of Yen | | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Interest, dividend and other income | ¥ 0 | ¥ 1 | ¥ 0 | $ 0 |
| Gains/Losses on sales of trading securities | (60) | (87) | (221) | (0) |
| Gains/Losses on valuation of trading securities | (0) | 0 | 0 | 0 |

Valuation gains/losses included in Gains/Losses from money held in trust, net amounted to ¥12,606 million, ¥5,833 million and ¥16,333 million (US$139 million) as of March 31, 2004, 2005 and 2006, respectively.

Valuation gains/losses included in Losses from derivative financial instrument, net amounted to ¥21,137 million, ¥(16,231) million and ¥2,107 million (US$17 million) as of March 31, 2004, 2005 and 2006, respectively.

### 18. Policy Reserve for Reinsurance

Reversal of policy reserve for ceded reinsurance considered in calculation of policy reserves was ¥17 million (US$0 million) for the year ended March 31, 2006.

### 19. Losses on Impaired Asset

i) Method of grouping

The Company groups its fixed assets by purpose of use and measure impairment loss for each of the group. Lease assets and unused property are classified separately as one group. Assets for insurance business operations are classified as one group.

ii) The circumstances causing the impairment losses

Due to decline of real estate market, the Company observed marked decrease in profitability and fair value in some fixed asset groups. Book value was therefore impaired to recoverable amount and impairment losses were recognized as extraordinary losses.

iii) Asset groups recognized impairment losses by asset group and by fixed asset for the year ended March 31, 2006 were as follows:

| | Millions of Yen | | | | Millions of U.S. Dollars |
|---|---|---|---|---|---|
| Purpose of use | Land | Leasehold | Buildings | Total | Total |
| Lease | ¥4,056 | ¥48,736 | ¥17,242 | ¥70,034 | $596 |
| Unused | 5,251 | 51 | 2,469 | 7,772 | 66 |
| Total | ¥9,308 | ¥48,787 | ¥19,711 | ¥77,807 | $662 |

iv) Method of calculation of recoverable amount

Recoverable amount used for the measurement of impairment loss on lease assets is determined at net realizable value on sale or future cash flows. Recoverable amount for unused assets is determined at net realizable value on sale. The discount rate used for calculation of future cash flows is 4.0%. Net realizable values are determined based on real estate appraisal or posted land price.

### 20. Income Taxes

Deferred tax assets/liabilities consisted of the following:

| | Millions of Yen | | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Deferred tax assets | ¥ 1,061,939 | ¥ 943,478 | ¥ 838,206 | $ 9,040 |
| Valuation allowance for deferred tax assets | (78,949) | (56,362) | (58,063) | (672) |
| | 982,989 | 887,116 | 780,143 | 8,368 |
| Deferred tax liabilities | (2,363,030) | (1,242,027) | (1,085,716) | (20,116) |
| Net deferred tax assets (liabilities) | ¥(1,380,040) | ¥ (354,911) | ¥ (305,574) | $(11,748) |

The major components causing deferred tax assets/liabilities were as follows:

| | Millions of Yen | | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Deferred tax assets: | | | | |
| Policy reserves | ¥ 622,476 | ¥ 568,717 | ¥ 478,068 | $ 5,299 |
| Accrued severance indemnities | 148,333 | 138,517 | 156,359 | 1,262 |
| Allowance for doubtful accounts | 17,720 | 13,935 | 31,606 | 150 |
| Reserve for price fluctuations of investments in securities | 159,304 | 140,892 | 92,154 | 1,356 |
| Deferred tax liabilities: | | | | |
| Net unrealized gains on securities | ¥2,322,650 | ¥1,206,787 | ¥1,054,125 | $19,772 |

The statutory tax rate for the years ended March 31, 2004, 2005 and 2006 was 36.1%. The major differences between the statutory tax rate and the effective income tax rate were as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Reserve for dividends to policyholders | (23.3)% | (25.0)% | (19.3)% |
| Losses on valuation of securities | — | — | 9.5 |

### 21. Transactions with Subsidiaries

Total transactions with subsidiaries for the years ended March 31, 2004, 2005 and 2006 were as follows:

| | Millions of Yen | | | Millions of U.S. Dollars |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2006 |
| Total revenues | ¥43,520 | ¥ 9,846 | ¥ 7,071 | $370 |
| Total expenses | 30,275 | 30,237 | 30,983 | 257 |

### 22. Extraordinary Losses

For the year ended March 31, 2004, other extraordinary losses included ¥597 million of losses from the cancellation of outsourcing contracts with a group company, and ¥50 million of losses from supporting closely related companies.

## 23. Subsequent Events

The Board of Directors of the Company approved the following appropriation of surplus on May 8, 2006. This appropriation will be proposed at the policyholder meeting which will be held on July 4, 2006.

| | Millions of Yen | Millions of U.S. Dollars |
|---|---|---|
| **Unappropriated surplus at March 31, 2006** | ¥236,830 | $2,016 |
| Reversal of voluntary surplus reserve | 853 | 7 |
| | 237,684 | 2,023 |
| **Appropriations:** | | |
| Transfer to reserve for dividends to policyholders | 179,929 | 1,531 |
| Transfer to legal reserve for deficiency | 714 | 6 |
| Transfer to reserve for redemption of foundation funds | 50,000 | 425 |
| Interest on foundation funds | 3,632 | 30 |
| Transfer to voluntary surplus reserve | 3,408 | 29 |
| | ¥237,684 | $2,023 |