

# FUKOKU MUTUAL LIFE INSURANCE COMPANY

Annual Report 2006

Year Ended March 31, 2006



Fukoku Life was founded in 1923. Since then, we have held as our fundamental principle that the interests of policyholders must be protected to the utmost of our ability. Throughout the life insurance industry, Fukoku Life is noted for its distinguished investment record and efficient corporate management.

The operating environment for the life insurance industry is becoming increasingly difficult, as a result of ongoing deregulation. Given these conditions, Fukoku Life will devote still more attention to ensuring the soundness of insurance operations, and endeavor to develop products tailored to meet increasingly diverse customer needs. At the same time, it is committed to enhancing efficiency throughout its businesses and to making active efforts to establish a highly competitive operating base. In this way, it will continue to translate into practice its management principle of protecting the interests of policyholders.

## Financial Highlights (Non-Consolidated)

|                                   | Millions of yen |             |                    | Millions of<br>U.S. dollars |
|-----------------------------------|-----------------|-------------|--------------------|-----------------------------|
| As of March 31,                   | 2004            | 2005        | 2006               | 2006                        |
| Life insurance in force .....     | ¥51,807,108     | ¥50,811,690 | <b>¥50,026,617</b> | <b>\$425,867</b>            |
| Total assets .....                | 5,004,706       | 5,088,630   | <b>5,684,365</b>   | <b>48,389</b>               |
| Securities .....                  | 3,074,350       | 3,318,250   | <b>3,916,311</b>   | <b>33,338</b>               |
| Loans .....                       | 1,336,491       | 1,282,439   | <b>1,250,813</b>   | <b>10,647</b>               |
| Real estates and movables .....   | 202,992         | 195,086     | <b>196,413</b>     | <b>1,672</b>                |
| Total liabilities .....           | 4,820,799       | 4,875,749   | <b>5,317,957</b>   | <b>45,270</b>               |
| Policy reserves .....             | 4,608,579       | 4,713,388   | <b>5,033,427</b>   | <b>42,848</b>               |
| Subordinated bonds .....          | 32,500          | 32,500      | <b>42,843</b>      | <b>364</b>                  |
| Total capital .....               | 183,906         | 212,881     | <b>366,408</b>     | <b>3,119</b>                |
| For the year ended March 31,      |                 |             |                    |                             |
| Total ordinary revenues .....     | 885,854         | 859,811     | <b>1,028,769</b>   | <b>8,757</b>                |
| Premium and other income .....    | 740,935         | 731,704     | <b>846,008</b>     | <b>7,201</b>                |
| Investment income .....           | 126,083         | 107,238     | <b>165,112</b>     | <b>1,405</b>                |
| Total ordinary expenditures ..... | 845,172         | 807,157     | <b>971,311</b>     | <b>8,268</b>                |
| Net surplus for the year .....    | 22,587          | 26,482      | <b>37,874</b>      | <b>322</b>                  |
| Solvency margin ratio (%) .....   | 854.0           | 925.0       | <b>1,139.6</b>     |                             |
| Employees .....                   | 14,336          | 13,922      | <b>13,954</b>      |                             |

Notes 1. U.S. dollar amounts are converted from yen, for convenience only, at the rate of U.S.\$1=¥117.47, the rate of exchange on March 31, 2006.

2. Yen and U.S. dollar amounts are rounded down to the nearest million yen or million dollars.

### Contents

|   |    |
|---|----|
| Message from the President .....                  | 2  |
| Management Philosophy and Business Policies ..... | 3  |
| Review of Operations (Non-Consolidated)           |    |
| Life Insurance and Annuities .....                | 4  |
| Pursuing Soundness of Assets .....                | 6  |
| Investment Activities in Fiscal 2005 .....        | 7  |
| Investment Policies for Fiscal 2006 .....         | 9  |
| Compliance and Risk Management Systems .....      | 10 |
| Corporate Citizenship .....                       | 11 |
| Non-consolidated Financial Statements .....       | 12 |
| Consolidated Financial Statements .....           | 28 |
| Corporate Organization .....                      | 44 |
| Corporate Information .....                       | 45 |



During Fiscal 2005, ended March 31, 2006, the Japanese life insurance industry saw shrinking demand for protection-type products, stemming from the aging society and falling birthrates. However, insurance companies reported robust sales for products related to medical and nursing care, as well as individual annuities and other asset building products. Meanwhile, the asset management environment was favorable with domestic share prices rising and market interest rates starting their upward trend.

The Company maintained a sound financial status thanks to higher retained earnings resulting from steady fundamen-

tal profit. In efforts to return profits to customers, we raised dividends on individual insurance policies and group annuities based on improvement on investment income and stable claims payments. For a portion of medical insurance policies, we implemented a new dividend system based on the payment status of benefits. We continue to actively seek ways to return profits to customers while maintaining a sound financial base.

Supported by our "Customer-Centric" policy — where we think from the customers' standpoint — we will strive to differentiate ourselves from our competitors and thus become "the company of choice" from the perspective of customers.

In order to instill this policy into all employees we launched the Fukoku Restoration Project in April 2005. One of the initiatives of the Project is the Customer Service Planning Division established in October 2005. Additionally we carried out a customer survey for policyholders to analyze customer satisfaction. Comments from customers through these channels are utilized to improve management.

Fukoku Life will continue working hard to deliver insurance products and services that satisfy the needs of customers as it strives to provide greater peace of mind in a changeable managerial environment subject to intensifying competition, an aging society and falling birthrates.

A handwritten signature in black ink, reading "Tomofumi Akiyama". The signature is stylized and fluid.

Tomofumi Akiyama  
President

## MANAGEMENT PHILOSOPHY

**To protect the interests of  
our policyholders**

**To contribute to society**

Fukoku Life will continue striving to become a company that provides its customers with greater peace of mind. To this end, we will adhere to our philosophy of "protecting the interests of our policyholders," which we have maintained since our establishment. We will also continue contributing to society through our insurance business activities.

## BUSINESS POLICIES

Adhering to our management philosophy and supported by our "Customer-Centric" policy, we have endeavored to differentiate ourselves from our competitors and become more efficient. To this end, we are committed to implementing the business policies outlined below.

### **Reinforce sales staff structure**

Meticulous services by each sales person are vital for assuring customer satisfaction during each process, from initial contract to follow-up services. We are emphasizing our finely-tuned services when in contact with customers and continue to provide insurance products wherein the customer comes first.

### **Reaffirm focus on net increase in policies in force**

Fukoku Life is not interested solely in expanding the balance of policies in force. Rather, we emphasize provision of insurance products that meet customer needs, thus encouraging them to deal with us. We also give high priority to delivering peace of mind through comprehensive follow-up, so that customers will retain our services indefinitely. By rigorously implementing this policy, we will seek to generate a net increase in customers, which in turn will help increase net policies in force.

### **Enhance business efficiency**

To obtain an even higher level of customer satisfaction amid more intensified competition, we must further highlight our strengths. To this end, we will continue to improve the efficiency of our business processes. Through these measures, we will make effective use of our management resources and enhance customer services.

### Overview

#### Individual Sales

Based on its management philosophy, Fukuoku Life always adopts the customer's perspective when selling life insurance and financial products by proposing the best possible options. The Company's sales approach is based on three main principles: Face-to-face contact, proposals carefully tailored to the specific needs of each customer, and a personal sales manager system. We accord top priority to frequent communications with customers to ensure that we accurately meet their needs. We also strive to offer optimal solutions tailored to customers' individual life plans and lifestyles. Moreover, our sales managers take the responsibility to provide long-term follow-up to ensure ongoing support.

We have reinforced our sales system in our quest to be "the company of choice" from the perspective of customers. In the first half of fiscal 2005 we continued providing comprehensive follow-up services to policyholders through our "Thanks 82" program, wherein sales staff visited policyholders over the summer and winter. In another initiative, we have upgraded our mobile computers known as "PlanDo" for sales staff to strengthen their face-to-face sales and raise their ability to offer consulting during sales. Our efforts do not stop there. By strengthening our sales support for over the counter sales at financial institutions we have seen steady growth for sales of individual annuities, especially with the cooperative and credit banks (Shinkin Banks) all over Japan.

Fukuoku Life has responded to diversifying customer needs by developing new nursing care insurance and medical insurance products that provide customers with optimum insurance, covering the various risks they are exposed to during the course of their lives. We have added new products and services for each stage of people's lives.

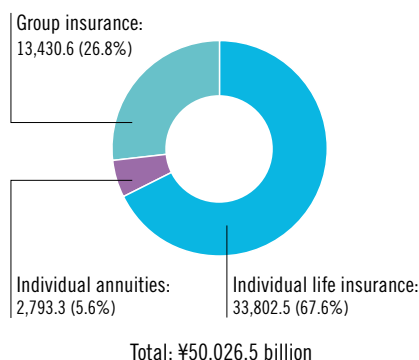
Fukuoku Life's nationwide sales network consists of 65 branches and more than 11,000 salespeople promoting insurance and annuities to individuals and companies. Com-

mmercial banks, Shinkin Banks, and other financial institutions also sell individual annuities on our behalf. In December 2005, we launched over the counter sales of single-premium whole life insurance at Shinkin banks. By the end of fiscal 2005, a total of 213,000 policies have been sold through this method of consigned sales by financial institutions since October 2002. We have also been successful in expanding our sales channels that sell juvenile insurance, individual annuities, and single-premium endowment insurance, via the Internet, and at agent offices located in large shopping centers.





Breakdown of life insurance in force  
(¥ billions)



### Corporate Sales

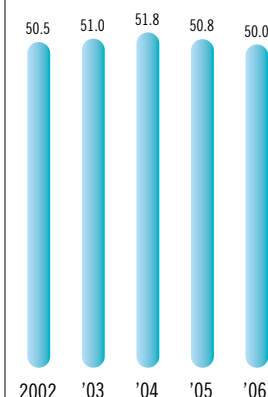
We offer proposals for group insurance systems and products that meet the diverse needs of our customers. In the area of pensions, we provide professional consulting services for the design of corporate pension plans. We provide a separate account for socially responsible investments (SRIs) as a vehicle for investment in companies that work proactively in the areas of environmental protection and social contribution. We also offer the Fukoku SRI Fund, an investment trust fund offered in defined contribution pension plans.

### Providing Enhanced Services with "Customer-Centric" Policy

From this fiscal year Fukoku Life carried out company reform based on the "Customer-Centric" management policy. We believe that every time a customer comes into contact with Fukoku Life, it is an opportunity to foster loyalty to the Company. To this end, we are reforming systems and changing the approach of our sales people to provide better services. These initiatives are being used as a springboard for our internal structural reforms, known as the Fukoku Restoration Project. As a result, in October 2005 we established the Customer Service Planning Division which takes comments from customers and applies them in a management perspective. Furthermore, in order to provide a unified response to customer phone inquiries we launched the Customer Center in April 2006.

## Business Performance in FY2005

Life insurance in force  
(¥ trillions)

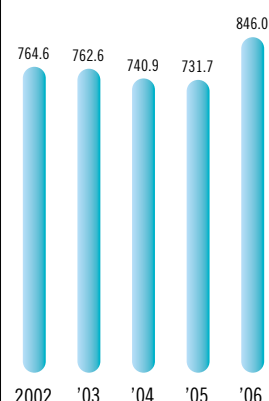


### Life Insurance in Force

In the year under review, the balance of life insurance in force for individuals edged down 1.9%, to ¥33,802.5 billion. Meanwhile, the balance of individual annuities rose 9.4%, to ¥2,793.3 billion. The balance of life insurance in force for groups declined 2.7%, to ¥13,430.6 billion, while group pension insurance increased 4.4%, to ¥1,956.1 billion.

In the year under review, the balance of new contracts for both individual and group life insurance was not able to offset the decline in the total balance for surrendered, lapsed, and matured contracts. This was mainly due to declining need for protection-type products, stemming from the aging society and falling birthrates. Nonetheless, the expansion of sales channels such as financial institutions helped boost the balance of individual annuities in force.

**Premium and other income**  
(¥ billions)



### Premium Income

In the year under review, premium and other income increased 15.6%, to ¥846.0 billion. This was because of strong sales of individual annuities by sales channels such as financial institutions and sales staff. Premium income from individual annuities dramatically increased 70.4% and premium income from group pension insurance increased 17.2%.

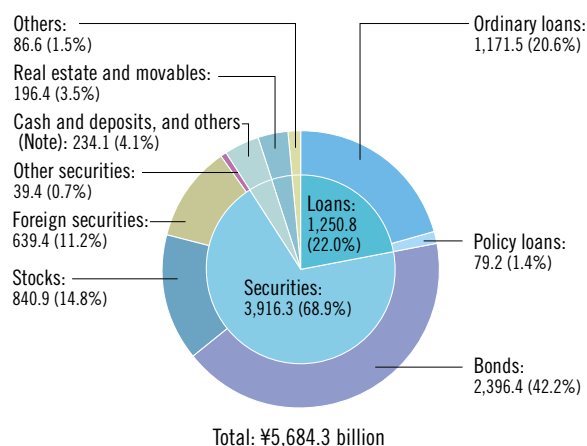
### Assets, Liabilities and Capital

Non-consolidated total assets, including separate accounts, rose 11.7%, to ¥5,684.3 billion. This included an 11.5% increase in assets held in general accounts, to ¥5,563.4 billion. The main factor for the increase in total assets was a significant increase in the market price of securities due to a rising share market as well as an increase of the balance of securities consisting mainly of public and corporate bonds.

The policy reserve grew 6.9%, to ¥4,951.4 billion, and total liabilities rose 9.1%, to ¥5,317.9 billion. We recorded a 27.9% increase in surplus capital, and a 118.2% rise in net unrealized gains on available-for-sale securities with fair market value. As a result, total capital climbed 72.1%, to ¥366.4 billion.

On a consolidated basis, total assets rose 11.7%, to ¥5,685.9 billion, and total capital increased 72.1%, to ¥367.2 billion.

**Total assets**  
(¥ billions)

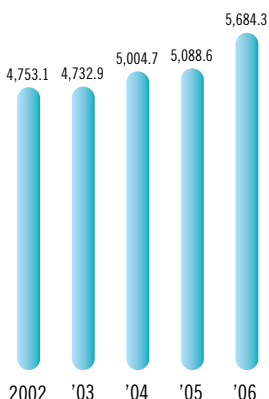


Note: Cash and deposits, call loans, monetary claims bought and money held in trust

### Strengthening Our Capital Base

Due to ongoing difficulties surrounding the life insurance industry, companies must reinforce their financial fundamentals. Fukoku Life has increased its reserve for price fluctuation of securities and contingency reserve as a means of reinforcing its retained earnings. During the term under review, we increased our reserve for price fluctuation of securities by ¥11.7 billion to ¥42.5 billion and our contingency reserve by ¥26.9 billion to ¥108.6 billion, both exceeding the legal standard. We also strengthened our capital base by increasing the reserve for redemption of funds by ¥6.0 billion to ¥24.0 billion.

**Total assets**  
(¥ billions)



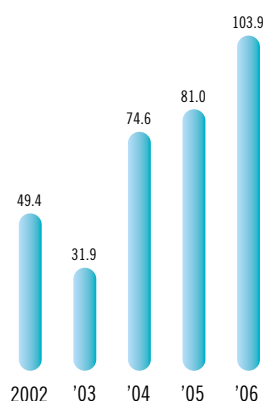
### Solvency Margin

The solvency margin ratio is a benchmark indicator for management soundness of life insurance companies. Fukoku Life's solvency margin ratio at fiscal year-end was 1,139.6%, up 214.6 points. This is attributable to a continued increase in net unrealized gains on securities with fair market value and a rise in retained earnings due to increases in reserve for price fluctuation of securities and contingency reserve, as well as reinforcing financial fundamentals through a 300 million euro issue of subordinate bonds. These factors give Fukoku Life a solvency margin of the highest level in the life insurance industry. Every effort is made to maintain a high solvency margin ratio as we continue to provide our customers with peace of mind.

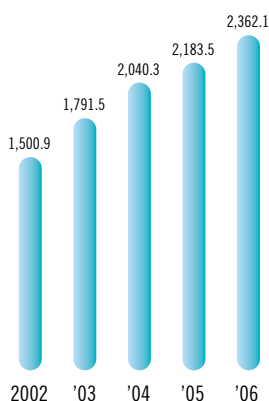


## Investment Activities in FY2005

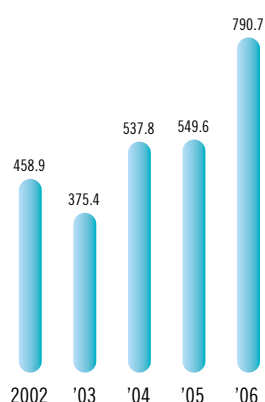
Income from asset management  
(¥ billions)



Bonds  
(¥ billions)



Stocks  
(¥ billions)



### Overview

In FY2005, ended March 31, 2006 the Japanese domestic financial and economic environment saw an upward trend in long-term interest rates on the back of strong individual consumption and robust capital investment from companies. Long-term interest rates, which sat around 1.2% at the beginning of the year, started to gain upward traction, triggering the Bank of Japan to lift its quantitative easing policy, which in turn drove rates to over 1.7%.

Against this backdrop Fukoku Life is managing its investments centered on domestic and foreign government bonds in order to ensure liquidity and income from interest and dividends. We are also diversifying investments in shares, foreign securities and real estate.

Non-consolidated total assets, rose 11.7%, or ¥595.7 billion, to ¥5,684.3 billion. This included a 11.5% increase, or ¥573.7 billion in assets held in general accounts, to ¥5,563.4 billion. Interest, dividends and other income — the main component of investment income — rose 4.6%, to ¥83.1 billion. Gains on sales of securities and gains from trading securities increased significantly. Consequently, investment income increased 35.2% to ¥139.5 billion. Investment expenses rose 59.9% to ¥35.6 billion on the back of increased derivatives costs.

As a result, investment income, minus expenses, increased 28.3%, to ¥103.9 billion. The rate of return edged up 0.38 points, to 2.05%.

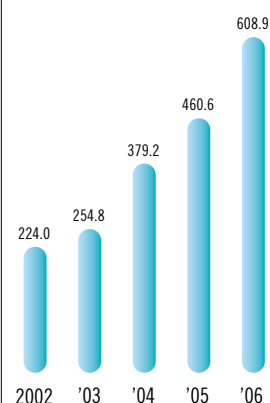
### Bonds

Fukoku Life invests in government bonds, which have a high rate of liquidity. In addition, we ensure adequate consideration is given to price fluctuation risk while increasing the ratio of long-term investments. As a result, the Company's bond holdings at fiscal year-end stood at ¥2,362.1 billion, up 8.2%, or ¥178.6 billion, from the previous year.

### Stocks

We increased our equity holdings in companies with strong indications of medium- to long-term growth. And we took profits by selling equities whose prices had risen well above expectations on the back of a buoyant equity market. During the year under review equity prices rose dramatically and as a result yearend share holdings were up 43.9%, or ¥241.1 billion, to stand at ¥790.7 billion.

**Foreign securities**  
(¥ billions)



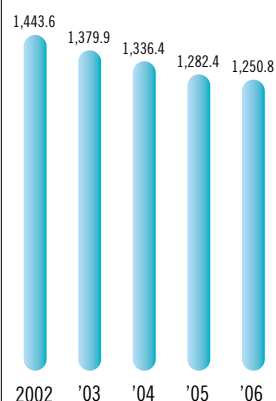
### Foreign Securities

We increased our foreign bond holdings, while considering differences in domestic and foreign interest rates and currencies. We combined this with hedging against time horizons and exchange rate fluctuations. As a result, the Company's holdings of foreign bonds at fiscal year-end climbed 36.9%, to ¥459.1 billion and foreign securities including equity holdings increased 32.2%, or ¥148.2 billion, to ¥608.9 billion.

### Loans

Fukoku Life practices stringent loan management emphasizing profitability. Individual loans for refinancing increased due to tie-ups with credit companies. However, at fiscal year-end, the balance of outstanding loans was down 2.5%, or ¥31.6 billion, to ¥1,250.8 billion due to an overall slump in funding demand.

**Loans**  
(¥ billions)

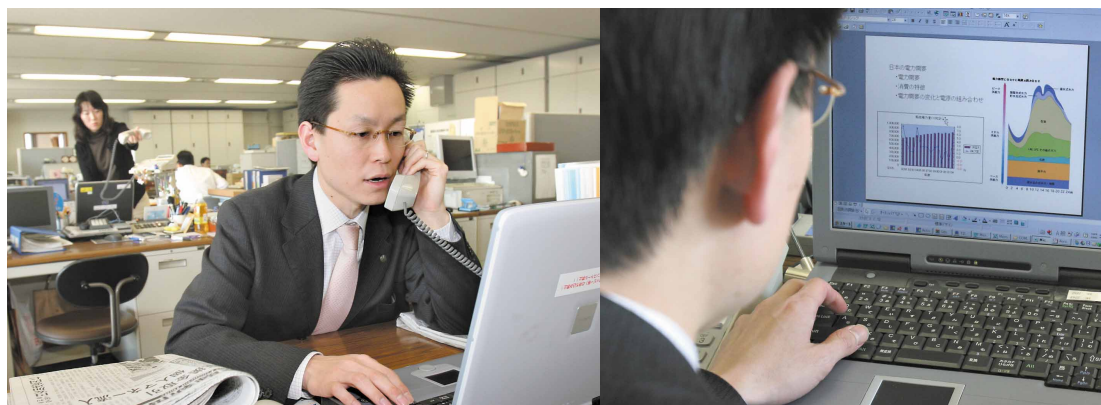
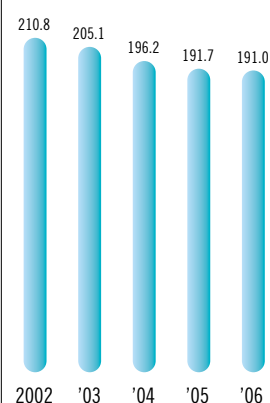


### Real Estate

During fiscal 2005, we sold off property that was not generating sufficient income. On the other hand Fukoku Life acquired a large building in the Kansai region, which we were previously leasing. We are also making steady progress with the redevelopment of the former Defense Agency site in Tokyo's Roppongi district. Hotel project and tenant contracts are proceeding as planned. And we expect construction to be completed in December 2006. We have been actively engaged in renovation work to improve the facilities and convenience of existing buildings, and we have also made our effort to increase occupancy rates.

As a result, the balance of our real estate holdings edged down 0.4%, or ¥0.7 billion, to ¥191.0 billion.

**Real estate**  
(¥ billions)



## ● Investment Policies for FY2006

### Investment Environment

During the year under review the Japanese economy saw continued growth of domestic demand driven by robust individual consumption. Adding to this was continued capital investment by companies. Japan's financial environment is forecast to enter a trend wherein long-term interest rates will slowly rise with a steeper rise forecast for the overnight rate due to the tightening policy by Bank of Japan. Although equity prices will continue to rise slowly, we expect companies to expand their profit base.

### Bonds

Fukoku Life will carefully monitor interest rates while transferring previous low-interest bearing investments to higher coupon bonds. We will continue to increase investment bearing in mind of ratio of bonds in our portfolio.

### Stocks

We will continue to invest in corporations earmarked for medium- to long-term growth and companies that have been carefully selected for their ability to provide steady dividends. Fukoku Life will increase its equity holdings while maintaining a portfolio balanced with other assets.



### Foreign Securities

We will increase our foreign bond holdings, while diversifying currencies and time horizons and hedging flexibly against exchange rate fluctuations. Fukoku Life will also invest in foreign investments trusts while hedging against currency and region to diversify the risk of portfolio.

### Loans

Fukoku Life will fortify its relationships with existing corporate loan customers and make every effort to attain new borrowers with the aim of securing steady income from interest. We will also expand lending opportunities to individual borrowers by offering apartment and housing loans as well as renovation loans.

### Real Estate

In fiscal 2006, we will continue to seek for profitable properties while examining new investment opportunities.

We will strive to improve profitability of existing buildings by increasing of occupancy rates through stepping up tenant recruitment and providing existing tenants with better services while reviewing maintenance costs to make operations more efficient. Preparing for natural disasters such as earthquakes, we will renew existing buildings and enhance building safety, by installing reinforcement to the structures.

## Compliance and Risk Management System

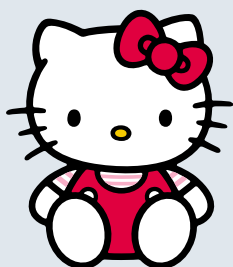
Every year Fukoku Life plans its own Compliance Program for providing ongoing education related to compliance. Compliance checks for company operations are carried out compliance officers with the support of chief compliance officers.

The Company makes every effort to protect personal information with its fundamental Privacy Policy as well as its Regulations Concerning Treatment of Personal Information. The Company also closely monitors contractors it outsources to with its Rules Concerning Management of Outsourced Operators.

Our Risk Management Committee is the organization that oversees risk management. With the president at the chair, the Committee is attended by internal members of the board as well as auditors. These risks have been divided into five categories and a sub-committee assigned to each: Insurance Underwriting Risk Sub-committee, Asset Investment Risk Sub-committee, Operational Risk Sub-committee, Information System Risk Sub-committee and Security Risk Sub-committee.



## Corporate Citizenship



**HelloKitty**

© 1976, 2006 SANRIO CO., LTD. APPROVAL No. S7081406



© '76, '90, '93, '96, '99, '06 SANRIO APPROVAL No. P2008157

Fukoku Life is engaged in various public relation activities toward building an affluent and heartfelt society.

### Fukoku Life Charity Concert

Since 1993, the Company has held regular classical music Charity Concerts around nation as part of its commitment to enhancing interaction with customers through music and fostering regional welfare. Although entry to the concerts is free, visitors are asked to make donations, which are given to local welfare groups. Since 2003, we have also held "Mini Concerts," where musicians visit schools for disabled children and other welfare centers before or after our classical concerts. To date, we have held 106 Charity Concerts for 46,900 customers and 59 Mini Concerts.

### Hello Kitty and Sanrio Puroland

Fukoku Life uses Sanrio's world famous Hello Kitty character for promotions. In addition, Fukoku Life is a sponsor of the "Sanrio Character Boat Ride," one of the many attractions in Sanrio Puroland, Japan's first indoor theme park.

### Communicating with Stakeholders

Every year, Fukoku Life publishes a variety of materials as a means of disclosing information on its business activities to stakeholders. These include its Japanese-language magazine "Disclosure" (and abridged versions thereof), booklets written for policyholders, and this English-language annual report. In addition, we produce a variety of publications as needed, in order to strengthen the channels of communication between the Company, its policyholders, and its many other customers.



# Non-consolidated Financial Statements

## Non-consolidated Balance Sheets

| As of March 31,                                |                   |                   |                   |                          |
|--|-------------------|-------------------|-------------------|--------------------------|
|  | 2004              | 2005              | 2006              | 2006                     |
|  | Millions of yen   |                   |                   | Millions of U.S. dollars |
| <b>Assets:</b>                                 |                   |                   |                   |                          |
| Cash and deposits:                             |                   |                   |                   |                          |
| Cash .....                                     | ¥ 121             | ¥ 106             | ¥ 125             | \$ 1                     |
| Bank deposits .....                            | 44,031            | 26,112            | 69,967            | 595                      |
|  | 44,152            | 26,219            | 70,092            | 596                      |
| Call loans .....                               | 191,700           | 131,300           | 65,000            | 553                      |
| Monetary claims bought .....                   | —                 | 3,563             | 3,211             | 27                       |
| Money held in trust .....                      | 76,877            | 79,554            | 95,849            | 815                      |
| Securities:                                    |                   |                   |                   |                          |
| Government bonds .....                         | 1,564,392         | 1,702,075         | 1,918,058         | 16,328                   |
| Local government bonds .....                   | 70,269            | 83,079            | 83,086            | 707                      |
| Corporate bonds .....                          | 438,061           | 428,753           | 395,303           | 3,365                    |
| Stocks .....                                   | 570,879           | 586,706           | 840,970           | 7,159                    |
| Foreign securities .....                       | 400,179           | 485,199           | 639,408           | 5,443                    |
| Other securities .....                         | 30,568            | 32,436            | 39,484            | 336                      |
|  | 3,074,350         | 3,318,250         | 3,916,311         | 33,338                   |
| Loans:   |                   |                   |                   |                          |
| Policy loans .....                             | 77,801            | 78,177            | 79,218            | 674                      |
| Ordinary loans .....                           | 1,258,689         | 1,204,261         | 1,171,595         | 9,973                    |
|  | 1,336,491         | 1,282,439         | 1,250,813         | 10,647                   |
| Real estate and movables:                      |                   |                   |                   |                          |
| Land .....                                     | 100,881           | 99,658            | 100,998           | 859                      |
| Buildings .....                                | 93,934            | 90,730            | 85,311            | 726                      |
| Movables .....                                 | 6,755             | 3,308             | 5,378             | 45                       |
| Construction in progress .....                 | 1,420             | 1,388             | 4,725             | 40                       |
|  | 202,992           | 195,086           | 196,413           | 1,672                    |
| Reinsurance receivables .....                  | 185               | 77                | 108               | 0                        |
| Other assets:                                  |                   |                   |                   |                          |
| Accounts receivable .....                      | 28,720            | 8,429             | 46,287            | 394                      |
| Prepaid expenses .....                         | 2,370             | 1,252             | 703               | 5                        |
| Accrued income .....                           | 18,169            | 20,210            | 20,464            | 174                      |
| Deposits .....                                 | 2,793             | 2,360             | 2,408             | 20                       |
| Differential account for futures trading ..... | 39                | 352               | —                 | —                        |
| Derivatives .....                              | 2,482             | 2,272             | 310               | 2                        |
| Deferred valuation losses on hedge .....       | 13                | 124               | 1,537             | 13                       |
| Suspense payment .....                         | 3,733             | 2,304             | 3,753             | 31                       |
| Other assets .....                             | 14,159            | 13,177            | 13,805            | 117                      |
|  | 72,481            | 50,483            | 89,270            | 759                      |
| Deferred tax assets .....                      | 10,334            | 4,813             | —                 | —                        |
| Allowance for possible loan losses .....       | (4,859)           | (3,157)           | (2,704)           | (23)                     |
| <b>Total assets</b> .....                      | <b>¥5,004,706</b> | <b>¥5,088,630</b> | <b>¥5,684,365</b> | <b>\$48,389</b>          |



## Non-consolidated Balance Sheets (Continued)

As of March 31,

|   | 2004              | 2005              | 2006              | 2006                     |
|---|-------------------|-------------------|-------------------|--------------------------|
|   | Millions of yen   |                   |                   | Millions of U.S. dollars |
| <b>Liabilities:</b>   |                   |                   |                   |                          |
| Policy reserves:  |                   |                   |                   |                          |
| Reserve for outstanding claims .....                            | ¥ 24,503          | ¥ 25,294          | ¥ 27,472          | \$ 233                   |
| Policy reserve .....  | 4,520,195         | 4,630,543         | 4,951,438         | 42,150                   |
| Reserve for dividends to policyholders .....                    | 63,879            | 57,550            | 54,516            | 464                      |
|   | 4,608,579         | 4,713,388         | 5,033,427         | 42,848                   |
| Reinsurance payables .....                                      | 86                | 78                | 85                | 0                        |
| Subordinated bonds .....  | 32,500            | 32,500            | 42,843            | 364                      |
| Other liabilities:  |                   |                   |                   |                          |
| Subordinated debt loans .....                                   | 5,000             | 5,000             | 5,000             | 42                       |
| Corporate income tax payable .....                              | 13,157            | 4,261             | 7,426             | 63                       |
| Accounts payable .....  | 63,100            | 3,762             | 38,658            | 329                      |
| Accrued expenses .....  | 10,995            | 9,689             | 11,821            | 100                      |
| Unearned income .....   | 801               | 725               | 758               | 6                        |
| Deposits received .....   | 5,640             | 5,389             | 5,217             | 44                       |
| Guarantee deposits received .....                               | 11,207            | 10,391            | 11,599            | 98                       |
| Differential account for futures trading .....                  | 189               | 42                | —                 | —                        |
| Derivatives .....   | 317               | 2,003             | 1,856             | 15                       |
| Deferred valuation gains on hedge .....                         | —                 | 2,182             | 250               | 2                        |
| Suspense receipt .....  | 1,210             | 1,349             | 1,114             | 9                        |
|   | 111,621           | 44,797            | 83,705            | 712                      |
| Reserve for retirement benefits .....                           | 44,228            | 51,627            | 51,461            | 438                      |
| Reserve for price fluctuation of securities .....               | 21,683            | 30,813            | 42,597            | 362                      |
| Deferred tax liabilities .....                                  | —                 | —                 | 60,860            | 518                      |
| Deferred tax liabilities for revaluation reserve for land ..... | 2,101             | 2,543             | 2,977             | 25                       |
| <b>Total liabilities</b> .....                                  | <b>4,820,799</b>  | <b>4,875,749</b>  | <b>5,317,957</b>  | <b>45,270</b>            |
| <b>Capital:</b>   |                   |                   |                   |                          |
| Foundation funds .....  | 30,000            | 30,000            | 30,000            | 255                      |
| Accumulated foundation funds redeemed .....                     | 1,000             | 1,000             | 1,000             | 8                        |
| Reserve for revaluation .....                                   | 112               | 112               | 112               | 0                        |
| Surplus:  |                   |                   |                   |                          |
| Legal reserve for future losses .....                           | 987               | 1,187             | 1,387             | 11                       |
| Voluntary surplus reserves:                                     |                   |                   |                   |                          |
| Reserve for redemption of foundation funds .....                | 12,000            | 18,000            | 24,000            | 204                      |
| Reserve for dividend allowances .....                           | 3,895             | 3,895             | 3,895             | 33                       |
| Reserve for advanced depreciation of real estate .....          | 448               | 427               | 412               | 3                        |
| Reserve for directors' retirement allowances .....              | 2,825             | 2,805             | 2,770             | 23                       |
| Other reserves .....  | 767               | 767               | 767               | 6                        |
|   | 19,937            | 25,895            | 31,845            | 271                      |
| Unappropriated surplus .....                                    | 33,562            | 35,847            | 47,270            | 402                      |
| Net surplus for the year .....                                  | 22,587            | 26,482            | 37,874            | 322                      |
|   | 54,487            | 62,930            | 80,503            | 685                      |
| Revaluation reserve for land, net of tax .....                  | 3,701             | 4,480             | 5,244             | 44                       |
| Net unrealized gains on securities, net of tax .....            | 94,605            | 114,358           | 249,548           | 2,124                    |
| <b>Total capital</b> .....                                      | <b>183,906</b>    | <b>212,881</b>    | <b>366,408</b>    | <b>3,119</b>             |
| <b>Total capital and liabilities</b> .....                      | <b>¥5,004,706</b> | <b>¥5,088,630</b> | <b>¥5,684,365</b> | <b>\$ 48,389</b>         |

See notes to the non-consolidated financial statements.

## Non-consolidated Statements of Operations

|  | Year ended March 31, |                |                  |                          |
|--|----------------------|----------------|------------------|--------------------------|
|  | 2004                 | 2005           | 2006             | 2006                     |
|  | Millions of yen      |                |                  | Millions of U.S. dollars |
| <b>Ordinary revenues:</b>                                |                      |                |                  |                          |
| Premium and other income:                                |                      |                |                  |                          |
| Premium income .....                                     | ¥740,596             | ¥ 731,327      | ¥ 845,604        | \$ 7,198                 |
| Reinsurance income .....                                 | 338                  | 376            | 403              | 3                        |
|  | 740,935              | 731,704        | 846,008          | 7,201                    |
| Investment income:                                       |                      |                |                  |                          |
| Interest, dividends and other income:                    |                      |                |                  |                          |
| Interest from deposits .....                             | 41                   | 61             | 1,358            | 11                       |
| Interest and dividends from securities .....             | 34,251               | 41,184         | 45,749           | 389                      |
| Interest from loans .....                                | 31,221               | 27,756         | 25,101           | 213                      |
| Income from real estate for rent .....                   | 11,895               | 10,502         | 10,887           | 92                       |
| Other interest and dividends .....                       | 22                   | 9              | 86               | 0                        |
|  | 77,432               | 79,514         | 83,184           | 708                      |
| Gains from money held in trust, net .....                | 10,641               | 5,080          | 11,050           | 94                       |
| Gains from trading securities, net .....                 | 886                  | 9,671          | 16,214           | 138                      |
| Gains on sales of securities .....                       | 19,123               | 8,486          | 28,448           | 242                      |
| Gains on redemption of securities .....                  | 18                   | —              | —                | —                        |
| Gains from derivative instruments, net .....             | 862                  | —              | —                | —                        |
| Other investment income .....                            | 989                  | 529            | 701              | 5                        |
| Gains from separate accounts, net .....                  | 16,129               | 3,955          | 25,514           | 217                      |
|  | 126,083              | 107,238        | 165,112          | 1,405                    |
| Other ordinary revenues:                                 |                      |                |                  |                          |
| Fund receipt from annuity rider .....                    | 431                  | 485            | 404              | 3                        |
| Fund receipt from deposit of claims paid .....           | 16,849               | 19,590         | 16,371           | 139                      |
| Reversal of reserve for retirement benefits .....        | 1,305                | 487            | 166              | 1                        |
| Others .....   | 247                  | 304            | 705              | 6                        |
|  | 18,834               | 20,868         | 17,647           | 150                      |
| <b>Total ordinary revenues .....</b>                     | <b>885,854</b>       | <b>859,811</b> | <b>1,028,769</b> | <b>8,987</b>             |
| <b>Ordinary expenditures:</b>                            |                      |                |                  |                          |
| Claims and other payments:                               |                      |                |                  |                          |
| Claims .....   | 214,554              | 201,237        | 197,973          | 1,685                    |
| Annuities .....  | 55,674               | 58,477         | 64,442           | 548                      |
| Benefits .....   | 139,258              | 127,417        | 123,924          | 1,054                    |
| Surrenders .....   | 139,902              | 98,395         | 87,322           | 743                      |
| Other payments .....                                     | 50,359               | 77,938         | 23,841           | 202                      |
| Reinsurance premiums .....                               | 366                  | 335            | 315              | 2                        |
|  | 600,116              | 563,801        | 497,819          | 4,237                    |
| Provision for policy reserve and others:                 |                      |                |                  |                          |
| Provision for reserve for outstanding claims .....       | 1,583                | 790            | 2,178            | 18                       |
| Provision for policy reserve .....                       | 97,418               | 110,348        | 320,894          | 2,731                    |
| Interest on accumulated dividends to policyholders ..... | 140                  | 62             | 55               | 0                        |
|  | ¥99,143              | ¥ 111,200      | ¥ 323,128        | ¥ 2,750                  |

## Non-consolidated Statements of Operations (Continued)

|   | Year ended March 31, |                 |                 |                          |
|---|----------------------|-----------------|-----------------|--------------------------|
|   | 2004                 | 2005            | 2006            | 2006                     |
|   | Millions of yen      |                 |                 | Millions of U.S. dollars |
| Investment expenses:  |                      |                 |                 |                          |
| Interest expenses .....   | ¥ 684                | ¥ 666           | ¥ 1,655         | \$ 14                    |
| Losses on sales of securities .....                             | 22,029               | 3,814           | 5,941           | 50                       |
| Losses on valuation of securities .....                         | 568                  | 760             | 266             | 2                        |
| Losses on redemption of securities .....                        | 10                   | 2               | 19              | 0                        |
| Losses from derivative instruments, net .....                   | —                    | 8,273           | 17,834          | 151                      |
| Foreign exchange losses, net .....                              | 345                  | 84              | 1,294           | 11                       |
| Provision for allowance for possible loan losses .....          | 2,618                | —               | —               | —                        |
| Depreciation of real estate for rent and other assets .....     | 5,091                | 4,704           | 4,453           | 37                       |
| Other investment expenses .....                                 | 3,969                | 3,962           | 4,149           | 35                       |
|   | 35,317               | 22,267          | 35,615          | 303                      |
| Operating expenses .....  | 90,989               | 87,912          | 91,376          | 777                      |
| Other ordinary expenditures:                                    |                      |                 |                 |                          |
| Claim deposit payments .....                                    | 8,639                | 11,055          | 11,236          | 95                       |
| Taxes .....   | 5,344                | 5,346           | 5,931           | 50                       |
| Depreciation .....  | 5,621                | 5,507           | 5,612           | 47                       |
| Others .....  | 0                    | 64              | 590             | 5                        |
|   | 19,605               | 21,975          | 23,370          | 198                      |
| <b>Total ordinary expenditures .....</b>                        | <b>845,172</b>       | <b>807,157</b>  | <b>971,311</b>  | <b>8,268</b>             |
| <b>Ordinary profits .....</b>                                   | <b>40,681</b>        | <b>52,653</b>   | <b>57,457</b>   | <b>489</b>               |
| Extraordinary gains:  |                      |                 |                 |                          |
| Gains on disposal of real estate and movables .....             | 1,556                | 170             | 1,165           | 9                        |
| Reversal of allowance for possible loan losses .....            | —                    | 2,076           | 750             | 6                        |
| <b>Total extraordinary gains .....</b>                          | <b>1,556</b>         | <b>2,247</b>    | <b>1,916</b>    | <b>16</b>                |
| Extraordinary losses:   |                      |                 |                 |                          |
| Losses on disposal of real estate and movables .....            | 3,641                | 4,985           | 2,570           | 21                       |
| Impairment losses .....   | —                    | —               | 3,920           | 33                       |
| Provision for reserve for retirement benefits .....             | 7,887                | 7,887           | —               | —                        |
| Provision for reserve for price fluctuation of securities ..... | 3,944                | 9,130           | 11,784          | 100                      |
| Other extraordinary losses .....                                | 836                  | —               | —               | —                        |
| <b>Total extraordinary losses .....</b>                         | <b>16,309</b>        | <b>22,002</b>   | <b>18,275</b>   | <b>155</b>               |
| <b>Surplus before income taxes .....</b>                        | <b>25,928</b>        | <b>32,898</b>   | <b>41,098</b>   | <b>349</b>               |
| Income taxes:   |                      |                 |                 |                          |
| Current .....   | 14,058               | 11,665          | 13,856          | 117                      |
| Deferred .....  | (10,718)             | (5,249)         | (10,632)        | (90)                     |
| <b>Net surplus for the year .....</b>                           | <b>22,587</b>        | <b>26,482</b>   | <b>37,874</b>   | <b>322</b>               |
| <b>Surplus carried from the previous year .....</b>             | <b>10,124</b>        | <b>10,124</b>   | <b>10,124</b>   | <b>86</b>                |
| <b>Reversal of revaluation reserve for land .....</b>           | <b>528</b>           | <b>(778)</b>    | <b>(764)</b>    | <b>(6)</b>               |
| <b>Reversal of reserve for directors' retirement .....</b>      | <b>322</b>           | <b>20</b>       | <b>35</b>       | <b>0</b>                 |
| <b>Unappropriated surplus .....</b>                             | <b>¥ 33,562</b>      | <b>¥ 35,847</b> | <b>¥ 47,270</b> | <b>\$ 402</b>            |

See notes to the non-consolidated financial statements.

## Non-consolidated Statements of Surplus

|   | Year ended March 31, |          |          |                          |
|---|----------------------|----------|----------|--------------------------|
|   | 2004                 | 2005     | 2006     | 2006                     |
|   | Millions of yen      |          |          | Millions of U.S. dollars |
| Unappropriated surplus .....                                      | ¥ 33,562             | ¥ 35,847 | ¥ 47,270 | \$ 402                   |
| Reversal of voluntary surplus reserve:                            |                      |          |          |                          |
| Reversal of reserve for advanced depreciation of real estate .... | 21                   | 14       | 69       | 0                        |
| <b>Total</b> .....  | 33,584               | 35,862   | 47,339   | 402                      |
| <b>Appropriation of surplus:</b>                                  |                      |          |          |                          |
| Reserve for dividends to policyholders .....                      | 16,688               | 18,966   | 30,454   | 259                      |
| Net surplus:  |                      |          |          |                          |
| Legal reserves for future losses .....                            | 200                  | 200      | 200      | 1                        |
| Interest payment for foundation funds .....                       | 531                  | 531      | 531      | 4                        |
| Bonus to directors .....  | 30                   | 30       | 30       | 0                        |
| Bonus to statutory auditors .....                                 | 10                   | 10       | —        | —                        |
| Reserve for redemption of foundation funds .....                  | 6,000                | 6,000    | 6,000    | 51                       |
|   | 6,771                | 6,771    | 6,761    | 57                       |
| <b>Total appropriation of surplus</b> .....                       | 23,459               | 25,737   | 37,215   | 316                      |
| <b>Unappropriated surplus carried forward</b> .....               | ¥ 10,124             | ¥ 10,124 | ¥ 10,124 | \$ 86                    |

See notes to the non-consolidated financial statements.

---

## Notes to the Non-consolidated Financial Statements

### I. Presentation of the Non-consolidated Financial Statements

#### 1. Basis of Presentation

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by Fukuoku Mutual Life Insurance Company (the "Company") in accordance with the provisions set forth in the Insurance Business Law of Japan and its related rules and regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects from accounting principles generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the non-consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

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

#### 2. U.S. Dollar Amounts

The translations of yen amounts into U.S. dollar amounts are included solely for the convenience of the reader and have been made, as a matter of arithmetical computation only, at the rate of ¥117.47 = US\$1.00, the effective rate of exchange at the balance sheet date of March 31, 2006. The translations should not be construed as representations that such yen amounts have been or could in the future be, converted into U.S. dollars at that or any other rates.

### II. Summary of Significant Accounting Policies

#### 1. Valuation Methods of Securities

The valuations of securities, including bank deposits and monetary claims bought which are equivalent to securities, and securities managed as trust assets in money held in trust, are as follows:

- i) Trading securities are stated at fair market value. 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.
- iv) Investments in subsidiaries and affiliates are stated at cost, cost being determined by the moving average method.
- v) Available-for-sale securities with fair market value are stated at fair market value based on the market prices at the end of fiscal year. Costs of their sales are determined by the moving average method. Net unrealized gains or losses on these available-for-sale securities, net of taxes, are recorded as a separate component of capital.

Available-for-sale securities with no fair market value 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 acquisition cost and face value is considered to be an adjustment of interest. Such bonds are stated at amortized cost under the straight-line method, cost being determined by the moving average method.

Derivative instruments are stated at fair market value.

---

## 2. Revaluation of Land

The Company revalued the land for business purposes based on the Law for Revaluation of Land (Law No.34 promulgated on March 31, 1998). The difference between fair value and book value resulting from the revaluation, net of related taxes, is recorded as revaluation reserve for land as a separate component of capital and the related tax is recorded as deferred tax liabilities for revaluation reserve for land.

- Date of revaluation: March 31, 2002
- Method of revaluation as prescribed for in Article 3 Paragraph 3 of the said Law:

Calculation is based on the appraisal value for property tax set forth in Article 2 item 3 of the Enforcement Ordinance of the Law for Revaluation of Land (Government Ordinance No.119 promulgated on March 31, 1998) and the road rate set forth in Article 2 item 4 of the said Ordinance with certain reasonable adjustments.
- The excess of the aggregate new book value of land for business purposes after revaluation over the total fair value of land, which is required to be disclosed in accordance with Article 10 of the Law for Revaluation of Land, were ¥1,321 million and ¥4,178 million as of March 31, 2004 and 2005, respectively. The total fair value of land exceeded the aggregated new book value of land after revaluation as of March 31, 2006.

## 3. Depreciation of Real Estate and Movables

Depreciation of real estate and movables held by the Company, except for the buildings acquired on and after April 1, 1998 which are depreciated based on the straight-line method, is computed based on the declining-balance method. Movables acquired for ¥100,000 or more but less than ¥200,000 are depreciated by equal amounts over three years.

## 4. Foreign Currency Translation

Foreign currency-denominated assets and liabilities, except for investments in subsidiaries and affiliates, are translated into Japanese yen at the effective exchange rate prevailing at the balance sheet date. Investments in subsidiaries and affiliates are translated into Japanese yen at the exchange rate on the date of acquisition.

## 5. Reserves

### *(1) Allowance for possible loan losses*

Allowance for possible loan losses is provided in accordance with the Company's standards of self-assessment and write-offs and reserves on credit quality:

- i) For the credits of borrowers who are legally bankrupt such as being in the proceedings of bankruptcy or civil rehabilitation (hereinafter called "legally bankrupt borrowers") and who are substantially bankrupt (hereinafter called "substantially bankrupt borrowers"), the Company provides the remaining amount of credits after the direct write-off described below and the deductions of the amount expected to be collected through the disposal of collateral or the execution of guarantees.
- ii) For the credits of borrowers who are not currently bankrupt but have a high possibility of bankruptcy, the Company provides the amounts deemed as necessary considering the borrowers' ability to pay, within the amounts after deductions of the amount expected to be collected through the disposal of collateral or the execution of guarantees.
- iii) For the credits of borrowers other than the above, the Company provides the amounts calculated by multiplying the borrowers' balance by the actual ratio of bad debt losses on defaults during a certain past period.



---

All credits are assessed by the relevant departments in accordance with the Company's standards of self-assessment on credit quality. The results of the assessment are reviewed by the audit department, which is independent of business-related divisions. Subsequently, the allowance for possible loan losses are provided based on the results of these assessments.

For the credits of legally bankrupt borrowers and substantially bankrupt borrowers, the amounts remaining after deductions of collateral value or the amounts collectible through the execution of guarantees is written-off directly from the borrower's balance as the estimated uncollectible amounts. The amounts written-off as of March 31, 2004, 2005 and 2006 were ¥22,906 million, ¥22,408 million and ¥833 million (US\$7million), respectively.

### ***(2) Reserve for retirement benefits***

The Company adopts accounting standards for employees' retirement benefits (Business Accounting Council dated June 16, 1998) and accounts for the reserve for retirement benefits based on the projected benefit obligation and plan assets at the balance sheet date.

## **6. Reserve for Price Fluctuation of Securities**

Reserve for price fluctuation of securities is calculated in accordance with the ruling in Article 115 of the Insurance Business Law.

## **7. Accounting for Hedge Activities**

Hedge accounting is based on "Accounting Standards for Financial Instruments" issued on January 22, 1999 by the Business Accounting Deliberation Council.

Primarily, for the interest rate swaps on loans qualifying for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged item, gains and losses on the interest rate swaps are deferred until the maturity of the hedged transactions.

Deposits, bonds and loans denominated in foreign currencies for which forward foreign exchange contracts are used to hedge the foreign currency fluctuations are translated at the contract rates if the forward contracts qualify for specific hedge accounting. In this case, exchange differences between exchange rate on trade date and forward contract rate are allocated to each fiscal year from the date contracted to the date settled.

For judging the effectiveness of hedge used, ratio analysis of comparing the cash flow fluctuation of hedged item with the same of hedging instruments is mostly applied.

## **8. Accounting for Consumption Taxes**

The Company accounts for consumption taxes by the tax-exclusion method. The consumption taxes on certain assets, which are not deductible from consumption taxes withheld and that are stipulated to be deferred under the Tax Law, are deferred as prepaid expenses and amortized equally over five years. Consumption taxes other than deferred consumption taxes are recognized as an expense when incurred.

## **9. Policy Reserve**

Policy reserve is based on Article 116 of the Insurance Business Law, and the premium reserve at the end of fiscal year is calculated by the following method:

In regard to the contracts subject to the standard policy reserve, the method as prescribed by the Commissioner of Financial Services Agency (Ministry of Finance Ordinance No. 48, 1996) is applied.

In regard to the contracts not subject to the standard policy reserve, the net level premium method is applied.

---

## 10. Software

The software for internal use, which is included in other assets, is amortized based on straight-line method over the estimated useful lives.

## 11. Deferred Assets

Bond issuance expenses are charged to income when paid. Discount on bonds is deferred as other assets and amortized equally over the period for which interest on bonds is fixed.

# III. Notes to Balance Sheets

## 1. Loans Receivable

The total amounts of credits to bankrupt borrowers, delinquent loans, delinquent loans past 3 months or more and restructured loans, which were included in loans, were ¥ 7,509 million, ¥1,971 million and ¥2,317 million (US\$19 million) as of March 31, 2004, 2005 and 2006, respectively.

- i) The balances of credits to bankrupt borrowers were ¥568 million, ¥556 million and ¥429 million (US\$3 million) as of March 31, 2004, 2005 and 2006, respectively.
- ii) The balances of delinquent loans were ¥4,744 million, ¥807 million and ¥1,882 million (US\$16 million) as of March 31, 2004, 2005 and 2006, respectively.
- iii) There were no balances of delinquent loans past 3 months or more as of March 31, 2004, 2005 and 2006.
- iv) The balances of restructured loans were ¥2,196 million, ¥607 million and ¥5 million (US\$45 thousand) as of March 31, 2004, 2005 and 2006, respectively.

Credits to bankrupt borrowers represent loans, excluding the balances already written-off, which meet the conditions prescribed in Article 96 Paragraph 1 Item 3 and 4 of the Enforcement Regulations of the Corporate Tax Law. Moreover, accruing interest of these loans is not recorded as income after determining that principal of or interest on these loans is unlikely to be collected due to the significant delay in repayment of principal or interest payment or for some other reasons.

Delinquent loans are credits whose accruing interest is not recorded as income due to the same reasons as described above, and exclude credits to bankrupt borrowers and loans for which interest payments have been suspended and re-scheduled to assist and support the borrowers in the restructuring of their business.

Delinquent loans past 3 months or more are loans for which interest payment or repayment of principal are delinquent for 3 months or more from the due date under the terms of the related loan agreements, excluding those loans classified as credits to bankrupt borrowers and delinquent loans.

Restructured loans are loans for which certain concessions favorable to borrowers, such as interest reduction or exemptions, rescheduling of due date of principal or interest payment, waiver of claim or other terms, have been negotiated for the purpose of assisting and supporting the borrowers in the restructuring of their business. This category excludes loans classified as credits to bankrupt borrowers, delinquent loans and delinquent loans past 3 months or more.

The direct write-offs related to loans decreased credits to bankrupt borrowers described above by ¥51 million, ¥21,615 million and ¥51 million (US\$436 thousand) as of March 31, 2004, 2005 and 2006, respectively.

The direct write-offs related to loans decreased delinquent loans described above by ¥22,854 million, ¥793 million and ¥782 million (US\$6 million) as of March 31, 2004, 2005 and 2006, respectively.

## 2. Accumulated Depreciation of Real Estate and Movables

Accumulated depreciation of real estate and movables totaled to ¥107,225 million, ¥112,678 million and ¥113,289 million (US\$964 million) as of March 31, 2004, 2005 and 2006, respectively.

## 3. Income Taxes

Deferred tax assets as of March 31, 2004, 2005 and 2006 totaled to ¥65,196 million, ¥71,200 million and ¥82,460 million (US\$701 million), respectively. Deferred tax liabilities as of March 31, 2004, 2005 and 2006 totaled to ¥54,862 million, ¥66,387 million and ¥143,320 million (US\$1,220 million), respectively.

Major components of deferred tax assets and liabilities were as follows:

|   | As of March 31, |         |          |                          |
|---|-----------------|---------|----------|--------------------------|
|   | 2004            | 2005    | 2006     | 2006                     |
|   | Millions of yen |         |          | Millions of U.S. dollars |
| Deferred tax assets:                              |                 |         |          |                          |
| Policy reserves .....                             | ¥28,257         | ¥32,962 | ¥ 43,026 | \$ 366                   |
| Reserve for retirement benefits .....             | 15,344          | 18,359  | 18,634   | 158                      |
| Reserve for price fluctuation of securities ..... | 7,851           | 11,157  | 15,424   | 131                      |
| Allowance for possible loan losses .....          | 9,471           | 4,610   | —        | —                        |
| Deferred tax liabilities:                         |                 |         |          |                          |
| Net unrealized gains on securities .....          | 53,702          | 64,914  | 141,654  | 1,205                    |

The statutory tax rate and the actual effective tax rates for the years ended March 31, 2004, 2005 and 2006 were 36.2% and 12.9%, 36.2% and 19.5% and 36.2% and 7.8%, respectively. The major differences between the statutory tax rate and the actual effective tax rate were reserve for dividends to policyholders of (22.8%), (20.9%) and (26.8%) for the years ended March 31, 2004, 2005 and 2006, respectively.

## 4. Separate Accounts

Total assets in separate accounts provided for in Article 118 of the Insurance Business Law were ¥96,690 million, ¥101,227 million and ¥123,046 million (US\$1,047 million) as of March 31, 2004, 2005 and 2006, respectively. The amounts of liabilities were the same as these figures.

## 5. Net Assets

Net assets defined in Article 24-2 Paragraph 2 Item 2 of the Enforcement Regulation of the Insurance Business Law were ¥102,691 million, ¥120,090 million and ¥259,925 million (US\$2,212 million) as of March 31, 2004, 2005 and 2006, respectively.

## 6. Monetary Claims to Directors

Monetary claims to directors as of March 31, 2004, 2005 and 2006 were ¥26 million, ¥21 million and ¥16 million (US\$143 thousand), respectively.

## 7. Receivables from / Payables to Subsidiaries

The total amounts of receivables from/payables to subsidiaries were ¥25 million and ¥975 million as of March 31, 2004, ¥23 million and ¥1,231 million as of March 31, 2005 and ¥21 million (US\$185 thousand) and ¥1,602 million (US\$13 million) as of March 31, 2006, respectively.

## 8. Reserve for Dividends to Policyholders

Changes in reserve for dividends to policyholders were as follows:

|   | As of March 31, |          |          |                          |
|---|-----------------|----------|----------|--------------------------|
|   | 2004            | 2005     | 2006     | 2006                     |
|   | Millions of yen |          |          | Millions of U.S. dollars |
| Balance at the end of previous fiscal year .....    | ¥ 70,751        | ¥ 63,879 | ¥ 57,550 | \$ 489                   |
| Transfer from surplus in previous fiscal year ..... | 15,232          | 16,688   | 18,966   | 161                      |
| Dividends paid in fiscal year .....                 | (22,244)        | (23,079) | (22,057) | (187)                    |
| Increase in interest .....                          | 140             | 62       | 55       | 0                        |
| Balance at the end of fiscal year .....             | ¥ 63,879        | ¥ 57,550 | ¥ 54,516 | \$ 464                   |

## 9. Pledged Assets and Secured Debts

Assets pledged as collateral as of March 31, 2004, 2005 and 2006 totaled to ¥22,794 million, ¥20,834 million and ¥19,440 million (US\$165 million), respectively. Secured debts as of March 31, 2004, 2005 and 2006 totaled to ¥5,268 million, ¥5,080 million and ¥4,868 million (US\$41 million), respectively.

## 10. Commitment Line

As of March 31, 2004, 2005 and 2006, there were unused commitment line agreements under which the Company is the lender of ¥14,332 million, ¥12,812 million and ¥3,624 million (US\$30 million), respectively.

## 11. Subordinated Bonds

Repayments of subordinated bonds are subordinated to other obligations.

## 12. Subordinated Debt Loans

Repayments of subordinated debt loans are subordinated to other obligations.

## 13. Assets Denominated in Foreign Currencies

Assets denominated in foreign currencies as of March 31, 2004, 2005 and 2006 totaled to ¥310,670 million, ¥396,364 million and ¥569,822 million (US\$4,850 million), respectively. The principal foreign currency asset amounts as of March 31, 2004, 2005 and 2006 were US\$1,507 million and 801 million euros, US\$1,644 million and 1,017 million euros and US\$2,567 million and 1,487 million euros, respectively.

Liabilities denominated in foreign currencies as of March 31, 2006 totaled to ¥43,820 million. The foreign currency liability amounts as of March 31, 2006 were 306 million euros.

#### 14. Contribution to Policyholders Protection Fund and Corporation

The future contribution to the former Insurance Policyholders Protection Fund of Japan, which was succeeded by the Life Insurance Policyholders Protection Corporation of Japan based on the Supplementary Article 140 Paragraph 5 of the Financial System Reform Law, were estimated at ¥1,783 million, ¥1,306 million and ¥800 million (US\$6 million) as of March 31, 2004, 2005 and 2006, respectively. The contribution will be charged as operating expenses in the year in which they are paid.

The future contribution to the Life Insurance Policyholders Protection Corporation of Japan under Article 259 of the Insurance Business Law were estimated at ¥9,247 million, ¥7,243 million and ¥10,615 million (US\$90 million) as of March 31, 2004, 2005 and 2006, respectively. The contribution will be charged as operating expenses in the year in which they are paid.

#### 15. Reserve for Retirement Benefits

(1) The reserve for retirement benefits as of March 31, 2004, 2005 and 2006 were calculated as follows:

| As of March 31,                                    |                 |            |            |                          |
|--|-----------------|------------|------------|--------------------------|
|  | 2004            | 2005       | 2006       | 2006                     |
|  | Millions of yen |            |            | Millions of U.S. dollars |
| a. Projected benefit obligation .....              | ¥ (73,941)      | ¥ (73,281) | ¥ (73,568) | \$ (626)                 |
| b. Fair value of pension plan assets .....         | 14,338          | 15,771     | 19,810     | 168                      |
| c. Unfunded benefit obligation (a+b) .....         | (59,602)        | (57,510)   | (53,758)   | (457)                    |
| d. Unrecognized transition obligation .....        | 7,887           | —          | —          | —                        |
| e. Unrecognized actuarial differences .....        | 7,141           | 5,572      | 2,020      | 17                       |
| f. Unrecognized prior service cost .....           | 345             | 310        | 276        | 2                        |
| g. Reserve for retirement benefits (c+d+e+f) ..... | ¥ (44,228)      | ¥ (51,627) | ¥ (51,461) | \$ (438)                 |

(2) Gross amount of retirement benefit expenses for the years ended March 31, 2004, 2005 and 2006 were as follows:

| Year ended March 31,                        |                 |         |        |                          |
|---|-----------------|---------|--------|--------------------------|
|   | 2004            | 2005    | 2006   | 2006                     |
|   | Millions of yen |         |        | Millions of U.S. dollars |
| Service cost .....                          | ¥ 3,894         | ¥ 3,826 | ¥3,563 | \$ 30                    |
| Interest cost .....                         | 1,481           | 1,478   | 1,464  | 12                       |
| Expected return on plan assets .....        | (392)           | (501)   | (551)  | (4)                      |
| Amortization of transition obligation ..... | 7,887           | 7,887   | —      | —                        |
| Recognized actuarial differences .....      | 980             | 851     | 780    | 6                        |
| Amortization of prior service cost .....    | 6               | 34      | 34     | 0                        |
|   | ¥13,857         | ¥13,576 | ¥5,290 | \$ 45                    |

Notes: The amortization of transition obligation is recorded as provision for reserve for retirement benefits which is included in extraordinary losses.

(3) *The assumptions used in calculation of the above information were as follows:*

|  |                     |
|--|---------------------|
| ■ Method of attributing the projected benefits to periods of service ..... | Straight-line basis |
| ■ Discount rate .....  | 2.0%                |
| ■ Expected rate of return on pension plan assets .....                     | 3.5%                |
| ■ Amortization period of transition obligation .....                       | 5 years             |
| ■ Recognition period of actuarial differences.....                         | 10 years            |
| ■ Amortization period of prior service cost .....                          | 10 years            |

## 16. Stocks of Subsidiaries

The amounts of stocks of subsidiaries the Company held as of March 31, 2004, 2005 and 2006 were ¥2,826 million (US\$24 million), respectively.

## 17. Policy Reserves for the Reinsurance Contracts

Reserve for outstanding claims for the reinsurance contracts provided in accordance with Article 71 Item 1 of the Enforcement Regulation of the Insurance Business Law ("reserve for outstanding claims for ceded reinsurance") were ¥27 million and ¥900 thousand (US\$7 thousand) of March 31, 2005 and 2006, respectively.

Policy reserve for the reinsurance contracts provided in accordance with Article 71 Item 1 of the Enforcement Regulation of the Insurance Business Law ("policy reserve for ceded reinsurance") were ¥39 million and ¥31 million (US\$269 thousand) as of March 31, 2005 and 2006, respectively.

# IV. Notes to Statements of Operations

## 1. Transactions with Subsidiaries

The total amounts of revenues and expenses from transactions with subsidiaries for the years ended March 31, 2004, 2005 and 2006 were ¥430 million and ¥5,857 million, ¥351 million and ¥6,226 million, and ¥405 million (US\$3 million) and ¥6,746 million (US\$57 million), respectively.

## 2. Gains/Losses on Sales of Securities, Losses on Securities

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

|                                 | Year ended March 31, |         |         |                          |
|---------------------------------|----------------------|---------|---------|--------------------------|
|                                 | 2004                 | 2005    | 2006    | 2006                     |
|                                 | Millions of yen      |         |         | Millions of U.S. dollars |
| Domestic bonds .....            | ¥11,888              | ¥ 1,731 | ¥ 1,341 | \$ 11                    |
| Domestic stocks and other ..... | 5,544                | 6,405   | 25,607  | 217                      |
| Foreign securities .....        | 1,690                | 350     | 1,499   | 12                       |

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

|                                 | Year ended March 31, |       |       |                          |
|---------------------------------|----------------------|-------|-------|--------------------------|
|                                 | 2004                 | 2005  | 2006  | 2006                     |
|                                 | Millions of yen      |       |       | Millions of U.S. dollars |
| Domestic bonds .....            | ¥ 9,076              | ¥ 534 | ¥ 702 | \$ 5                     |
| Domestic stocks and other ..... | 12,674               | 3,051 | 4,994 | 42                       |
| Foreign securities .....        | 278                  | 228   | 244   | 2                        |



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

|                                 | Year ended March 31, |      |      |                          |
|---------------------------------|----------------------|------|------|--------------------------|
|                                 | 2004                 | 2005 | 2006 | 2006                     |
|                                 | Millions of yen      |      |      | Millions of U.S. dollars |
| Domestic stocks and other ..... | ¥568                 | ¥693 | ¥266 | \$ 2                     |
| Foreign securities .....        | —                    | 67   | —    | —                        |

### 3. Policy Reserve for the Reinsurance Contracts

For the year ended March 31, 2006, reversal of reserve for outstanding claims for ceded reinsurance considered in calculation of provision for reserve for outstanding claims was ¥26 million (US\$223 thousand).

For the year ended March 31, 2006, reversal of policy reserve for ceded reinsurance considered in calculation of provision for policy reserve was ¥8 million (US\$68 thousand).

### 4. Gains from Trading Securities

Major items of gains from trading securities were as follows:

|   | Year ended March 31, |         |        |                          |
|---|----------------------|---------|--------|--------------------------|
|   | 2004                 | 2005    | 2006   | 2006                     |
|   | Millions of yen      |         |        | Millions of U.S. dollars |
| Interest, dividends and other income .....              | ¥ 4,776              | ¥ 6,518 | ¥8,310 | \$70                     |
| Gains/(Losses) on sales of trading securities .....     | (1,001)              | (538)   | 3,299  | 28                       |
| Gains/(Losses) on valuation of trading securities ..... | (2,902)              | 3,475   | 4,036  | 34                       |

### 5. Gains/Losses from Money Held in Trust

Gains from money held in trust for the years ended March 31, 2004, 2005 and 2006 included valuation gains of ¥7,733 million, ¥2,446 million and ¥2,447 million (US\$20 million), respectively.

### 6. Gains/Losses from derivative Instruments

Gains from derivative instruments for the year ended March 31, 2004 included valuation gains of ¥2,021 million.

Losses from derivative instruments for the year ended March 31, 2005 included valuation losses of ¥3,965 million.

Gains from derivative instruments for the year ended March 31, 2006 included valuation gains of ¥1,539 million (US\$13 million).

### 7. Extraordinary Losses

Other extraordinary losses included in extraordinary losses for the year ended March 31, 2004 were losses relating to subsidiaries, net of the reversal of reserve for financial assistance to related company of ¥650 million.

## 8. Impairment of Fixed Assets

Effective for fiscal years beginning on or after April 1, 2005, the Company adopted accounting standards for impairment of fixed assets (Business Accounting Council dated August 9, 2002). As a result, surplus before income taxes for the year decreased by ¥3,920 million (US\$33 million).

### *(1) Method of grouping*

Real estate and other assets used for insurance business operations are classified as one asset group as a whole. Other assets such as lease property and unused real estate are classified as one group individually.

### *(2) Background of recognizing the impairment losses*

As a result of decline in profitability due to decrease of rental income and of continuous decline of market value of land, the Company reduced the book value of lease property and unused real estate to recoverable amount. The amount reduced were recognized as impairment losses included in extraordinary losses.

### *(3) Asset groups recognized impairment losses and losses by fixed assets*

|                        | Year ended March 31, |                          |
|------------------------|----------------------|--------------------------|
|                        | 2006                 | 2006                     |
|                        | Millions of yen      | Millions of U.S. dollars |
| a. Lease property:     |                      |                          |
| Land .....             | ¥ 952                | \$ 8                     |
| Buildings .....        | 1,701                | 14                       |
| Others .....           | 559                  | 4                        |
| Total .....            | ¥ 3,214              | \$ 27                    |
| b. Unused real estate: |                      |                          |
| Land .....             | ¥ 307                | \$ 2                     |
| Buildings .....        | 397                  | 3                        |
| Others .....           | 1                    | 0                        |
| Total .....            | ¥ 706                | \$ 6                     |
| c. Total (a+b):        |                      |                          |
| Land .....             | ¥ 1,259              | \$ 10                    |
| Buildings .....        | 2,099                | 17                       |
| Others .....           | 561                  | 4                        |
| Total .....            | ¥ 3,920              | \$ 33                    |

Note : Major item of others was impairment losses of land lease rights of ¥559 million (US\$4 million).

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

Recoverable amount is based on net sales value. Net sales value is determined based on appraisal value, posted price or road rate.

## V. Subsequent Events

On May 8, 2006, the board of directors of the Company resolved the raising foundation funds for the purpose of strengthening of the capital base subject to the approval of the policyholder representative meeting and Financial Service Agency.

## Report of Independent Auditors

The Board of Directors of Fukoku Mutual Life Insurance Company

We have audited the accompanying non-consolidated balance sheets of Fukoku Mutual Life Insurance Company as of March 31, 2004, 2005 and 2006, and the related non-consolidated statements of operations and surplus 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 audits.

We conducted our audits 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 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 audits provide 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 Fukoku Mutual 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.

- (1) As described in Note IV. 8, in the year ended March 31, 2006, the Company adopted the new accounting standards for impairment of fixed assets.
- (2) As described in Note V, on May 8, 2006, the board of the directors of the Company resolved the raising foundation funds.

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 I. 2 to the accompanying non-consolidated financial statements.

Tokyo, Japan  
May 24, 2006

A handwritten signature in black ink that reads "The Fuji Accounting Office". The signature is written in a cursive, flowing style.

The Fuji Accounting Office

# Consolidated Financial Statements

## Consolidated Balance Sheets

| As of March 31,   |                   |                   |                   |                          |
|---|-------------------|-------------------|-------------------|--------------------------|
|   | 2004              | 2005              | 2006              | 2006                     |
|   | Millions of yen   |                   |                   | Millions of U.S. dollars |
| <b>Assets:</b>  |                   |                   |                   |                          |
| Cash and deposits .....   | ¥ 47,037          | ¥ 29,419          | ¥ 73,841          | \$ 628                   |
| Call loans .....  | 191,700           | 131,300           | 65,000            | 553                      |
| Monetary claims bought .....                                    | —                 | 3,563             | 3,211             | 27                       |
| Money held in trust .....                                       | 76,877            | 79,554            | 95,849            | 815                      |
| Securities .....  | 3,071,799         | 3,315,697         | 3,913,767         | 33,317                   |
| Loans .....   | 1,336,491         | 1,282,439         | 1,250,813         | 10,647                   |
| Real estate and movables .....                                  | 203,087           | 195,172           | 196,510           | 1,672                    |
| Reinsurance receivables .....                                   | 185               | 77                | 108               | 0                        |
| Other assets .....  | 73,088            | 50,846            | 89,668            | 763                      |
| Deferred tax assets .....                                       | 10,414            | 4,898             | 191               | 1                        |
| Allowance for possible loan losses .....                        | (5,162)           | (3,183)           | (2,989)           | (25)                     |
| <b>Total assets</b> .....                                       | <b>¥5,005,519</b> | <b>¥5,089,787</b> | <b>¥5,685,972</b> | <b>\$48,403</b>          |
| <b>Liabilities:</b>   |                   |                   |                   |                          |
| Policy reserves:  |                   |                   |                   |                          |
| Reserve for outstanding claims .....                            | ¥ 24,503          | ¥ 25,294          | ¥ 27,472          | \$ 233                   |
| Policy reserve .....  | 4,520,195         | 4,630,543         | 4,951,438         | 42,150                   |
| Reserve for dividends to policyholders .....                    | 63,879            | 57,550            | 54,516            | 464                      |
|   | 4,608,579         | 4,713,388         | 5,033,427         | 42,848                   |
| Reinsurance payables .....                                      | 86                | 78                | 85                | 0                        |
| Subordinated bonds .....  | 32,500            | 32,500            | 42,843            | 364                      |
| Other liabilities .....   | 111,945           | 45,085            | 83,937            | 714                      |
| Reserve for retirement benefits .....                           | 44,236            | 51,639            | 51,477            | 438                      |
| Reserve for price fluctuation of securities .....               | 21,683            | 30,813            | 42,597            | 362                      |
| Deferred tax liabilities .....                                  | —                 | —                 | 60,860            | 518                      |
| Deferred tax liabilities for revaluation reserve for land ..... | 2,101             | 2,543             | 2,977             | 25                       |
| <b>Total liabilities</b> .....                                  | <b>4,821,131</b>  | <b>4,876,048</b>  | <b>5,318,205</b>  | <b>45,272</b>            |
| <b>Minority interest</b> .....                                  | <b>338</b>        | <b>367</b>        | <b>468</b>        | <b>3</b>                 |
| <b>Capital:</b>   |                   |                   |                   |                          |
| Foundation funds .....  | 30,000            | 30,000            | 30,000            | 255                      |
| Accumulated foundation funds redeemed .....                     | 1,000             | 1,000             | 1,000             | 8                        |
| Reserve for revaluation .....                                   | 112               | 112               | 112               | 0                        |
| Surplus .....   | 54,840            | 63,599            | 81,488            | 693                      |
| Revaluation reserve for land, net of tax .....                  | 3,701             | 4,480             | 5,244             | 44                       |
| Net unrealized gains on securities, net of tax .....            | 94,608            | 114,360           | 249,554           | 2,124                    |
| Foreign currency translation adjustment .....                   | (213)             | (181)             | (101)             | (0)                      |
| <b>Total capital</b> .....                                      | <b>184,048</b>    | <b>213,370</b>    | <b>367,298</b>    | <b>3,126</b>             |
| <b>Total liabilities, minority interest and capital</b> .....   | <b>¥5,005,519</b> | <b>¥5,089,787</b> | <b>¥5,685,972</b> | <b>\$48,403</b>          |

See notes to the consolidated financial statements.

## Consolidated Statements of Operations

Year ended March 31,

|   | 2004            | 2005           | 2006             | 2006                     |
|---|-----------------|----------------|------------------|--------------------------|
|   | Millions of yen |                |                  | Millions of U.S. dollars |
| <b>Ordinary revenues:</b>                                   |                 |                |                  |                          |
| Premium and other income .....                              | ¥740,935        | ¥731,703       | ¥846,007         | \$7,201                  |
| Investment income:  |                 |                |                  |                          |
| Interest, dividends and other income .....                  | 77,517          | 79,552         | 83,229           | 708                      |
| Gains from money held in trust, net .....                   | 10,738          | 5,103          | 11,070           | 94                       |
| Gains from trading securities, net .....                    | 886             | 9,671          | 16,214           | 138                      |
| Gains on sales of securities .....                          | 19,127          | 8,486          | 28,448           | 242                      |
| Gains on redemption of securities .....                     | 21              | —              | —                | —                        |
| Gains from derivative instruments, net .....                | 862             | —              | —                | —                        |
| Other investment income .....                               | 1,043           | 557            | 730              | 6                        |
| Gains from separate accounts, net .....                     | 16,129          | 3,955          | 25,514           | 217                      |
|   | 126,326         | 107,327        | 165,207          | 1,406                    |
| Other ordinary revenues .....                               | 19,558          | 21,706         | 18,654           | 158                      |
| <b>Total ordinary revenues</b> .....                        | <b>886,820</b>  | <b>860,738</b> | <b>1,029,869</b> | <b>8,767</b>             |
| <b>Ordinary expenditures:</b>                               |                 |                |                  |                          |
| Claims and other payments:                                  |                 |                |                  |                          |
| Claims .....  | 214,554         | 201,237        | 197,973          | 1,685                    |
| Annuities .....   | 55,674          | 58,477         | 64,442           | 548                      |
| Benefits .....  | 139,258         | 127,417        | 123,924          | 1,054                    |
| Surrenders .....  | 139,902         | 98,395         | 87,322           | 743                      |
| Other payments .....  | 50,726          | 78,273         | 24,156           | 205                      |
|   | 600,116         | 563,801        | 497,819          | 4,237                    |
| Provision for policy reserve and others:                    |                 |                |                  |                          |
| Provision for reserve for outstanding claims .....          | 1,583           | 790            | 2,178            | 18                       |
| Provision for policy reserve .....                          | 97,418          | 110,348        | 320,894          | 2,731                    |
| Interest on accumulated dividends to policyholders .....    | 140             | 62             | 55               | 0                        |
|   | 99,143          | 111,200        | 323,128          | 2,750                    |
| Investment expenses:  |                 |                |                  |                          |
| Interest expenses .....                                     | 684             | 666            | 1,655            | 14                       |
| Losses on sales of securities .....                         | 22,029          | 3,814          | 5,941            | 50                       |
| Losses on valuation of securities .....                     | 568             | 760            | 266              | 2                        |
| Losses on redemption of securities .....                    | 10              | 2              | 19               | 0                        |
| Losses from derivative instruments, net .....               | —               | 8,273          | 17,834           | 151                      |
| Foreign exchange losses, net .....                          | 346             | 84             | 1,294            | 11                       |
| Provision for allowance for possible loan losses .....      | 2,044           | —              | —                | —                        |
| Depreciation of real estate for rent and other assets ..... | 5,091           | 4,704          | 4,453            | 37                       |
| Other investment expenses .....                             | 3,555           | 3,437          | 3,499            | 29                       |
|   | 34,329          | 21,742         | 34,965           | 297                      |
| Operating expenses .....                                    | 91,833          | 88,839         | 92,061           | 783                      |
| Other ordinary expenditures .....                           | 19,644          | 22,020         | 23,417           | 199                      |
| <b>Total ordinary expenditures</b> .....                    | <b>845,067</b>  | <b>807,605</b> | <b>971,392</b>   | <b>8,269</b>             |
| <b>Ordinary profits</b> .....                               | <b>41,753</b>   | <b>53,132</b>  | <b>58,476</b>    | <b>497</b>               |

## Consolidated Statements of Operations (Continued)

|   | Year ended March 31, |                |                |                          |
|---|----------------------|----------------|----------------|--------------------------|
|   | 2004                 | 2005           | 2006           | 2006                     |
|   | Millions of yen      |                |                | Millions of U.S. dollars |
| <b>Extraordinary gains:</b>                                     |                      |                |                |                          |
| Gains on disposal of real estate and movables .....             | ¥ 1,572              | ¥ 170          | ¥ 1,165        | \$ 9                     |
| Reversal of allowance for possible loan losses .....            | —                    | 2,159          | 492            | 4                        |
| <b>Total extraordinary gains .....</b>                          | <b>1,572</b>         | <b>2,330</b>   | <b>1,657</b>   | <b>14</b>                |
| <b>Extraordinary losses:</b>                                    |                      |                |                |                          |
| Losses on disposal of real estate and movables .....            | 4,263                | 4,985          | 2,607          | 22                       |
| Impairment loss .....   | —                    | —              | 3,920          | 33                       |
| Provision for reserve for retirement benefits .....             | 7,887                | 7,887          | —              | —                        |
| Provision for reserve for price fluctuation of securities ..... | 3,944                | 9,130          | 11,784         | 100                      |
| Other extraordinary losses .....                                | 997                  | —              | —              | —                        |
| <b>Total extraordinary losses .....</b>                         | <b>17,092</b>        | <b>22,002</b>  | <b>18,312</b>  | <b>155</b>               |
| <b>Surplus before income taxes .....</b>                        | <b>26,233</b>        | <b>33,460</b>  | <b>41,821</b>  | <b>356</b>               |
| <b>Income taxes:</b>  |                      |                |                |                          |
| Current .....   | 14,245               | 11,954         | 14,310         | 121                      |
| Deferred .....  | (10,742)             | (5,253)        | (10,741)       | (91)                     |
| <b>Minority interest .....</b>                                  | <b>35</b>            | <b>39</b>      | <b>118</b>     | <b>1</b>                 |
| <b>Net surplus for the year .....</b>                           | <b>¥ 22,694</b>      | <b>¥26,720</b> | <b>¥38,134</b> | <b>\$ 324</b>            |

See notes to the consolidated financial statements.



## Consolidated Statements of Surplus

|   | Year ended March 31, |         |                |                          |
|---|----------------------|---------|----------------|--------------------------|
|   | 2004                 | 2005    | 2006           | 2006                     |
|   | Millions of yen      |         |                | Millions of U.S. dollars |
| <b>Surplus at the beginning of the year</b> .....   | ¥47,420              | ¥54,840 | ¥63,599        | <b>\$541</b>             |
| <b>Additions:</b>   |                      |         |                |                          |
| Net surplus for the year .....  | 22,694               | 26,720  | <b>38,134</b>  | <b>324</b>               |
| Reversal of revaluation reserve for land .....  | 528                  | —       | —              | —                        |
| Increase of surplus due to reduction in the number<br>of affiliates under the equity method ..... | 0                    | —       | —              | —                        |
|   | 23,223               | 26,720  | <b>38,134</b>  | <b>324</b>               |
| <b>Deductions:</b>  |                      |         |                |                          |
| Transfer to reserve for dividends to policyholders .....  | 15,232               | 16,611  | <b>18,910</b>  | <b>160</b>               |
| Interest payment for foundation funds .....   | 531                  | 531     | <b>531</b>     | <b>4</b>                 |
| Bonus to directors and statutory auditors .....   | 40                   | 40      | <b>40</b>      | <b>0</b>                 |
| Reversal of revaluation reserve for land .....  | —                    | 778     | <b>764</b>     | <b>6</b>                 |
|   | 15,803               | 17,961  | <b>20,245</b>  | <b>172</b>               |
| <b>Surplus at the end of the year</b> .....   | ¥54,840              | ¥63,599 | <b>¥81,488</b> | <b>\$693</b>             |

See notes to the consolidated financial statements.

## Consolidated Statements of Cash Flows

Year ended March 31,

|   | 2004             | 2005            | 2006            | 2006                     |
|---|------------------|-----------------|-----------------|--------------------------|
|   | Millions of yen  |                 |                 | Millions of U.S. dollars |
| <b>Cash flows from operating activities:</b>                              |                  |                 |                 |                          |
| Surplus before income taxes .....   | ¥ 26,233         | ¥ 33,460        | ¥ 41,821        | \$ 356                   |
| Depreciation of real estate for rent and other assets .....               | 5,091            | 4,704           | 4,453           | 37                       |
| Depreciation .....  | 5,651            | 5,536           | 5,643           | 48                       |
| Impairment loss .....   | —                | —               | 3,920           | 33                       |
| Amortization of consolidation goodwill .....                              | (70)             | —               | —               | —                        |
| Increase (Decrease) in reserve for outstanding claims .....               | 1,583            | 790             | 2,178           | 18                       |
| Increase (Decrease) in policy reserve .....                               | 97,418           | 110,348         | 320,894         | 2,731                    |
| Interest on accumulated dividends to policyholders .....                  | 140              | 62              | 55              | 0                        |
| Increase (Decrease) in allowance for possible loan losses .....           | 2,044            | (2,159)         | (492)           | (4)                      |
| Increase (Decrease) in reserve for retirement benefits .....              | 6,584            | 7,402           | (162)           | (1)                      |
| Increase (Decrease) in reserve for price fluctuation of securities .....  | 3,944            | 9,130           | 11,784          | 100                      |
| Interest, dividends and other income .....                                | (77,517)         | (79,552)        | (83,229)        | (708)                    |
| (Gains) Losses on securities .....  | (22,494)         | (14,366)        | (57,185)        | (486)                    |
| Interest expenses .....   | 684              | 666             | 1,655           | 14                       |
| Foreign exchange (gains) losses, net .....                                | 346              | 84              | 1,294           | 11                       |
| (Gains) Losses on real estate and movables .....                          | 2,154            | 4,814           | 1,441           | 12                       |
| (Increase) Decrease in reinsurance receivables .....                      | 15               | 107             | (30)            | (0)                      |
| (Increase) Decrease in other assets .....                                 | (3,100)          | 892             | (5,768)         | (49)                     |
| Increase (Decrease) in reinsurance payables .....                         | (7)              | (8)             | 6               | 0                        |
| Increase (Decrease) in other liabilities .....                            | (2,286)          | (1,985)         | 195             | 1                        |
| Others .....  | 756              | 2,612           | 4,461           | 37                       |
| Subtotal .....  | 47,172           | 82,540          | 252,940         | 2,153                    |
| Interest, dividends and other income received .....                       | 85,749           | 90,509          | 97,732          | 831                      |
| Interest paid .....   | (684)            | (666)           | (1,649)         | (14)                     |
| Dividends to policyholders paid .....                                     | (22,244)         | (23,002)        | (22,000)        | (187)                    |
| Others .....  | 211              | 4               | —               | —                        |
| Corporate income tax paid .....   | (752)            | (20,779)        | (11,059)        | (94)                     |
| Net cash provided by (used in) operating activities .....                 | 109,451          | 128,605         | 315,963         | 2,689                    |
| <b>Cash flows from investing activities:</b>                              |                  |                 |                 |                          |
| (Increase) Decrease in deposits .....                                     | —                | (233)           | (15)            | (0)                      |
| Proceeds from sales and redemption of monetary claims bought .....        | —                | —               | 351             | 2                        |
| Payments for increase in money held in trust .....                        | (5,000)          | (11,007)        | (10,299)        | (87)                     |
| Proceeds from decrease in money held in trust .....                       | 91,578           | 13,375          | 5,006           | 42                       |
| Payments for purchase of securities .....                                 | (2,253,986)      | (861,434)       | (1,102,731)     | (9,387)                  |
| Proceeds from sales and redemption of securities .....                    | 1,893,041        | 609,363         | 762,325         | 6,489                    |
| Payments for additions to loans .....                                     | (401,252)        | (327,026)       | (364,582)       | (3,103)                  |
| Proceeds from collections of loans .....                                  | 444,014          | 379,926         | 398,529         | 3,392                    |
| Proceeds from settlement of derivative .....                              | —                | —               | (19,373)        | (164)                    |
| Others .....  | 1,227            | (5,342)         | (728)           | (6)                      |
| Subtotal .....  | (230,378)        | (202,379)       | (331,517)       | (2,822)                  |
| Payments for purchase of real estate and movables .....                   | (3,561)          | (4,911)         | (17,728)        | (150)                    |
| Proceeds from sales of real estate and movables .....                     | 3,184            | 1,001           | 5,204           | 44                       |
| Others .....  | 1,167            | —               | —               | —                        |
| Net cash provided by (used in) investing activities .....                 | (229,588)        | (206,289)       | (344,041)       | (2,928)                  |
| <b>Cash flows from financing activities:</b>                              |                  |                 |                 |                          |
| Proceeds from issuing bonds .....   | —                | —               | 40,524          | 344                      |
| Payments for redemption of bonds .....                                    | —                | —               | (32,500)        | (276)                    |
| Interest payment for foundation funds .....                               | (531)            | (531)           | (531)           | (4)                      |
| Others .....  | (1)              | (10)            | (18)            | (0)                      |
| Net cash provided by (used in) financing activities .....                 | (532)            | (541)           | 7,475           | 63                       |
| <b>Effect of exchange rate changes on cash and cash equivalents .....</b> | <b>(99)</b>      | <b>(27)</b>     | <b>(1,290)</b>  | <b>(10)</b>              |
| <b>Net increase (decrease) in cash and cash equivalents .....</b>         | <b>(120,768)</b> | <b>(78,251)</b> | <b>(21,893)</b> | <b>(186)</b>             |
| <b>Cash and cash equivalents at the beginning of the year .....</b>       | <b>359,506</b>   | <b>238,737</b>  | <b>160,485</b>  | <b>1,366</b>             |
| <b>Cash and cash equivalents at the end of the year .....</b>             | <b>¥238,737</b>  | <b>¥160,485</b> | <b>¥138,592</b> | <b>\$1,179</b>           |

See notes to the consolidated financial statements.

---

## Notes to the Consolidated Financial Statements

---

### I. Presentation of the Consolidated Financial Statements

#### 1. Basis of Presentation

The accompanying consolidated financial statements have been prepared from the accounts maintained by Fukoku Mutual Life Insurance Company (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Insurance Business Law of Japan and its related rules and regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects from accounting principles generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

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

#### 2. U.S. Dollar Amounts

The translations of yen amounts into U.S. dollar amounts are included solely for the convenience of the reader and have been made, as a matter of arithmetical computation only, at the rate of ¥117.47 = US\$1.00, the effective rate of exchange at the balance sheet date of March 31, 2006. The translations should not be construed as representations that such yen amounts have been or could in the future be, converted into U.S. dollars at that or any other rates.

### II. Summary of Significant Accounting Policies

#### 1. Principles of Consolidation

##### *(1) Scope of Consolidation*

Consolidated subsidiaries for the year ended March 31, 2006 are listed below:

- Fukoku Shinyo Hosho Company Limited
- Fukoku Capital Management, Inc.
- Fukoku Information Systems Co., Ltd.
- Fukoku Life International (U.K.) Limited
- Fukoku Life International (America) Inc.

Fukoku Shinyo Hosho Company Limited, an affiliate for the year ended March 31, 2003, became a subsidiary in the year ended March 31, 2004 and has been included in the scope of consolidation since the year ended March 31, 2004.

Major unconsolidated subsidiary is Fukoku Seimei Building Company Limited.

Seven subsidiaries are excluded from the scope of consolidation, as each one of them is small in its total assets, amount of sales, net surplus for the year and surplus and is sufficiently insignificant to reasonable judgement on its impact on the financial position and results of operation of the Company's group.

##### *(2) Application of Equity Method*

Unconsolidated subsidiaries (such as Fukoku Seimei building Company Limited, etc.) are insignificant in their impact on net surplus for the year and surplus, and also immaterial as a whole, therefore, application of equity method is withheld.

There are no affiliates for the years ended March 31, 2004, 2005 and 2006.

---

***(3) Fiscal Year of Consolidated Subsidiaries***

Among the subsidiaries to be consolidated, fiscal year-end of overseas subsidiaries is December 31. For the preparation of consolidated financial statements, financial statements as of that date are used and concerning any important transaction taking place in between December 31 and the consolidated closing date, necessary adjustments for consolidation are made.

***(4) 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.

***(5) Amortization of Consolidation Goodwill***

Consolidation goodwill is charged to operating expenses for the year in which it is incurred.

***(6) Treatment of Appropriation of Surplus***

Consolidated statements of surplus are prepared based on the final appropriation of surplus within the fiscal year.

***(7) Cash and Cash Equivalents***

Cash and cash equivalents, for the purpose of reporting cash flows, are composed of cash in hand, postal saving, current deposit, ordinary deposit, deposit at notice and call loan. They also include time deposit, foreign currency deposit and negotiable certificate of deposit, with maturity of three months or less when purchased.

## **2. Valuation Methods of Securities**

The valuations of securities, including bank deposits and monetary claims bought which are equivalent to securities, and securities managed as trust assets in money held in trust, are as follows:

- i) Trading securities are stated at fair market value. 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.
- 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 with fair market value are stated at fair market value based on the market prices at the end of fiscal year. Costs of their sales are determined by the moving average method. Net unrealized gains or losses on these available-for-sale securities, net of taxes, are recorded as a separate component of capital.

Available-for-sale securities with no fair market value 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 acquisition cost and face value is considered to be an adjustment of interest. Such bonds are stated at amortized cost under the straight-line method, cost being determined by the moving average method.

Derivative instruments are stated at fair market value.

---

### 3. Revaluation of Land

The Company revalued the land for business purposes based on the Law for Revaluation of Land (Law No.34 promulgated on March 31, 1998). The difference between fair value and book value resulting from the revaluation, net of related taxes, is recorded as revaluation reserve for land as a separate component of capital and the related tax is recorded as deferred tax liabilities for revaluation reserve for land.

- Date of revaluation: March 31, 2002
- Method of revaluation as prescribed for in Article 3 Paragraph 3 of the said Law:  
Calculation is based on the appraisal value for property tax set forth in Article 2 item 3 of the Enforcement Ordinance of the Law for Revaluation of Land (Government Ordinance No.119 promulgated on March 31, 1998) and the road rate set forth in Article 2 item 4 of the said Ordinance with certain reasonable adjustments.
- The excess of the aggregate new book value of land for business purposes after revaluation over the total fair value of land, which is required to be disclosed in accordance with Article 10 of the Law for Revaluation of Land, were ¥1,321 million and ¥4,178 million as of March 31, 2004 and 2005, respectively. The total fair value of land exceeded the aggregated new book value of land after revaluation as of March 31, 2006.

### 4. Depreciation of Real Estate and Movables

Depreciation of real estate and movables held by the Company, except for the buildings acquired on and after April 1, 1998 which are depreciated based on the straight-line method, is computed based on the declining-balance method. Movables acquired for ¥100,000 or more but less than ¥200,000 are depreciated by equal amounts over three years.

### 5. Foreign Currency Translation

Foreign currency-denominated assets and liabilities are translated into Japanese yen at the effective exchange rate prevailing at the balance sheet date.

### 6. Reserves

#### *(1) Allowance for possible loan losses*

Allowance for possible loan losses is provided in accordance with the Company's standards of self-assessment and write-offs and reserves on credit quality:

- i) For the credits of borrowers who are legally bankrupt such as being in the proceedings of bankruptcy or civil rehabilitation (hereinafter called "legally bankrupt borrowers") and who are substantially bankrupt (hereinafter called "substantially bankrupt borrowers"), the Company provides the remaining amount of credits after the direct write-off described below and the deductions of the amount expected to be collected through the disposal of collateral or the execution of guarantees.
- ii) For the credits of borrowers who are not currently bankrupt but have a high possibility of bankruptcy, the Company provides the amounts deemed as necessary considering the borrowers' ability to pay, within the amounts after deductions of the amount expected to be collected through the disposal of collateral or the execution of guarantees.
- iii) For the credits of borrowers other than the above, the Company provides the amounts calculated by multiplying the borrowers' balance by the actual ratio of bad debt losses on defaults during a certain past period.

All credits are assessed by the relevant departments in accordance with the Company's standards of self-assessment on credit quality. The results of the assessment are reviewed by the audit department, which is independent of business-related divisions. Subsequently, the allowance for possible loan losses are provided based on the results of these assessments.

---

For the credits of legally bankrupt borrowers and substantially bankrupt borrowers, the amounts remaining after deductions of collateral value or the amounts collectible through the execution of guarantees is written-off directly from the borrower's balance as the estimated uncollectible amounts. The amounts written-off as of March 31, 2004, 2005 and 2006 were ¥22,906 million, ¥22,408 million and ¥833 million (US\$7 million), respectively.

The allowance for possible loan losses of consolidated subsidiaries conforms to the standard used by the Company.

***(2) Reserve for retirement benefits***

The Company and its consolidated subsidiaries adopt accounting standards for employees' retirement benefits (Business Accounting Deliberation Council dated June 16, 1998) and account for the reserve for retirement benefits based on the projected benefit obligation and plan assets at the balance sheet date.

**7. Reserve for Price Fluctuation of Securities**

Reserve for price fluctuation of securities is calculated in accordance with the ruling in Article 115 of the Insurance Business Law.

**8. Lease Transactions**

Finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are primarily accounted for as operating leases.

**9. Accounting for Hedge Activities**

Hedge accounting is based on "Accounting Standards for Financial Instruments" issued on January 22, 1999 by the Business Accounting Deliberation Council.

Primarily, for the interest rate swaps on loans qualifying for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged item, gains and losses on the interest rate swaps are deferred until the maturity of the hedged transactions.

Deposits, bonds and loans denominated in foreign currencies for which forward foreign exchange contracts are used to hedge the foreign currency fluctuations are translated at the contract rates if the forward contracts qualify for specific hedge accounting. In this case, exchange differences between exchange rate on trade date and forward contract rate are allocated to each fiscal year from the date contracted to the date settled.

For judging the effectiveness of hedge used, ratio analysis of comparing the cash flow fluctuation of hedged item with the same of hedging instruments is mostly applied.

**10. Accounting for Consumption Taxes**

The Company and its consolidated subsidiaries account for consumption taxes by the tax-exclusion method. The consumption taxes on certain assets, which are not deductible from consumption taxes withheld and that are stipulated to be deferred under the Tax Law, are deferred as prepaid expenses and amortized equally over five years. Consumption taxes other than deferred consumption taxes are recognized as an expense when incurred.

---

## 11. Policy Reserve

Policy reserve is based on Article 116 of the Insurance Business Law, and the premium reserve at the end of fiscal year is calculated by the following method:

In regard to the contracts subject to the standard policy reserve, the method as prescribed by the Commissioner of Financial Services Agency (Ministry of Finance Ordinance No. 48, 1996) is applied.

In regard to the contracts not subject to the standard policy reserve, the net level premium method is applied.

## 12. Software

The software for internal use, which is included in other assets, is amortized based on straight-line method over the estimated useful lives.

## 13. Deferred Assets

Bond issuance expenses are charged to income when paid. Discount on bonds is deferred as other assets and amortized equally over the period for which interest on bonds is fixed.

# III. Notes to Balance Sheets

## 1. Loans Receivable

The total amounts of credits to bankrupt borrowers, delinquent loans, delinquent loans past 3 months or more and restructured loans, which were included in loans, were ¥7,509 million, ¥1,971 million and ¥2,317 million (US\$19 million) as of March 31, 2004, 2005 and 2006, respectively.

- i) The balances of credits to bankrupt borrowers were ¥568 million, ¥556 million and ¥429 million (US\$3 million) as of March 31, 2004, 2005 and 2006, respectively.
- ii) The balances of delinquent loans were ¥4,744 million, ¥807 million and ¥1,882 million (US\$16 million) as of March 31, 2004, 2005 and 2006, respectively.
- iii) The balances of delinquent loans past 3 months or more were no balances as of March 31, 2004, 2005 and 2006.
- iv) The balances of restructured loans were ¥2,196 million, ¥607 million and ¥5 million (US\$45 thousand) as of March 31, 2004, 2005 and 2006, respectively.

Credits to bankrupt borrowers represent loans, excluding the balances already written-off, which meet the conditions prescribed in Article 96 Paragraph 1 Item 3 and 4 of the Enforcement Regulations of the Corporate Tax Law. Moreover, accruing interest of these loans is not recorded as income after determining that principal or interest on these loans is unlikely to be collected due to the significant delay in repayment of principal or interest payment or for some other reasons.

Delinquent loans are credits whose accruing interest is not recorded as income due to the same reasons as described above, and exclude credits to bankrupt borrowers and loans for which interest payments have been suspended and re-scheduled to assist and support the borrowers in the restructuring of their business.



Delinquent loans past 3 months or more are loans for which interest payment or repayment of principal are delinquent for 3 months or more from the due date under the terms of the related loan agreements, excluding those loans classified as credits to bankrupt borrowers and delinquent loans.

Restructured loans are loans for which certain concessions favorable to borrowers, such as interest reduction or exemptions, rescheduling of due date of principal or interest payment, waiver of claim or other terms, have been negotiated for the purpose of assisting and supporting the borrowers in the restructuring of their business. This category excludes loans classified as credits to bankrupt borrowers, delinquent loans and delinquent loans past 3 months or more.

The direct write-offs related to loans decreased credits to bankrupt borrowers described above by ¥51 million, ¥21,615 million and ¥51 million (US\$436 thousand) as of March 31, 2004, 2005 and 2006, respectively.

The direct write-offs related to loans decreased delinquent loans described above by ¥22,854 million, ¥793 million and ¥782 million (US\$6 million) as of March 31, 2004, 2005 and 2006, respectively.

## 2. Accumulated Depreciation of Real Estate and Movables

Accumulated depreciation of real estate and movables totaled to ¥107,277 million, ¥112,744 million and ¥113,363 million (US\$965 million) as of March 31, 2004, 2005 and 2006, respectively.

## 3. Income Taxes

Deferred tax assets as of March 31, 2004, 2005 and 2006 totaled to ¥65,282 million, ¥71,289 million and ¥82,658 million (US\$703 million), respectively. Deferred tax liabilities as of March 31, 2004, 2005 and 2006 totaled to ¥54,867 million, ¥66,390 million and ¥143,328 million (US\$1,220 million), respectively.

Major components of deferred tax assets and liabilities were as follows:

|   | As of March 31, |         |         |                          |
|---|-----------------|---------|---------|--------------------------|
|   | 2004            | 2005    | 2006    | 2006                     |
|   | Millions of yen |         |         | Millions of U.S. dollars |
| Deferred tax assets:                              |                 |         |         |                          |
| Policy reserves .....                             | ¥28,257         | ¥32,962 | ¥43,026 | \$366                    |
| Reserve for retirement benefits .....             | 15,348          | 18,364  | 18,640  | 158                      |
| Reserve for price fluctuation of securities ..... | 7,851           | 11,157  | 15,424  | 131                      |
| Allowance for possible loan losses .....          | 9,471           | 4,610   |         |                          |
| Deferred tax liabilities:                         |                 |         |         |                          |
| Net unrealized gains on securities .....          | 53,704          | 64,916  | 141,659 | 1,205                    |

The statutory tax rate for the Company and the actual effective tax rates for the years ended March 31, 2004, 2005 and 2006 were 36.2% and 13.4%, 36.2% and 20.0% and 36.2% and 8.5%, respectively. The major differences between the statutory tax rate and the actual effective tax rate were reserve for dividends to policyholders of (22.6%), (20.5%) and (26.3%) for the years ended March 31, 2004, 2005 and 2006, respectively.

#### 4. Separate Accounts

Total assets in separate accounts provided for in Article 118 of the Insurance Business Law were ¥96,690 million, ¥101,227 million and ¥123,046 million (US\$1,047 million) as of March 31, 2004, 2005 and 2006, respectively. The amounts of liabilities were the same as these figures.

#### 5. Monetary Claims to Directors

Monetary claims to directors of the Company as of March 31, 2004, 2005 and 2006 were ¥26 million, ¥21 million and ¥16 million (US\$143 thousand), respectively.

#### 6. Receivables from / Payables to Unconsolidated Subsidiaries

The total amounts of receivables from/payables to unconsolidated subsidiaries were ¥3,250 million and ¥144 million as of March 31, 2004, and ¥2,714 million and ¥184 million as of March 31, 2005 and ¥2,869 million (US\$24 million) and ¥182 million (US\$1 million) as of March 31, 2006, respectively.

#### 7. Reserve for Dividends to Policyholders

Changes in reserve for dividends to policyholders were as follows:

|   | Year ended March 31, |          |          |                          |
|---|----------------------|----------|----------|--------------------------|
|   | 2004                 | 2005     | 2006     | 2006                     |
|   | Millions of yen      |          |          | Millions of U.S. dollars |
| Balance at the end of previous fiscal year .....    | ¥70,751              | ¥63,879  | ¥57,550  | \$489                    |
| Transfer from surplus in previous fiscal year ..... | 15,232               | 16,688   | 18,966   | 161                      |
| Dividends paid in fiscal year .....                 | (22,244)             | (23,079) | (22,057) | (187)                    |
| Increase in interest .....                          | 140                  | 62       | 55       | 0                        |
| Balance at the end of fiscal year .....             | ¥63,879              | ¥57,550  | ¥54,516  | \$464                    |

#### 8. Pledged Assets and Secured Debts

Assets pledged as collateral as of March 31, 2004, 2005 and 2006 totaled to ¥22,794 million, ¥20,834 million and ¥19,440 million (US\$165 million), respectively. Secured debts as of March 31, 2004, 2005 and 2006 totaled to ¥5,268 million, ¥5,080 million and ¥4,868 million (US\$41 million), respectively.

#### 9. Commitment Line

As of March 31, 2004, 2005 and 2006, there were unused commitment line agreements under which the Company is the lender of ¥14,332 million, ¥12,812 million and ¥3,624 million (US\$30 million), respectively.

#### 10. Subordinated Bonds

Repayments of subordinated bonds are subordinated to other obligations.

#### 11. Subordinated Debt Loans

Repayments of subordinated debt loans included in other liabilities of ¥5,000 million (US\$42 million) are subordinated to other obligations.

## 12. Contribution to Policyholders Protection Fund and Corporation

The future contribution to the former Insurance Policyholders Protection Fund of Japan, which was succeeded by the Life Insurance Policyholders Protection Corporation of Japan based on the Supplementary Article 140 Paragraph 5 of the Financial System Reform Law, were estimated at ¥1,783 million, ¥1,306 million and ¥800 million (US\$6 million) as of March 31, 2004, 2005 and 2006, respectively. The contribution will be charged as operating expenses in the year in which they are paid.

The future contribution to the Life Insurance Policyholders Protection Corporation of Japan under Article 259 of the Insurance Business Law were estimated at ¥9,247 million, ¥7,243 million and ¥10,615 million (US\$90 million) as of March 31, 2004, 2005 and 2006, respectively. The contribution will be charged as operating expenses in the year in which they are paid.

## 13. Reserve for Retirement Benefits

(1) The reserve for retirement benefits as of March 31, 2004, 2005 and 2006 were calculated as follows:

| As of March 31,                                    |                 |           |           |                          |
|--|-----------------|-----------|-----------|--------------------------|
|  | 2004            | 2005      | 2006      | 2006                     |
|  | Millions of yen |           |           | Millions of U.S. dollars |
| a. Projected benefit obligation .....              | ¥(73,949)       | ¥(73,293) | ¥(73,584) | \$(626)                  |
| b. Fair value of pension plan assets.....          | 14,338          | 15,771    | 19,810    | 168                      |
| c. Unfunded benefit obligation (a + b) .....       | (59,611)        | (57,522)  | (53,774)  | (457)                    |
| d. Unrecognized transition obligation .....        | 7,887           | —         | —         | —                        |
| e. Unrecognized actuarial differences .....        | 7,141           | 5,572     | 2,020     | 17                       |
| f. Unrecognized prior service cost .....           | 345             | 310       | 276       | 2                        |
| g. Reserve for retirement benefits (c+d+e+f) ..... | ¥(44,236)       | ¥(51,639) | ¥(51,477) | \$(438)                  |

(2) Gross amount of retirement benefit expenses for the years ended March 31, 2004, 2005 and 2006 were as follows:

| Year ended March 31,                        |                 |          |         |                          |
|---|-----------------|----------|---------|--------------------------|
|   | 2004            | 2005     | 2006    | 2006                     |
|   | Millions of yen |          |         | Millions of U.S. dollars |
| Service cost .....                          | ¥ 3,894         | ¥ 3,830  | ¥ 3,568 | \$ 30                    |
| Interest cost .....                         | 1,481           | 1,478    | 1,464   | 12                       |
| Expected return on plan assets .....        | (392)           | (501)    | (551)   | (4)                      |
| Amortization of transition obligation ..... | 7,887           | 7,887    | —       | —                        |
| Recognized actuarial differences .....      | 980             | 851      | 780     | 6                        |
| Amortization of prior service cost .....    | 6               | 34       | 34      | 0                        |
|   | ¥ 13,857        | ¥ 13,580 | ¥ 5,296 | \$ 45                    |

Note: The amortization of transition obligation is recorded as provision for reserve for retirement benefits which is included in extraordinary losses.

---

(3) The assumptions used in calculation of the above information were as follows:

|  |                     |
|--|---------------------|
| ■ Method of attributing the projected benefits to periods of service ..... | Straight-line basis |
| ■ Discount rate .....  | 2.0%                |
| ■ Expected rate of return on pension plan assets .....                     | 3.5%                |
| ■ Amortization period of transition obligation .....                       | 5 years             |
| ■ Recognition period of actuarial differences .....                        | 10 years            |
| ■ Amortization period of prior service cost .....                          | 10 years            |

#### 14. Stocks of Unconsolidated Subsidiaries

The amounts of stocks of unconsolidated subsidiaries the Company held as of March 31, 2004, 2005 and 2006 were ¥190 million, ¥240 million and ¥240 million (US\$2 million), respectively.

### IV. Notes to Statements of Operations

#### 1. Transactions with Unconsolidated Subsidiaries

The total amounts of revenues and expenses from transactions with unconsolidated subsidiaries for the years ended March 31, 2004, 2005 and 2006 were ¥83 million and ¥2,223 million, ¥98 million and ¥2,296 million, and ¥104 million (US\$890 thousand) and ¥2,441 million (US\$20 million), respectively.

#### 2. Extraordinary Losses

Other extraordinary losses included in extraordinary losses for the year ended March 31, 2004 was losses of the partial reorganization of the business of Fukoku Shinyo Hosho Company Limited.

#### 3. Impairment of fixed assets

Effective for fiscal years beginning on or after April 1, 2005, the Company adopted accounting standards for impairment of fixed assets (Business Accounting Council dated August 9, 2002). As a result, surplus before income taxes for the year decreased by ¥3,920 million (US\$33 million).

##### *(1) Method of grouping*

Real estate and other assets used for insurance business operations are classified as one asset group as a whole. Other assets such as lease property and unused real estate are classified as one group individually.

##### *(2) Background of recognizing the impairment losses*

As a result of decline in profitability due to decrease of rental income and of continuous decline of market value of land, the Company reduced the book value of lease property and unused real estate to recoverable amount. The amount reduced were recognized as impairment losses included in extraordinary losses.

**3) Asset groups recognized impairment losses and losses by fixed assets**

|                        | Year ended March 31, |                          |
|------------------------|----------------------|--------------------------|
|                        | 2006                 | 2006                     |
|                        | Millions of yen      | Millions of U.S. dollars |
| a. Lease property:     |                      |                          |
| Land .....             | ¥ 952                | \$ 8                     |
| Buildings .....        | 1,701                | 14                       |
| Others .....           | 559                  | 4                        |
| Total .....            | ¥3,214               | \$ 27                    |
| b. Unused real estate: |                      |                          |
| Land .....             | ¥ 307                | \$ 2                     |
| Buildings .....        | 397                  | 3                        |
| Others .....           | 1                    | 0                        |
| Total .....            | ¥ 706                | \$ 6                     |
| c. Total (a+b):        |                      |                          |
| Land .....             | ¥1,259               | \$ 10                    |
| Buildings .....        | 2,099                | 17                       |
| Others .....           | 561                  | 4                        |
| Total .....            | ¥3,920               | \$ 33                    |

Note: Major item of others was impairment losses of land lease rights of ¥559 million (US\$4 million).

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

Recoverable amount is based on net sales value. Net sales value is determined based on appraisal value, posted price or road rate.

## V. Subsequent Events

On May 8, 2006, the board of directors of the Company resolved the raising foundation funds for the purpose of strengthening of the capital base subject to the approval of the policyholder representative meeting and Financial Service Agency.

## Report of Independent Auditors

The Board of Directors of Fukoku Mutual Life Insurance Company

We have audited the accompanying consolidated balance sheets of Fukoku Mutual Life Insurance Company and its consolidated 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 audits.

We conducted our audits 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 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 audits provide 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 Fukoku Mutual Life Insurance Company and its consolidated 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 principles generally accepted in Japan.

- (1) As described in Note IV. 3, in the year ended March 31, 2006, the Company and its consolidated domestic subsidiaries adopted the new accounting standards for impairment of fixed assets.
- (2) As described in Note V, on May 8, 2006, the board of the directors of the directors of the Company resolved the raising foundation funds.

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 I. 2 to the accompanying consolidated financial statements.

Tokyo, Japan  
May 24, 2006

A handwritten signature in black ink on a yellow rectangular background. The signature is cursive and reads "The Fuji Accounting Office".

The Fuji Accounting Office

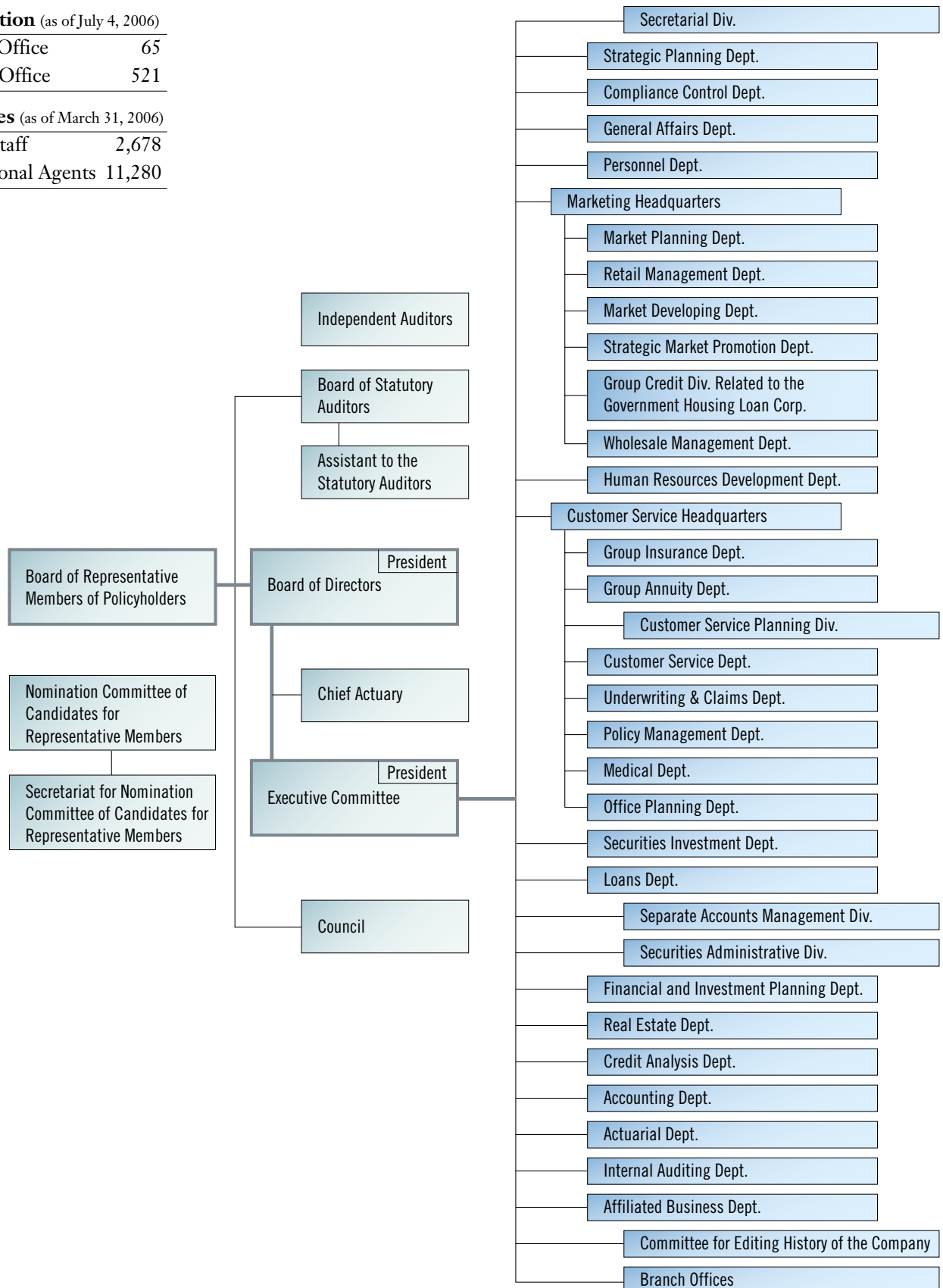
# Corporate Organization

## Organization (as of July 4, 2006)

|               |     |
|---------------|-----|
| Branch Office | 65  |
| Agency Office | 521 |

## Employees (as of March 31, 2006)

|                     |        |
|---------------------|--------|
| Office Staff        | 2,678  |
| Professional Agents | 11,280 |





### Board of Directors and Statutory Auditors

#### *President*

Tomofumi Akiyama\*

#### *Managing Directors:*

Kunio Ohshima  
Haruhiko Sugimoto  
Yoshiki Murayama  
Mikio Yamamoto  
Katsumasa Furuya  
Yoshiteru Yoneyama

#### *Directors:*

Katsuhiko Utada  
Hitoshi Sakai  
Tsutomu Hiruma  
Toshihiro Hayashi  
Kenji Hirai  
Toshihide Fujiwara

#### *Statutory Auditors:*

Yoshizumi Nezu  
Mitsuo Ohashi  
Akihiro Mochizuki

#### *Statutory Auditors (Standing):*

Hiromitsu Watanabe  
Shuuichi Maeda

#### *Senior Advisers to the Board:*

Tetsuo Furuya  
Takashi Kobayashi

\*Representative Director

(as of July 4, 2006)

### Directory

#### **Head Office**

2-2, Uchisaiwaicho 2-chome,  
Chiyoda-ku, Tokyo 100-0011,  
Japan  
Phone: 81-3-3508-1101  
Facsimile: 81-3-3591-6446

#### **Fukoku Life International (U.K.) Ltd.**

3rd Floor, Baltic Exchange,  
38 St. Mary Axe, London,  
EC3A 8EX, U.K.  
Phone: 44-20-7283-1331  
Facsimile: 44-20-7626-7096

#### **Fukoku Life International (America) Inc.**

Times Square Tower,  
7 Times Square, 35th Floor,  
New York, NY 10036, U.S.A.  
Phone: 1-212-221-7760  
Facsimile: 1-212-221-7794



Fukoku Life International (U.K.) Ltd.  
from left (back): A. Sato, and J. Doran  
from left (front): K. Kashiwabara, and K. Sato



Fukoku Life International (America) Inc.  
from left (back): M. Xu, Y. Suzuki, and K. Fujinoki  
from left (front): J. Johanson, and A. Suzuki

