

## Matters Pertaining to Non-Consolidated Settlement

## I. Balance Sheet Terminology

## ■ Assets

**1. Cash and deposits**

Life insurance companies invest the funds earned as premiums in securities and loans, and they hold a part of their assets as cash and deposits to provide for insurance claims and other payments.

**2. Call loans**

Life insurance companies invest temporary cash surplus in call loans, which are short-term loans to other financial institutions.

**3. Monetary receivables purchased**

These are securities and other instruments not included in investments in securities. Specifically they include such instruments as commercial paper and beneficial interest in trust.

**4. Proprietary trading securities**

These are marketable securities held not for investment purposes, but for short-term trading and for selling to multiple, miscellaneous investors.

In the statements of operations, interest income and gain/loss on sales of and valuations on proprietary trading securities are aggregated and revenues are recorded as gain from proprietary trading securities, net of investment income; losses are recorded as loss from proprietary trading securities, net of expenses for investment.

**5. Assets held in trust**

Life insurance companies entrust money to trust banks to invest separately from the securities they hold.

In cases where the result of investment is revenue, it is recorded as gain from assets held in trust, net of investment income and, in case of loss, it is recorded as losses from assets held in trust, net of expenses for investment.

**6. Loan receivables**

## ❖ Policy loans

Policy loans include both loans to policyholders and premium loans automatically transferred in case policyholders fail to pay.

Based on applications from policyholders, loans to policyholders are made at an interest rate set by the Company in amounts within a fixed portion of cash-surrender value of the policy.

In cases where policyholders do not pay premiums during a payment grace period, premium loans are carried out in amounts corresponding to the premium with interest, within a fixed portion of cash-surrender value of the policy.

## ❖ Industrial and consumer loans

These are loans other than policy loans. They include housing loans and various loans made to domestic and foreign corporations, countries and government organizations.

**7. Tangible fixed assets**

Tangible fixed assets, including land, buildings, construction in progress and movables.

## ❖ Construction in progress

Temporary account for expenditure of acquisition of real estate, used until delivery and debit to proper accounts such as land, buildings, etc.

**8. Intangible fixed assets**

Intangible fixed assets including software and land lease rights.

**9. Reinsurance receivables**

Life insurance companies pay premiums for reinsurance to other insurance companies to spread or allocate the risk of high-value policies they underwrite.

Reinsurance receivables are credits to reinsurance companies such as claims and premium refund of cancellation and lapse.

On the other hand, obligation to reinsurance companies such as premium payables are recorded as reinsurance payables.

**10. Other assets**

## ❖ Deposit for futures transaction

Margins deposited for transaction in financial futures and securities futures.

## ❖ Futures transactions margin account

These are the amounts paid or received when financial futures and securities futures are mark-to-market. When the amount paid is greater than the amount received, it is recorded under assets. When the amount received is greater than the amount paid, it is recorded under liabilities.

## ❖ Financial derivative instruments

The market value of futures, options and other derivative instruments is determined at the end of the fiscal year and if deemed to be settled, that value is posted as a credit or debt in the assets or liabilities account.

**11. Deferred tax assets**

The difference between deferred tax assets (temporary differences and tax losses carried forward expected to be recovered in the future accounting periods) and deferred tax liabilities (temporary differences expected to be assessed in the future accounting periods).

When deferred tax assets exceed deferred tax liabilities, the balance is recorded under assets as deferred tax assets. Conversely, when deferred tax liabilities exceed deferred tax assets, the balance is recorded under liabilities as deferred tax liabilities.

**12. Customers' liability for acceptances and guarantees**

See acceptances and guarantees in the liabilities section.

**13. Allowance for doubtful accounts**

This account is provided in advance for losses incurred from bankruptcy or other reasons of borrowers.

Life insurance companies prepare individual allowance for doubtful accounts and that for specific overseas credits other than general allowance for doubtful accounts estimated from past loss experiences.

## ■ Liabilities

**1. Policy reserves and others**

The Insurance Business Law requires insurance companies to provide policy reserves and others for claims and other payments.

## ❖ Reserve for outstanding claims

This reserve is for claims and other amounts payable at the end of the fiscal year, even though the reasons for such payments occurred in the previous term and payment is outstanding due to operational reasons.

## ❖ Policy reserve

Required by the Insurance Business Law, this reserve is for future insurance, annuity and benefit payments for policies during which no incidents occur.

## ❖ Reserve for dividends to policyholders

This is the reserve provided for insurance policy dividends.

**2. Reinsurance payables**

See reinsurance receivables in the assets section.

**3. Other liabilities**

## ❖ Financial derivative instruments

See financial derivative instruments in the assets section.

**4. Accrued bonus for directors and corporate auditors**

A reserve provided for the payment of executive bonuses.

**5. Accrued severance indemnities**

Allowance provided for future employee retirement (severance) and pension payments.

**6. Accrued retirement benefits for directors**

The reserve to be allotted for distribution to reserve for retirement benefits for directors.

**7. Accrued loss from supporting closely related companies**

This is provided for the loss estimated for restructuring and financial support to closely related companies in the future.

**8. Reserve for price fluctuations in security investments**

In accordance with the Insurance Business Law Article 115 paragraph 1, this reserve is provided to cover losses incurred from future decrease in prices of assets such as stocks whose value is likely to fluctuate.

**9. Deferred tax liabilities**

See deferred tax assets in the assets section.

**10. Deferred tax liabilities for revaluation reserve**

This is the tax amounts corresponding to the temporary difference of tax accounting between book value and current market value of land applied for land revaluation.

**11. Acceptances and guarantees**

According to the Insurance Business Law, life insurance companies are allowed to engage in the credit guarantee business as an auxiliary business. Based on requests from customers, insurance companies provide third parties with guarantees of payment for loans taken out by customers. In the event customers fail to pay their debt, insurance companies have obligations to pay on behalf of their customers. In the event that insurance companies make payment, they have the right to seek payment (compensation, indemnity) from their customer, the original debtor.

Acceptances and guarantees represent the entire debt borne for the party receiving the guarantees as contingent liabilities.

In such cases, customers' liability for acceptances and guarantees are recorded under assets. This represents contingent obligations to the customers that the Company paid on behalf of.

## ■ Net Assets

### 1. Foundation Funds

According to Article 60 of the Insurance Business Law, foundation funds provide a means of financing and correspond to the capital of a joint stock company.

### 2. Reserve for redemption of foundation funds

As provided by Article 56 of the Insurance Business Law, if a mutual company redeems its foundation funds, the company is obliged to provide the reserve equivalent to the redeemed amount.

### 3. Reserve for revaluation

Article 102 of the Asset Revaluation Law enacted in 1950 provides for the establishment of a reserve for revaluation of assets such as stock, real estate and movables.

### 4. Surplus

#### ❖ Legal reserve for deficiency

As provided by Article 58 of the Insurance Business Law, at the end of each fiscal year, insurance companies are obliged to reserve a portion of their surplus as deficiency reserve for future losses. This reserve must be accumulated to the amount equals to foundation funds 3/1000 of or greater than disbursement as a result of appropriation of surplus every fiscal year.

#### ❖ Other surplus

##### ❖ Contingency reserve

This account is provided for in an amount that exceeds accumulated contingent liabilities. The contingency reserve is one of the policy reserves and provides against the risk of insurable incidents occurring at a higher frequency than generally expected and the risk of investment returns being lower than the expected return ratio.

❖ Reserve for condensed booking of fixed assets for tax purpose and condensed booking of fixed assets to be purchased

This is a reserve for condensed booking of fixed assets applied in replacement of specific assets accumulated through appropriation of surplus.

❖ Unappropriated surplus

Unappropriated surplus is included in other surplus, and, like a reserve, its calculation has not been established based on a resolution of the representative meeting.

### 5. Net unrealized gain/loss on securities

The securities held by insurance companies are categorized by purpose of possession; other securities are those securities not included in trading securities, policy-reserve-matching bonds, held to maturity bonds, or investments in subsidiaries and affiliates. They are recorded on the balance sheets at market value. The amount recorded is equal to the difference between market value and book value, net of tax.

### 6. Deferred gain/loss on derivatives under hedge accounting

As part of asset management, the Company engages in derivative transactions to reduce possible losses in assets or liabilities from price fluctuations and cash flow fluctuations. For some of these transactions, hedge accounting is applied to the items that meet specific criteria. The amounts withheld for the payment of taxes on gain and loss from derivative transactions as at the end of the fiscal year are recorded as deferred gain/loss on derivatives under hedge accounting.

### 7. Revaluation reserve for land

This is the amount calculated by subtracting deferred tax liability related to revaluation value from revaluation reserve for revaluation of land.

## II. Terms Used in the Statements of Income

## ■ Revenues

### 1. Income from insurance and reinsurance premiums

#### ❖ Insurance premiums

Insurance premiums are premiums paid by policyholders for their future insurance claims and other benefits.

#### ❖ Reinsurance premiums

Reinsurance premiums comprise reinsurance claims received from reinsurers as determined in reinsurance policies and refund of reinsurance premiums due to cancellation or lapse of insurance policies.

### 2. Investment income

#### ❖ Gain from proprietary trading securities

Please refer to proprietary trading securities in the assets section of balance sheet terminology.

#### ❖ Gain from assets held in trust

Please refer to assets held in trust in the assets section of balance sheet terminology.

#### ❖ Gain from derivative financial instruments

Gain/loss from derivative financial instruments consist of both realized and unrealized gain/loss derived from derivative financial instruments to which hedge accounting is not applied. When gain exceeds loss, the net gain is accounted for as gain from derivative financial instruments. When loss exceed gain, the net loss is accounted for as loss from derivative financial instruments, net.

#### ❖ Foreign exchange gain, net

Gain or loss arises from foreign currency transactions due to differences of foreign exchange rates between the transaction date and the settlement date. Such gain and

loss incurred during this period as well as gain and loss arising from the translation of foreign currency rights and obligations at the current rate as of the balance sheet date are offset, and the difference arising from the offsetting is accounted for as foreign exchange gain, net when total gain exceeds total loss and as foreign exchange loss, net when total loss exceeds total gain.

#### ❖ Gain from separate accounts

The difference between gain and loss from the separate account is accounted for as gain from separate account when gain exceeds loss and as loss from separate account, net when loss exceeds gain.

### 3. Other revenues

#### ❖ Proceeds from handling of annuity riders included in other expenditures

This account represents insurance claims which are not paid in order to cover annuity resources when beneficiaries choose to receive insurance as annuities.

#### ❖ Proceeds from deferred insurance included in other expenditures

This account represents insurance claims which are not paid based on beneficiaries' applications. Such insurance claims are deposited with a certain rate prescribed in the deferred insurance system established by the Company. When such insurance claims are paid based on beneficiaries' applications after a definite period, such payments are accounted for under other expenditures.

#### ❖ Reversal of reserve for outstanding claims included in other expenses

Please refer to provision for policy reserves and others in expenditures

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## ■ Expenditures

### 1. Insurance claims and other payments

#### ❖ Death and other claims

Death and other claims are insurance claims paid to beneficiaries when insured persons die during the periods of insurance, or when insured persons survive to maturity.

#### ❖ Annuity payments

When the insured person is alive up to and after the date that annuity payments begin, this is the amount paid to the insured person each fiscal year, either during the time that the insured person is alive or the total amount paid to the beneficiary over a specified period of time.

#### ❖ Health and other benefits

Health and other benefits are benefits paid to insured persons when they are hospitalized for certain stipulated reasons or operated on during insured periods.

#### ❖ Reinsurance premiums

Reinsurance premiums are premiums paid to other insurance companies pursuant to the reinsurance agreements mainly for the purpose of diversification of risks of high value policies.

### 2. Provision for policy reserves

As a unique accounting procedure in life insurance companies, the Company reverses policy reserves and reserve for outstanding claims as of the end of the prior fiscal year and provides policy reserves and reserve for outstanding claims as necessary as of the end of the current fiscal year (March 31). Reversal of and provision for such reserves are offset and presented in the statements of operations, and the difference between reversal of and provision for such reserves is accounted for as provision for policy reserves and provision for reserve for outstanding claims when the amounts of provision exceed the amounts of reversal, and as reversal of policy reserves and reversal of reserve for outstanding claims when the amounts of reversal exceed the amount of provision.

#### ❖ Interest on reserve for dividends to policyholders

Dividends to policyholders which are deposited with interests in insurance companies from anniversary dates are accounted for as reserves for dividends to policyholders. Interest on reserve for dividends to policyholders is interest incurred during the periods of insurance and added to reserve for dividends to policyholders.

### 3. Expenses for investment

- ❖ **Loss from proprietary trading securities**  
Please refer to proprietary trading securities in the assets section of balance sheet terminology.
- ❖ **Loss from assets held in trust**  
Please refer to assets held in trust in the assets section of balance sheet terminology.
- ❖ **Loss from derivative financial instruments**  
Please refer to gains from derivative financial instruments recorded under revenues.
- ❖ **Foreign exchange loss, net**  
Please refer to foreign exchange gains, net recorded under revenues.
- ❖ **Write-off of loans**  
This account represents write-off of unrecoverable loans mainly due to bankruptcy of borrowers. Write-off of loans is accounted for in the amounts of loans after deduction of allowance of doubtful accounts provided in the prior years.
- ❖ **Depreciation for rental real estate and other assets**  
Please refer to depreciation expenses recorded under other expenditures below.
- ❖ **Loss from separate account, net**  
Please refer to gain from separate account recorded under revenues.

### 4. Operating expenses

Operating expenses comprise the various costs incurred in the Company's business and are equivalent to selling and general administrative expenses in other businesses.

### 5. Other expenditures

- ❖ **Deferred benefit payments**  
Please refer to proceeds from deferred insurance recorded under revenues.
- ❖ **Depreciation expenses**  
Depreciation is an accounting procedure used to write down the acquisition cost of an asset over its useful life. An apportioned cost is recorded for each fiscal year. The depreciation of real estate and movables held by life insurance companies is accounted for in the amounts depreciated for each fiscal year.  
The depreciation expenses of real estate used for investment purposes is recorded as depreciation for rental real estate and other assets.

## ■ Extraordinary profits and extraordinary losses

- ❖ **Impairment loss**  
Losses recorded based on accounting standards pertaining to the presence of fixed assets.
- ❖ **Loss on reduction entry of real estate**  
The losses derived from the deduction of the acquisition costs of real estate as a result of the application of advanced depreciation due to swap, substitution or expropriation of real estate in accordance with the corporate tax law and the special taxation measures law.

## ■ Others

- ❖ **Deferred income taxes**  
Deferred income taxes are the change in deferred tax assets/liabilities from the beginning to the end of the fiscal year, which includes deferred income taxes arising from reversal of revaluation reserve for land due to sales of land but does not include the change in deferred tax assets/liabilities regarding evaluation of other securities.

## III. Terms Used in Statements of Changes in Net Assets

Each item listed under net assets in the financial statements reflects the change in an accounting period. Each item is categorized as the balance at the end of the fiscal year under review and shows that amount according to the reasons for changes.

- ❖ **Reversal of revaluation reserve for land**  
The Company recorded a reversal of the revaluation reserve for land due to the revaluation of land sold for business purposes.

## IV. Terms Used for Resolutions on Distribution of Surplus

- ❖ **Reserve for condensed booking of fixed assets for tax purposes and condensed booking of fixed assets to be purchased**  
The reserve for condensed booking of fixed assets for tax purposes is a reserve related to real estate that was replaced within the fiscal year under review. The reserve for condensed booking of fixed assets to be purchased for tax purposes is a reserve related to real estate that, upon sale in the fiscal year under review, is scheduled for reacquisition in the following year or thereafter.

## Matters Pertaining to Consolidated Settlements

### I. Terms Used in the Consolidated Balance Sheets

- ❖ **Surplus**  
Profit reserves and surpluses are posted as items under cumulative after-tax income calculated for the consolidated balance sheets. Until fiscal year 2001, ended March 31, 2002, revaluation reserves were also included in this total.
- ❖ **Cumulative translation adjustments**  
When creating our consolidated financial statements, it is necessary to translate values recorded in the financial statements of overseas subsidiaries into yen. When translating foreign currency amounts into yen, the exchange rates will differ for various items. For this reason, a foreign currency translation difference is recorded on the consolidated balance sheets. The difference, excluding the amounts pertaining to the equity held by minority shareholders, is recorded as a foreign currency translation adjustment.
- ❖ **Minority interests**  
The equity held by third parties other than the parent company in company subsidiaries is recorded.

### II. Consolidated Statements of Operations

- ❖ **Minority interests**  
This is the increase/decrease in equity held by subsidiary shareholders other than the parent company.  
When this equity has increased, profits for minority interests is recorded; when it decreases, a loss for minority interests is recorded.