NISSAY DOWA

Nissay Dowa General Insurance Co.,Ltd.

2007

Annual Report

For the year ended March 31, 2007

Profile

Nissay Dowa General Insurance Co., Ltd., was established in April 2001 as a result of the merger between The Dowa Fire and Marine Insurance Co., Ltd., and Nissay General Insurance Co., Ltd. (NGI)

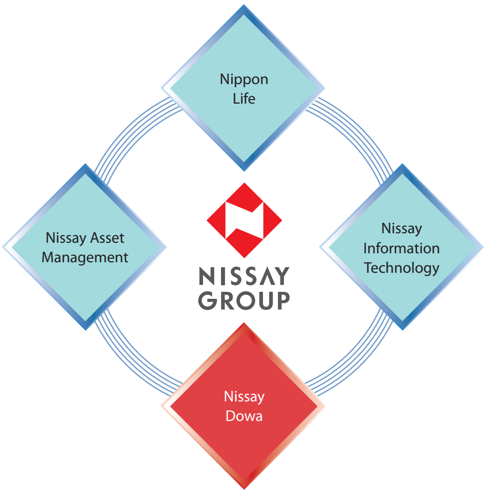
The new company commenced operations as the core non-life insurance arm of the Nissay Group, which is centered on Nippon Life Insurance Company, Japan's leading life insurer.

The Dowa Fire and Marine Insurance Co., Ltd., known for its specialization and sound management, was formed in 1944 through the consolidation of four insurance companies, the oldest of which was established in 1897. NGI, a fast-growing company renowned for innovation, was founded in 1996 as a wholly owned subsidiary of Nippon Life.

Nissay Dowa is a member of the Nissay Group, which aims to provide comprehensive insurance services. Our quest is to develop and provide innovative products and services suited to customer needs, drawing on the multifaceted strengths of Nippon Life.

Reflecting our substantial financial base, Nissay Dowa enjoys an A+ credit rating from Standard & Poor's. In the future, we seek to become a company that is selected and trusted by customers and agents and highly valued by shareholders, as we have done since our foundation.

Four Core Group Companies



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Forward-Looking Statements

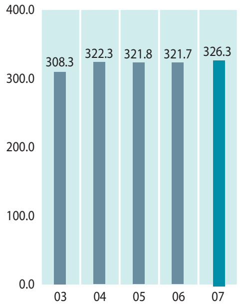
This annual report contains forward-looking statements, including information about business plans, earnings forecasts and strategies. Such statements are based on the assumptions and conclusions of Nissay Dowa management at the time this report was written. Due to changing circumstances, actual results and achievements may differ from those anticipated in these statements.

Nissay Dowa General Insurance Co., Ltd.
For the years ended March 31, 2006 and 2007

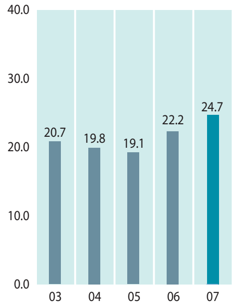
	Millions of Yen		Thousands of U.S. dollars
	2006	2007	2007
For the year:			
Net premiums written	¥ 321,786	¥ 326,341	$ 2,764,436
Interest and dividends received	22,221	24,717	209,379
Net income	7,333	6,259	53,022
At year-end:			
Total assets	¥ 1,350,426	¥ 1,364,571	$ 11,559,263
Total equity	362,866	368,556	3,122,040
	Yen		U.S. dollars
Per share of common stock:			
Net income	¥19.28	¥16.47	$ 0.139
Cash dividends paid	8.50	8.00	0.067
	%		
Ratios:			
Net loss ratio	59.7%	62.0%	
Net business expense ratio	32.5	32.3	
Net combined ratio	92.2	94.3	
Net balance ratio	7.8	5.7	
ROE	4.6	3.9	
Equity ratio	26.9	27.0	

Notes : 1. Figures in U.S. dollars are calculated, for convenience only, at the exchange rate of ¥118.05=U.S.$1.
2. Amounts per share are based on the weighted average number of shares outstanding during each period.
3. Amounts of less than one million yen and one thousand U.S. dollars have been omitted.

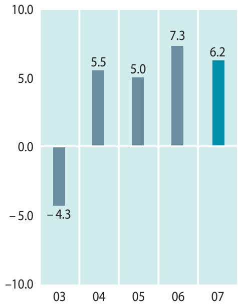
Net Premiums Written
(Billions of yen)



Interest and Dividends Received
(Billions of yen)



Net Income (Loss)
(Billions of yen)



RATED STRONG
STANDARD & POOR'S
A+

Disclaimer

Information on the most current rating available at www.standardandpoors.com

To Our Shareholders

Ichiro Tateyama, President

To Our Shareholders

In the year ended March 31, 2007, Nissay Dowa increased its revenues for the first time in three years. We owe this success to the support of our shareholders and would like to take this opportunity to thank you for your ongoing patronage.

However, the Company received a Business Improvement Order from the Financial Services Agency (FSA) under Japan's Insurance Business Law to improve its business systems in relation to the inappropriate handling of payments of tertiary insurance products*.

We would like to express our sincere apologies to our policyholders, shareholders and other stakeholders for the worry and inconvenience we have caused by allowing this situation to arise in our core non-life insurance business activities. The Company will leave no stone unturned in working to regain people's trust. To prevent a recurrence, we are united in our quest to raise quality standards in all areas, from providing insurance products to making insurance payments.

*The tertiary products concerned include health insurance, cancer insurance, income idemnity insurance, medical expense insurance, nursing-care expense insurance, etc. (excluding overseas travel accident insurance). Also included are special contracts tied to other forms of insurance that pay out insurance on the grounds of illness or nursing requirements.

Business Performance and Outlook

In the year ended March 31, 2007, the Japanese economy showed further signs of recovery, supported by improved corporate earnings and greater capital investment in the private sector. However, caution is still required with regard to the impact of higher prices of crude oil and other raw materials. In the non-life insurance industry, revenues from premiums grew steadily, reflecting the trend of the overall economy.

The fiscal year under review marked the start of a new three-year medium-term management plan based on the guiding principles of our management philosophy, which emphasizes placing the "Customer, First!", "Collaboration" and "Challenge Spirits"

During the year, we promoted corporate social responsibility (CSR) initiatives and reinforced our management foundation. By improving satisfaction levels among our shareholders, customers and agents, we sought to maximize corporate value.

We strove to develop a sales system that provides greater convenience to customers and responds more effectively to changing environments. To this end, we revamped our network of sales branches and agent support system and reinforced collaborative marketing ties with Nippon Life.

In addition, we introduced products developed by putting the needs of the customer first. For example, we launched Long, our new long-term car insurance product with the added advantage of no premium increases during the term, even if an accident occurs, thus eliminating the difficult policy renewal procedure. We also introduced a new Overseas travel insurance product with added services, including reimbursing policyholders so that they can replace items damaged or lost while traveling overseas.

Becoming the Insurance Company of Choice

Meanwhile, we worked to expand the methods in which we deliver easy-to-understand information, in an effort to improve customer service. For example, we put a video outlining Long on the Nissay Dowa website (http://www.nissaydowa.co.jp). We also established a solution-based risk management service for companies to address changing business conditions stemming from revisions to laws affecting companies. In addition, we held regular seminars and otherwise strengthened our information provision services.

During the period, we sought to create information systems that are easy for our customers to understand. For example, we produced an illustrated depiction of car insurance policies and developed a system for delivering a guide showing all the steps, from making an insurance claim following an accident to receiving payment, together with the policy. We further reinforced the compliance of our information technology systems with the Personal Information Protection Law. As a result, in December 2006 the Nishinomiya information processing center received ISO/IEC 27001 accreditation, the international standard for information security management.

Our community contributions have included donations to support the "Nissay Planting and Nurturing Forests for Future Generations" campaign and also fund-raising for disaster relief.

In the year under review, insurance underwriting income totaled ¥361.6 billion, and investment income amounted to ¥30.4 billion. Ordinary revenue totaled ¥393.3 billion, down ¥1.1 billion from the previous fiscal year. Insurance underwriting expenses came to ¥321.2 billion, investment expenses were ¥7.6 billion, and selling, general and administrative expenses totaled ¥54.4 billion. For the year, ordinary expenses increased ¥954 million, to ¥383.7 billion. Consequently, ordinary profit declined ¥2.1 billion, to ¥9.6 billion, and net income decreased ¥1.07 billion, to ¥6.25 billion.

Outlook

Going forward, we will continue promoting Corporate Social Responsibility activities as a key policy of the medium-term management plan launched during the year under review. To this end, all executives and employees will adopt a customer-oriented approach when performing their duties. Guided by our slogan, "all efforts targeted at regaining the trust of our customers," we will focus on measures directed at putting the customer first.

For the year ending March 31, 2008, we forecast net premiums written of ¥333.0 billion, ordinary profit of ¥12.5 billion and net income of ¥8.0 billion.

As we embrace the challenges of the future, we ask for the ongoing support of our shareholders and other stakeholders.

August 17, 2007

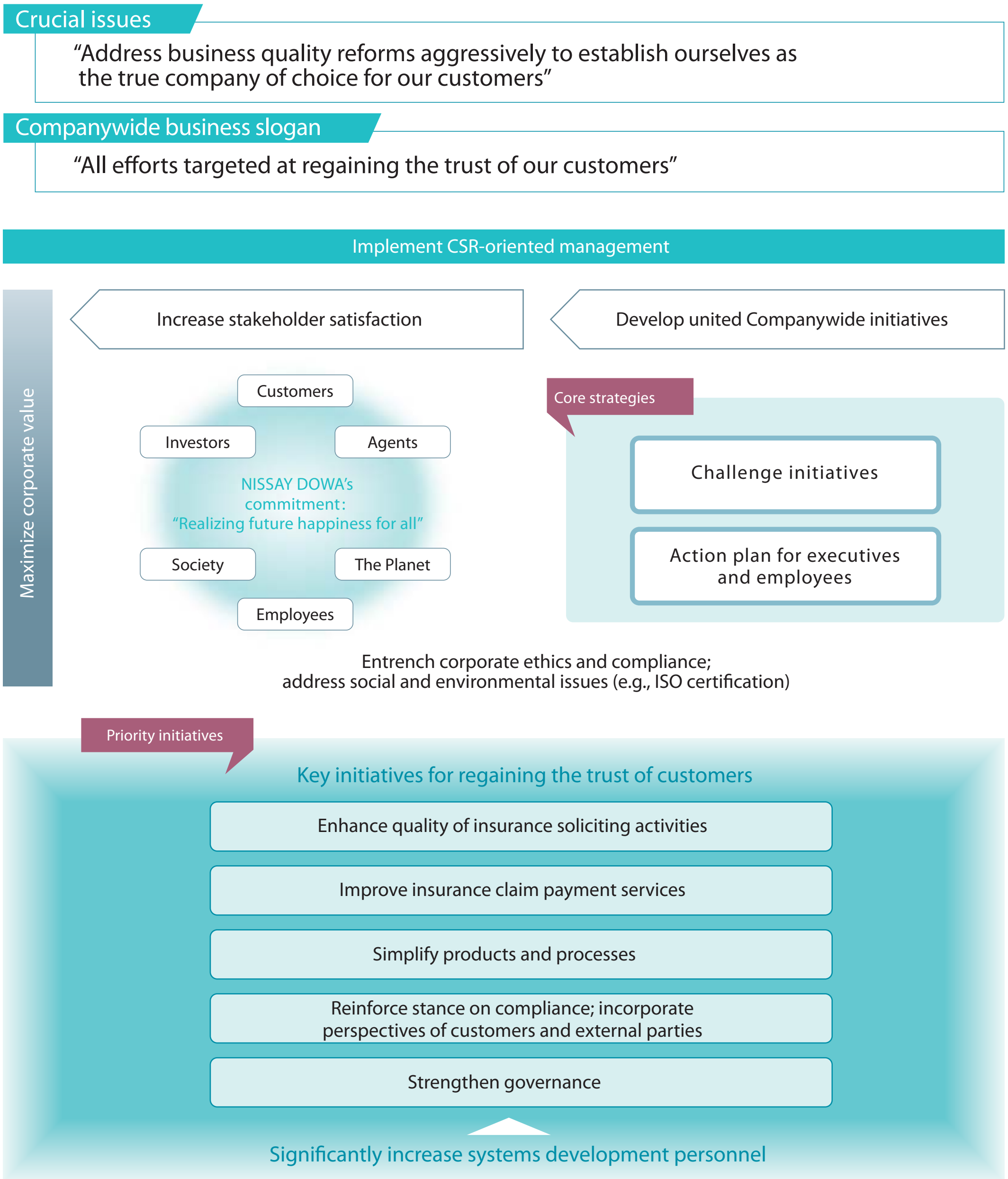
Ichiro Tateyama

Ichiro Tateyama, President

Special Feature

In light of a series of issues, including a Business Improvement Order from the FSA to improve the Company's business systems, we have revised some of our strategies and performance indicators under our medium-term management plan. We have also identified "address business quality reforms aggressively to establish ourselves as the true company of choice for our customers" as the most important goal of the plan.

Medium-Term Management Plan: Revised Basic Policy



To achieve these goals, we will promote customer-oriented initiatives by implementing the following five measures under the slogan of "all efforts targeted at regaining the trust of our customers."

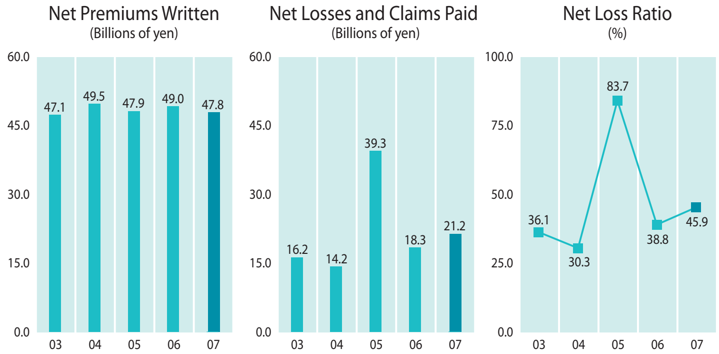
(1) Enhance quality of insurance soliciting activities
(2) Improve insurance claim payment services
(3) Simplify products and processes
(4) Reinforce stance on compliance; incorporate perspectives of customers and external parties
(5) Strengthen governance

We will also set numerical targets to ensure that we achieve growth that ranks high in the industry. At the same time, we will actively allocate business resources toward reforming the quality of management.

Key Performance Targets

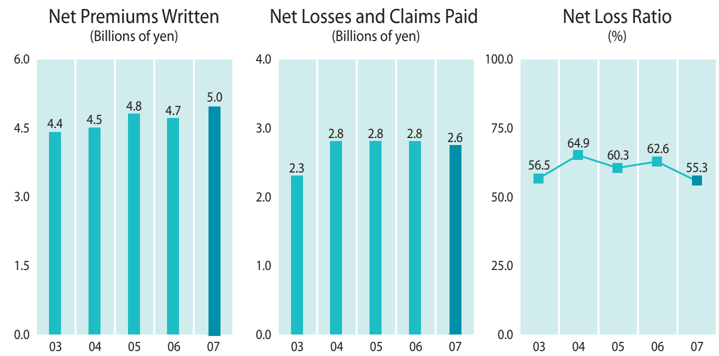
		Unit	Fiscal Mar.'07	Change	Fiscal Mar.'08 (est.)	Change	Fiscal Mar.'09 (est.)	Change
Sales	Net premiums written	Billions of yen, %	326.3	1.4	333.0	2.0	344.0	3.3
Improve business efficiency	Net business expense ratio	%, P	32.3	(0.2)	33.1	(0.8)	33.1	0.0
	Net loss ratio	%, P	62.0	2.3	61.8	0.2	59.5	(2.3)
	Automobile loss ratio	%, P	69.2	2.8	70.2	1.0	67.7	(2.5)
	Net combined ratio	%, P	94.3	2.1	94.9	0.6	92.6	(2.3)
	Underwriting balance ratio	%, P	5.7	(2.1)	5.1	(0.6)	7.4	2.3
Enhance business soundness	Catastrophe loss reserves	Billions of yen	110.1	1.4	120.6	10.5	131.0	10.4
	Fire disaster	Billions of yen	43.5	5.0	51.0	7.5	58.5	7.5
	Solvency margin ratio	%, P	1,152.8	(2.4)	1,100 + ∂		1,100 + ∂	
Earnings, capital	Net income	Billions of yen	6.2	(1.0)	8.0	1.7	9.0	1.0
	ROE (revised)	%, P	3.9	(0.7)	4.9	1.0	5.3	0.4
	Payout ratio	%	48.6	→	→	→	Approx. 40%	

Fire Insurance



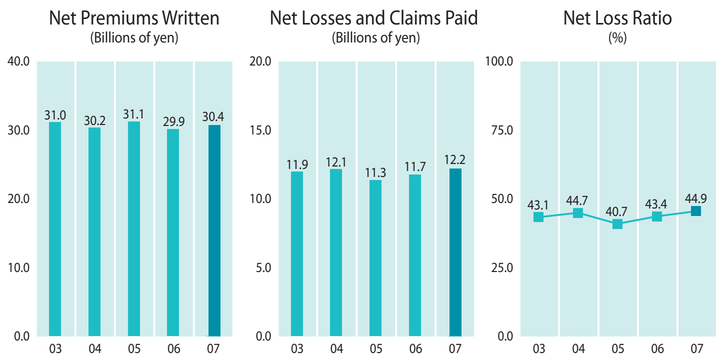
Net premiums written for fire insurance declined 2.4% from the previous year, due to a decline in revenues from long-term policies. This was despite steady growth in sales of our innovative Home Pitatto, comprehensive home fire insurance product. The net loss ratio for fire insurance rose 7.2 percentage points, to 45.9%, stemming from the impact of typhoons crossing Japan.

Marine Insurance



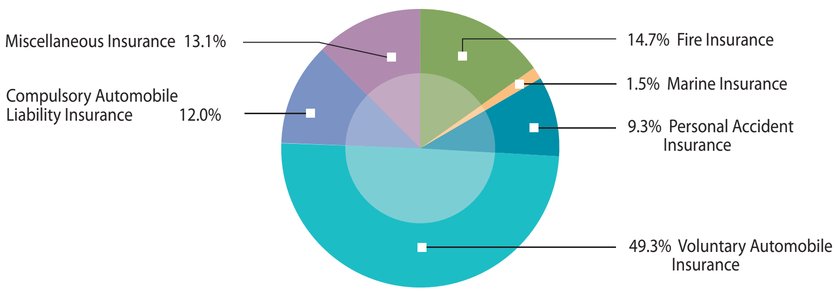
Net premiums written for marine insurance rose 7.6%, owing to increases in both vessel and freight insurance. The net loss ratio for marine insurance fell 7.3 percentage points, to 55.3%.

Personal Accident Insurance

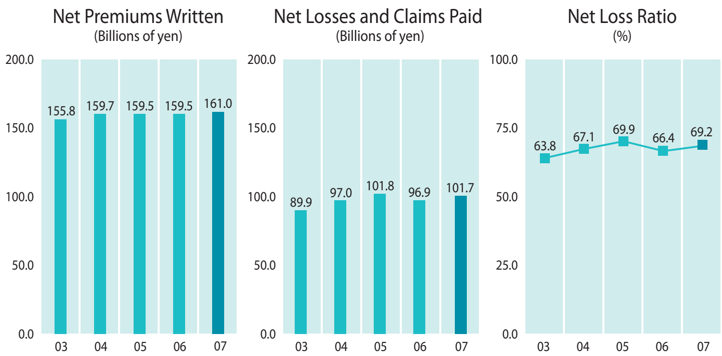


In our personal accident insurance business, net premiums written increased 1.7% from the previous year. This was attributable to rapid sales of Keiei Protect, a comprehensive group personal accident insurance product for executives and employees. The net loss ratio rose 1.5 percentage points, to 44.9%.

Breakdown of Net Premiums Written
Total ¥326.3 billion

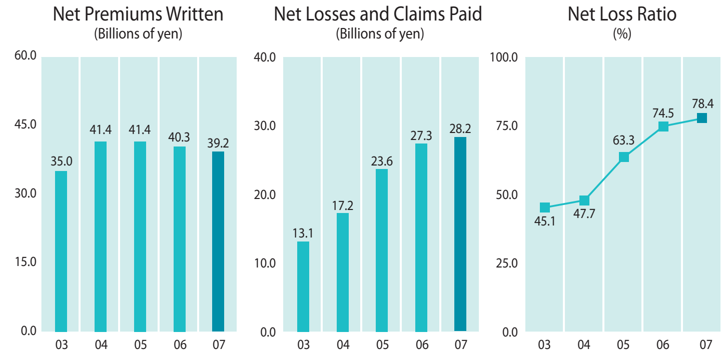


Voluntary Automobile Insurance



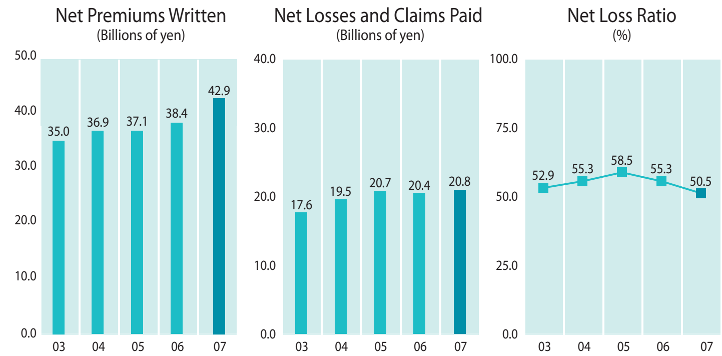
In the area of voluntary automobile insurance, net premiums written edged up 0.9%, thanks to the launch of our long-term automobile insurance product Long, as well as assertive marketing of Oyakudachi-Jidosha Hoken, a product combining unlimited protection against liability for bodily injury and property damage, coverage for personal injury and legal fees, and passenger insurance with predetermined payments depending on the part of the body and injury sustained. The net loss ratio rose 2.8 percentage points, to 69.2%.

Compulsory Automobile Liability Insurance



Net premiums written for compulsory automobile liability insurance decreased 2.7%. The net loss ratio rose 3.9 percentage points, to 78.4%.

Miscellaneous Insurance



Nissay Dowa's products in the miscellaneous insurance category include general liability, aviation, movables comprehensive, workers' accident compensation and transit insurance. Our efforts to cultivate demand for each of these products resulted in a 11.6% increase in net premiums written for this category. The net loss ratio fell 4.8 percentage points, to 50.5%.

Compliance

Ensuring Strict Compliance

Earning the trust of the general public is a fundamental part of the insurance business. Therefore, it is particularly important for insurance companies to achieve a high level of compliance. At Nissay Dowa, all managers and employees maintain high ethical standards and respect for the law, which ensures fair and proper behavior. Having prioritized the trust of customers above everything else, we are making concerted efforts to promote strict compliance.

Compliance Policy

We adopted a new Compliance Policy to coincide with the start of our new medium-term management plan, which began in April 2006. Through this step, we have confirmed the need for compliance in every kind of business activity.

Nissay Dowa Compliance Policy
Preparing for the next phase of our development

In April 2006 — five years after beginning operations — Nissay Dowa launched its new medium-term management plan outlining its goal of maximizing corporate value by enhancing stakeholder satisfaction. The implementation of the new medium-term management plan will require a firm set of corporate ethics and strict compliance, both of which are fundamental to Nissay Group operations.

The Company's business environment is continuously changing, owing to dramatic advances in Information Technology, increasing globalization and a growing trend toward liberalization and deregulation. Such changes have created a greater need for corporate ethics and compliance. As a pioneering and constantly evolving company, we will endeavor to build stronger bonds of trust with investors, customers, agents and other stakeholders.

Our Compliance Policy is to promote sufficient awareness of such issues among management as well as employees; pursue our social mission as an insurance company that maintains high ethical standards; and prioritize compliance in all business activities.

Pocket Compliance Guide card

Companywide Compliance System

We established the Compliance and Business Risk Management Committee and are taking various measures to promote compliance throughout the Company. The Legal and Compliance Department, which was created to coordinate these measures, cooperates with the Compliance and Business Risk Management Committee.

To ensure strict compliance throughout the Company, we have allocated compliance responsibilities to employees in each branch and appointed a full-time Compliance Officer to monitor the status of compliance.

Compliance Programs

In seeking to nurture a corporate culture that prioritizes compliance, the Compliance and Business Risk Management Committee has formulated a compliance program. In addition, branches have developed their own programs incorporating branch-specific imperatives to ensure better compliance.

Basic Policy

In seeking to be a CSR-oriented company, we place a high priority on ensuring strict adherence to business ethics and comprehensive legal compliance. To this end, we are pursuing strategies aimed at improving satisfaction levels among all stakeholders—including customers, agencies, shareholders and other investors—in our quest to maximize corporate value. Accordingly, we are establishing an internal control system and strengthening our auditing approach as part of our ongoing efforts to reinforce and upgrade our corporate governance system.

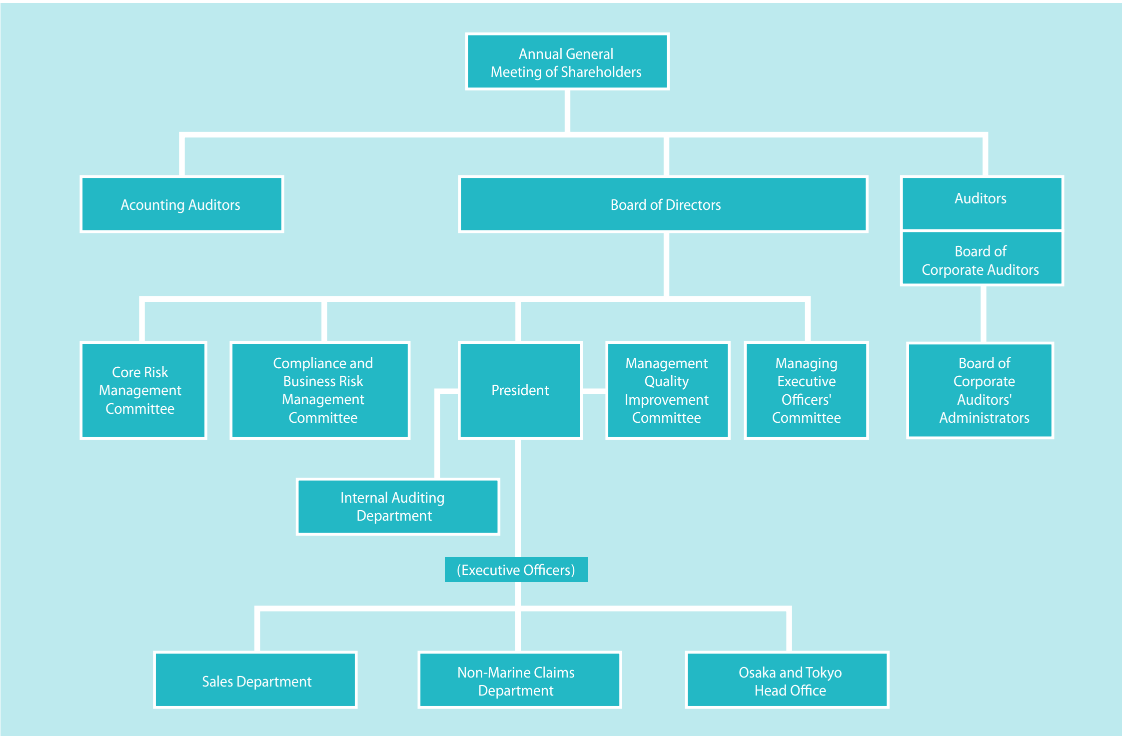
Corporate Governance System

Nissay Dowa has adopted a corporate governance framework based on a system of audits.

The Board of Directors is responsible for making decisions on important corporate matters and supervision of the implementation of those decisions. Consisting of 11 members, the Board met 14 times during the year under review. At the Annual General Meeting of Shareholders held on June 27, 2007, one new external director was appointed to strengthen the monitoring and supervision functions.

The Board of Corporate Auditors has five members, including three external auditors. Corporate auditors attend meetings of the Board of Directors and the Managing Executive Officers' Committee, as well as other important internal gatherings to improve management oversight.

In the year under review, the Company adopted an executive officer system, with the aims of separating the decision-making and oversight functions from the business execution function. By clarifying the separation of duties of directors and executive officers as well as decision-making criteria, we are working to build a system that will enable directors to perform their duties efficiently.



Establishment of an Internal Control System

Pursuant to the Company Law of Japan and Regulations for Enforcement of the Company Law, Nissay Dowa has formulated the basic internal control policy outlined below.

Basic Internal Control Policy

Based on its commitment to "realizing future happiness for all" as part of its corporate philosophy, Nissay Dowa seeks to ensure the happiness of customers, shareholders, agencies, employees, society and the planet.

By enhancing the framework to ensure the legal and proper execution of business duties, we will gain the trust of society and ensure happiness for all, as enshrined in our corporate philosophy.

(1) System to Ensure Compliance by Directors and Employees to Laws, Regulations and the Articles of Incorporation

1) Compliance regulations are to set out fundamental principles and a code of conduct to be followed by all executives and employees at all times.
2) A committee is to be established to formulate companywide measures and policies concerning compliance and the appropriateness of business systems, and matters discussed by the committee are to be reported to the Board of Directors on a regular basis.
3) A department is to be established to oversee companywide compliance initiatives. That department is to monitor the implementation of compliance in collaboration with our Internal Auditing Department.
4) In the event that a Company executive or employee suspects violation of a law or regulation, that matter is to be reported to the Compliance Department without delay by the individual in charge of compliance in the department or branch.
5) An internal reporting system will be established to enable reporting to the Compliance Department or to an external solicitor's office in the event of suspicion of an act in violation of a law or regulation.

(2) System for the Storage and Management of Information Related to Directors' Duties

1) Representative directors are to record and store documents (including documents recorded electronically) related to the execution of their duties in accordance with regulations on document management.
2) Directors and corporate auditors are to be able to peruse these documents in accordance with regulations on document management.

(3) Regulations Concerning the Management of the Risk of Loss and Other Systems

1) Regulations are to be established to manage risk across the Company, and basic measures are to be established concerning risks that can have a serious impact on business operations.
2) To ensure the effectiveness of risk management, a committee is to be established to deliberate important matters relating to the integrated control and management of various risks.
3) The Board of Directors is to decide on measures for controlling various risks, taking into account the discussions of the aforementioned committee.
4) Concerning risks, such as serious natural disasters, that can have a major impact on the Company's ability to continue its business, regulations concerning risk management are to be established and a management system, covering both times of normal business and emergencies, is to be put in place.

(4) System to Ensure the Efficient Execution of Duties by Directors

1) Under the executive officer system, there is to be a clear separation between the business execution function and the important decision-making and supervisory functions, and the responsibilities of directors are to be clearly defined.
2) A management committee is to be established to discuss matters relating to the execution of duties requiring multifaceted examination.
3) Regulations governing the Board of Directors, management committee and lines of authority are to be established. In addition to clearly defining standards for decision-making and the responsibilities of directors and executives officers, such regulations are to ensure the efficient execution of duties by directors through the reasonable delegation of authority to various departments.
4) The efficient execution of duties is to be verified at Board of Directors' meetings held once a month, in principle.

(5) System to Ensure the Adequacy of Operations of the Nissay Dowa Group

1) Compliance and management systems are to encompass subsidiaries and affiliates ("Group Companies") and to ensure the adequacy of operations of a unified Nissay Dowa Group.
2) Management regulations and clearly defined management systems are to be established for the various Group Companies.
3) The appropriateness and effectiveness of internal control and risk management systems of the various Group Companies are to be verified and evaluated, and guidance provided on their improvement.

(6) Matters Concerning Support Personnel Requested by Corporate Auditors

Representative directors are to assign appropriate employees as "Board of Corporate Auditors' Administrators" to support the work of corporate auditors when so requested.

(7) Matters Concerning the Independence of Board of Corporate Auditors' Administrators from Directors

1) The Board of Corporate Auditors' Administration Office is to facilitate the appropriate execution of duties by corporate auditors as directed by the Board of Corporate Auditors.
2) Corporate auditors and directors are to decide on matters concerning Board of Corporate Auditors' Administration Office personnel, including performance reviews and personnel transfers.

(8) System for Reporting by Directors and Employees to Corporate Auditors Diretors and Other Systems Concerning Reporting to Corporate Auditors

1) Directors and employees are to respond without delay when requested by corporate auditors to report about matters concerning the execution of duties.
2) Directors are to report immediately to the Board of Corporate Auditors as soon as they become aware of any fact that may result in a major loss for the Company.
3) In addition to the above, corporate auditors are to be able to attend management committee meetings and any other important meetings to obtain important information in a timely and appropriate manner.

(9) Other Systems to Ensure Effective Auditing by Corporate Auditors

1) Representative directors and corporate auditors are to maintain mutual communication through holding regular meetings.
2) When deemed necessary by the corporate auditors, representative directors are to facilitate the services of external professionals, such as solicitors and certified public accountants.
3) Representative directors are to facilitate regular meetings between the corporate auditors, the Internal Auditing Department and the independent accounting auditor.

Internal Audit

In addition to corporate auditors' monitoring of the performance of directors in accordance with the Company Law of Japan, Nissay Dowa has established an Internal Audit Department that is independent from the business execution function. The department monitors all divisions within the Company, including the administrative division, the Sales Division and the Non-Marine Claims Division.

The Internal Audit Department monitoring of business execution, which covers the total spectrum of business activities, emphasizes the checking of procedures and the "perspective of customers." Such monitoring centers on compliance with laws and regulations, risk management, the payment of insurance claims and the insurance sales management system.

Based on the findings of such internal audits, recommendations for improvement are made to the Company's administrative division, where necessary, and reports are made to Board of Directors' meetings on a regular basis.

To enhance the quality of internal audits and ensure their effectiveness, an Internal Audit Quality Assurance Program was instituted by a resolution passed at the Board of Directors' meeting held in May 2007.

The Company is also further reinforcing measures to ensure the appropriateness of insurance claim payments. Such measures include checking the payment of insurance claims by the Claims Payment Management Department.

Risk Management

Risk Management

Amid ongoing recent advances in the IT sector and rapidly progressing deregulation and liberalization, a variety of risks have appeared in the non-life insurance industry, while risks affecting insurance companies in general have become more and more complex.

Taking these factors into consideration, the Company has positioned risk management as an important corporate priority. We have set a basic policy that calls for the Company to accurately identify and control the various risks that could have a major impact on its operations to ensure sound and appropriate business activities. Based on this policy, we have sought to build and reinforce a rigorous risk management system, headed by the Board of Directors.

We have established two committees to handle specific types of risk: the Core Risk Management Committee, which focuses on risk from the perspective of financial soundness, and the Compliance and Business Risk Management Committee, which controls risk from the perspective of appropriate business practices. These committees monitor risk and discuss important related issues and are key to the Company's development of a sophisticated risk management system.

We set up four sub-committees to rigorously assess and audit various risks. These bodies formulate administrative rules and refine our risk management techniques as part of a focus on enhancing overall risk management effectiveness.

The Asset Liability Management (ALM) group reports directly to the Core Risk Management Committee and coordinates closely with other related sub-committees to help reinforce risk management.

The Board of Directors determines management policies for each risk category based on the findings of the Core Risk Management Committee and the Compliance and Business Risk Management Committee.

Risk Factors

(1) Insurance Underwriting Risk

Insurance underwriting risk refers to the risk of sustaining losses due to unexpected changes in economic conditions, the frequency of insured events and other factors. Major risks in this category include general insurance risk, natural disaster risk, massive risk, reinsurance risk and interest rate prediction risk.

General Insurance Risk

The non-life insurance business entails exposure to uncertainties for paying claims given that the business is about covering losses from unexpected events. The Company regularly assesses loss ratios on each of its products and analyzes rates that exceed assumed value. Where necessary, the Company revises or discontinues products and takes steps to alter its underwriting standards and sales policies.

Natural Disaster Risk

Japan is highly vulnerable to natural disasters, particularly earthquakes and typhoons. Such disasters can damage broad areas of Japan, triggering massive losses from simultaneous claims payments on many policies. The Company takes various measures to lessen the impact of natural disasters on its business. These include maintaining an extraordinary underwriting reserve and utilizing appropriate reinsurance.

Massive Risk

For policies with large potential payouts, the Company keeps claims loss exposure per event below a certain level by arranging the proper reinsurance where necessary.

Reinsurance Risk

Although the Company uses reinsurance to spread its insurance liabilities, it may not always be able to obtain the payout it anticipates as the result of a reinsurance company becoming bankrupt or suffering other troubles. The Company carefully selects each reinsurance company based on credit ratings from global rating agencies and other factors.

Interest Rate Prediction Risk

The Company discounts anticipated asset gains on some of the products it sells. It may be impossible to achieve the required asset gains if actual interest rates are less than anticipated or if economic conditions deteriorate.

The Company proactively reviews policies for selling savings-type insurance and predicts interest rates in line with such factors as performance and market trends. ALM is used to minimize mismatches between assets and liabilities. This entails predicting cash flows from assets and liabilities and maintaining appropriate controls of risks and gains to achieve required returns.

(2) Asset Management Risk

The Company classifies asset management risk into three categories: market risk, credit risk and real estate investment risk. Control of each risk is conducted in a unified manner, based on a system in which the risk management departments keep close watch on the activities of departments performing transactions.

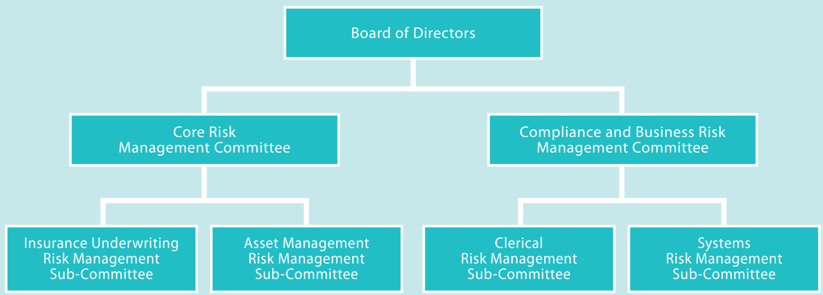
Market Risk

Market risk refers to losses that could result from declines in asset values due to fluctuations in interest rates, marketable securities prices or exchange rates.

The Company uses the Value-at-Risk (VaR)* method to quantify and manage portfolio risks and prevent excessive risk exposure.

* VaR: Method of measuring the maximum possible loss of an investment portfolio over a certain time period, based on certain assumptions.

Risk Management System



ISO/IEC 27001
UKAS INFORMATION SECURITY MANAGEMENT
JQA–IM0414
Nishinomiya Information Processing Center
Host accounts system

ISO/IEC 27001 Registration Mark

Credit Risk

Credit risk is the risk of losses resulting from declines in asset values due to deterioration in the financial positions of parties to which the Company provides credit.

Nissay Dowa maintains a companywide, integrated credit risk management structure in which it measurers credit VaR and determines credit limits based on the credit ratings of each party to which it furnishes credit. The Company rigorously monitors credit for each transaction and conducts strict self-assessments to maintain asset health.

Real Estate Investment Risk

This is the risk of losses stemming from fluctuations in rents or declines in return from property, due to the demand and supply of tenants, or market changes that would reduce real estate values.

The Company regularly checks its real estate investments by using "alarm points" for property values and by setting minimum returns on investment.

(3) Liquidity Risk

The Company may have to pay substantial claims following a massive disaster or be forced to sell assets at significantly less than normal market prices due to market turmoil or other factors.

The Company strives to ensure ample liquidity so it can pay insurance claims for earthquakes, typhoons and other major disasters.

(4) Clerical Risk

Any neglect of clerical duties, mishaps or fraud involving executives, employees or solicitors could cause trouble for customers and impact the Company's business performance.

The Company has formulated a Clerical Risk Management Policy aimed at accurately identifying and controlling clerical risk. It has allocated responsibility for each type of clerical risk, including risk associated with processing insurance agreements, to different departments and is taking steps to minimize such risks. The Clerical Risk Management Sub-Committee is in charge of managing overall clerical risk.

(5) Systems Risk

Reporting directly to the Compliance and Business Risk Management Committee is the Systems Risk Management Sub-Committee, which comprehensively manages risks associated with the Company's business systems. To address risk related to improper operation of computers, the Company has established internal rules and minimizes fraudulent use through various measures, including access right restrictions. To address risk of system failure due to earthquakes or other major natural disasters, the Company maintains a backup center and has created a structure to ensure recovery of systems following such disasters.

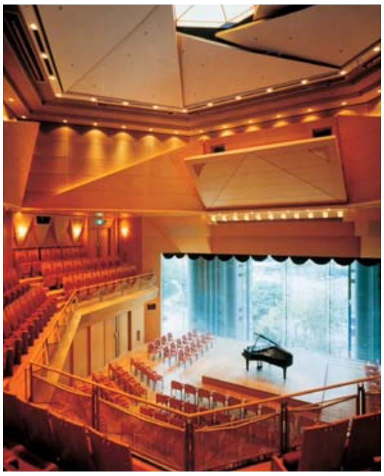
In December 2006, the Company obtained ISO/IEC 27001* accreditation for part of its services of the center, in an effort to maintain and improve information security.

* ISO/IEC 27001 is an information security management system (ISMS) standard recognized by the International Organization for Standardization. Its domestic version is JIS Q27001:2006.

* An ISMS is a management system based on an organized approach to establishing, implementing, operating, monitoring, reviewing, maintaining and improving information security (ensuring the confidentiality, integrity and availability of information and information systems).

Contributing to Society and Conserving the Environment

Nissay Dowa makes every effort to promote a range of social contribution initiatives and address environmental issues. Below is an outline of some of our activities.



The Phoenix Hall

Ceremony to announce the awarding of Nissay Dowa scholarships for students of the International University of Health and Welfare

Support for Arts and Cultural Activities at The Phoenix Hall

Nissay Dowa uses The Phoenix Hall of its Osaka Head Office for activities relating to corporate support of the arts. The hall provides a space for a variety of creative musical events, mostly classical concerts, including outstanding performances by Japanese and overseas artists, that harmonize well with the hall's unique design.

International University of Health and Welfare Scholarships

As part of Nissay Dowa's contribution to address the aging of Japan's population, we have endeavored to improve nursing services as well as businesses catering to senior citizens. To help achieve these effort, we introduced a scholarship system for students, including overseas exchange students, at the International University of Health and Welfare. The University, which is located in Tochigi Prefecture, trains students in senior care and rehabilitation, as well as other aspects of medical welfare and healthcare management.

Under this scholarship system, which we initiated in 1997, we award scholarships to students recommended by the University up to their graduation. We have awarded a total of ¥20 million in scholarships for the year ending March 31, 2008.

In March 2007, a total of 975 graduates of health and welfare studies, including graduate school students, left the University to work in their chosen professions. These individuals are expected to play active roles in supporting the health and welfare sector of tomorrow.

Disaster Relief Donations

The Company's executives and employees, as well as its agencies, conduct fund-raising for people in regions designated under Japan's Disaster Relief Act. We donate these funds and contributions to local governments and other organizations in the affected regions.

In the year ended March 31, 2007, we made donations to help people in Okinawa (where incessant rain caused major landslides), Miyazaki Prefecture (Shanshan) and Hokkaido (tornado).

Operation of Environmental Management Systems

We have set specific quantitative goals for minimizing the environmental impact of our operations, such as promoting the use of recycled paper in all printed materials and the conservation of energy and resources. As a member of the Nissay Group, we have actively sought to address environmental-related issues. One such example is our participation in the "Nissay Planting and Nuturing Forests for Future Generations" campaign.

To further reinforce these efforts, we operate environmental management systems at our Nishinomiya Information Processing Center in Hyogo prefecture and our Tokyo Head Office in St. Luke's Tower. Both have received ISO 14001 accreditation from the Japan Quality Assurance Organization.

* ISO 14001 is the international standard issued by the International Organization for Standardization (ISO) to corporations and organizations with management systems that minimize environmental impact or help improve the environment.

* An environmental management system is a management approach that enables an enterprise to identify and monitor the environmental impact of its business activities and formulate, implement and review management policies, targets and action plans for minimizing environmental impact.

JQA–EM4235
St. Luke's Tower
Nishinomiya Information Processing Center

ISO 14001 Registration Mark

Natural Gas-Powered Car Introduced to Sales Fleet

In October 2006, we introduced a car powered by natural gas to our sales fleet. Natural gas is an environmentally friendly fuel that emits extremely low levels of carbon dioxide (CO_2). We took this decision after considering several factors, including the excellent environmental performance of natural gas, improvements to the car itself and the growing number of natural gas filling stations.

Natural Gas-Powered Car

Board of Directors, Corporate Auditors and Corporate Officers


Shuichiro Sudo


Ichiro Tateyama


Masahiro Yamada


Akinao Tokuda


Takashi Matsukubo


Toshihiro Ishii


Kazuyuki Katsuda


Shigeo Kotani


Masanori Yoneda


Hiroshi Sakamoto


Nobuharu Ogata


Yoshihiro Omura

Board of Directors

Shuichiro Sudo
Ichiro Tateyama
Masahiro Yamada
Akinao Tokuda
Takashi Matsukubo
Toshihiro Ishii
Kazuyuki Katsuda
Masanori Yoneda
Kazuyuki Fujimoto
Mitsuhiro Umezu*

Standing Corporate Auditors

Yasusuke Miyazaki
Hirotaka Masamori

Corporate Auditors

Hideo Yamada*
Yoichi Fujita*
Hiroyuki Tezuka*

Corporate Officers

Chairman
Shuichiro Sudo

President
Ichiro Tateyama

Executive Vice President
Masahiro Yamada

Senior Managing Executive Officers
Akinao Tokuda
Takashi Matsukubo

Managing Executive Officers
Toshihiro Ishii
Kazuyuki Katsuda
Shigeo Kotani
Masanori Yoneda
Hiroshi Sakamoto
Nobuharu Ogata
Yoshihiro Omura

Executive Officers
Hiroshi Kinoshita
Toshikazu Shiratsuki
Minoru Morimoto
Toshihiko Tanaka
Kazuo Shimozaki
Shigeyuki Inoue
Masanori Muto
Daisuke Arimoto
Kazuyuki Fujimoto
Koji Yamazaki
Nampei Yanagawa

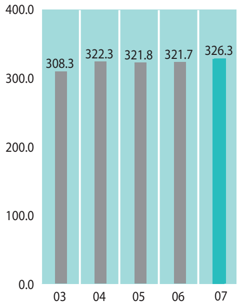
* External

Financial Section

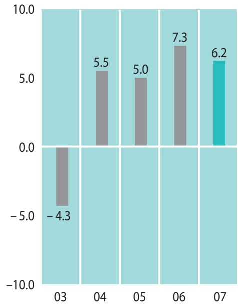
CONTENTS

Management's Discussion and Analysis of Operating Results and Financial Position

Net Premiums Written
(Billions of yen)



Net Income (Loss)
(Billions of yen)



Nonconsolidated Performance

Insurance Underwriting

Net premiums written amounted to ¥326.3 billion, up 1.4% from the previous fiscal year. However, net losses and claims increased 5.3%, to ¥186.7 billion. As a result, the net loss ratio rose 2.3 percentage points, to 62.0%.

Underwriting-related operating and general expenses totaled ¥50.0 billion, up 1.7%. This was despite ongoing efforts to streamline overall operations and enhance spending efficiency. The net business expense ratio improved 0.2 percentage point, to 32.3%.

The underwriting loss was ¥9.4 billion, down ¥3.5 billion from the previous fiscal year. This was a result of the above factors, and of increases in accumulated premiums of savings-type insurance and reversal of underwriting reserves and reductions in net maturity funds, and provision for reserves for reported and estimated losses and claims.

Asset Management

At fiscal year-end, total assets amounted to ¥1,364.5 billion, up 1.0% from a year earlier. Total investments were up 0.9%, to ¥1,288.0 billion.

To ensure asset liquidity and stable profits, we maintained our investments mainly in domestic and overseas bonds. We also actively increased purchases of overseas bonds to boost income.

As a result, interest and dividends received rose ¥2.4 billion, to ¥24.7 billion.

Despite an increase in capital gains from sales of domestic and overseas bonds, the Company posted a major decline in capital gains from sales of its stock holdings. Consequently, investment income fell ¥4.7 billion, to ¥30.4 billion, while investment expenses increased ¥1.4 billion, to ¥7.6 billion.

Income

Ordinary income edged down ¥1.1 billion, to ¥393.3 billion, reflecting insurance underwriting income of ¥361.6 billion, investment income of ¥30.4 billion and ordinary revenue of ¥1.2 billion.

Ordinary expenses rose ¥954 million, to ¥383.7 billion. This reflected insurance underwriting expenses of ¥321.2 billion, investment expenses of ¥7.6 billion, other operating and general administrative expenses of ¥54.4 billion, and other ordinary expenses of ¥398 million.

As a result, ordinary profit declined ¥2.1 billion, to ¥9.6 billion. After extraordinary gains and deferred income taxes, net income totaled ¥6.2 billion, down ¥1.0 billion.

Financial Position

Assets, Liabilities and Net Assets

As of March 31, 2007, total assets stood at ¥1,364.5 billion, up ¥14.1 billion from a year earlier. Total investments increased ¥11.5 billion, to ¥1,288.0 billion, mainly reflecting a ¥28.9 billion increase in securities, a ¥14.2 billion decline in loans and a ¥5.8 billion decrease in call loans.

Net assets increased ¥5.6 billion, to ¥368.5 billion, due mainly to higher unrealized gains on available-for-sale securities stemming from a recovery in the stock market.

As a consequence, the equity ratio was 27.0%, and net assets per share totaled ¥970.16.

Risk management loans remained mostly unchanged at ¥274 million.

Solvency Margin Ratio

The total solvency margin rose ¥12.1 billion, to ¥632.8 billion, reflecting an increase in unrealized gains on securities.

The total amount of risk rose ¥2.3 billion, to ¥109.7 billion.

As a result, the solvency margin ratio edged down 2.4 percentage points, to 1,152.8%.

Analysis of Sources of Capital and Capital Liquidity

Cash Flows

Net cash provided by operating activities amounted to ¥2.3 billion, up ¥628 million from the previous fiscal year, owing mainly to an increase in net premiums written.

Net cash provided by investing activities totaled ¥803 million, down ¥38.2 billion, mostly due to a decrease in proceeds from sales or maturity of securities.

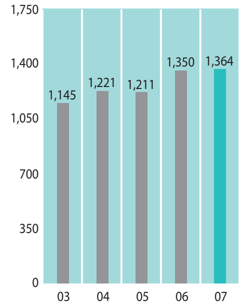
Net cash used in financing activities was ¥3.2 billion, down ¥1.0 billion, mainly reflecting a low level of purchases of treasury stock.

Consequently, cash and cash equivalents at end of year stood at ¥81.6 billion, down ¥1.7 billion from a year earlier.

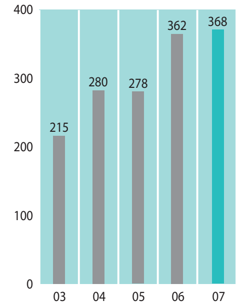
Capital Liquidity

By maintaining a certain level of cash and cash equivalents, the Company secures sufficient liquidity for claim payments and other expenses. This enables us to allocate funds for investment in securities to ensure financial stability, profitability and liquidity.

Total Assets
(Billions of yen)



Total Equity
(Billions of yen)



Nonconsolidated Balance Sheets

Nissay Dowa General Insurance Co., Ltd.
As of March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
ASSETS			
Cash in banks and time deposits (Note 3)	¥ 26,574	¥ 30,849	$ 261,322
Call loans (Note 3)	57,200	51,400	435,408
Monetary receivables bought	50	50	423
Investments			
Securities (Note 4)	1,070,881	1,099,860	9,316,902
Loans (Note 5)	65,515	51,308	434,635
Total investments	1,136,396	1,151,169	9,751,538
Property and equipment (Note 6 and 7)			
Property and equipment, at cost	115,345	116,445	986,404
Accumulated depreciation	(55,491)	(57,803)	(489,651)
Property and equipment, net of accumulated depreciation	59,854	58,641	496,752
Intangible fixed assets	243	241	2,045
Other assets			
Premiums receivable and agents' balances	18,696	17,677	149,744
Funds held by or deposited with ceding insurers	2,157	3,733	31,630
Reinsurance receivable on paid losses	12,849	11,190	94,791
Other insurance accounts receivable	1,754	1,681	14,241
Accrued investment income	2,858	3,972	33,647
Deposits	4,055	3,913	33,153
Fund deposited for earthquake insurance	16,125	17,168	145,430
Suspense payments	9,489	9,768	82,747
Receivables	3,016	3,513	29,763
Others	451	601	5,099
Total other assets	71,456	73,220	620,249
Allowance for doubtful accounts	(1,348)	(1,000)	(8,478)
Total assets	¥1,350,426	¥1,364,571	$11,559,263

See accompanying Notes to Nonconsolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
LIABILITIES AND EQUITY			
LIABILITIES			
Underwriting fund			
Reserves for reported and estimated losses and claims (Note 8)	¥ 104,251	¥ 116,928	$ 990,498
Underwriting reserves (Note 9)	790,281	787,400	6,670,061
Total underwriting fund	894,533	904,329	7,660,560
Liability for retirement benefits (Note 10)	10,916	7,144	60,523
Reserve for fluctuation in value of investment	5,752	6,384	54,079
Other liabilities			
Reinsurance premiums payable	11,723	11,060	93,692
Other insurance accounts payable	1,153	1,323	11,215
Accrued expenses	1,095	1,085	9,193
Income taxes payable	2,555	820	6,946
Accounts payable	4,610	4,794	40,618
Suspense receipts	6,092	6,238	52,847
Derivative products	1,087	2,683	22,729
Others	1,580	1,509	12,783
Total other liabilities	29,899	29,515	250,027
Deferred tax liabilities (Note 12)	46,457	48,640	412,032
Total liabilities	987,559	996,014	8,437,222
EQUITY (Note 11)			
Common stock; authovized 690,000,000 shares in 2006 and 700,000,000 shares in 2007; issued, 400,055,814 shares in 2006 and 2007	47,328	47,328	400,921
Capital surplus:			
Additional paid-in capital	40,303	40,303	341,410
Other capital surplus	1	2	23
Retained earnings:			
Legal reserve	7,492	7,492	63,473
Retained earnings-unappropriated	74,295	77,325	655,025
Unrealized gain on available-for-sale securities	202,826	205,521	1,740,970
Treasury stock—at cost: 20,117,785 shares in 2006 and 20,165,068 shares in 2007	(9,382)	(9,418)	(79,784)
Total equity	362,866	368,556	3,122,040
Total liabilities and equity	¥1,350,426	¥1,364,571	$11,559,263

Nonconsolidated Statements of Income

Nissay Dowa General Insurance Co., Ltd.
For the years ended March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Operating income			
Net premiums written	¥321,786	¥326,341	$2,764,436
Accumulated premiums of savings-type insurance, net of maturity refund	(33,534)	(27,741)	(234,996)
Reversal of underwriting reserves	12	2,881	24,406
Interest and dividends received	22,221	24,717	209,379
Net gain on securities	17,724	11,632	98,537
Net gain on sales and disposal of property and equipment	3,228	—	—
Net gain on trading securities	1,418	—	—
Other income	1,272	1,436	12,170
Total operating income	334,130	339,267	2,873,933
Operating costs and expenses			
Net losses and claims paid	177,379	186,779	1,582,210
Loss adjustment expenses	14,733	15,449	130,870
Net commissions and brokerage	55,180	55,341	468,795
Operating and general administrative expenses	53,842	54,427	461,058
Provision for reserves for reported and estimated losses and claims	14,177	12,676	107,382
Net derivative financial instruments losses	2,632	2,224	18,841
Net loss on sales and disposal of property and equipment	—	99	839
Net loss on trading securities	—	312	2,649
Loss on impairment of long-lived assets (Note 7)	2,065	—	—
Cumulative effect of accounting change for retirement benefits to directors and corporate auditors	2,079	—	—
Foreign currency exchange loss	562	1,789	15,159
Other expenses	1,347	1,250	10,595
Total operating costs and expenses	324,000	330,351	2,798,402
Income before income taxes	10,129	8,916	75,531
Income taxes (Note 12)			
Current	3,896	2,000	16,945
Deferred	(1,100)	656	5,562
Total income taxes	2,796	2,657	22,508
Net income	¥ 7,333	¥ 6,259	$ 53,022

	Yen		U.S. dollars (Note 1)
Per share of common stock (Note 2 (17))			
Net income	¥19.28	¥16.47	$0.139
Cash dividends applicable to the year	8.50	8.00	0.067

See accompanying Notes to Nonconsolidated Financial Statements.

Nonconsolidated Statements of Changes in Equity

Nissay Dowa General Insurance Co., Ltd.
For the years ended March 31, 2006 and 2007

	Thousands	Millions of yen							
			Capital surplus		Retained earnings				
	Outstanding number of shares of common stock	Common stock	Additional paid-in capital	Other capital surplus	Legal reserve	Un-appropriated	Unrealized gain on available-for-sale securities	Treasury stock, at cost	Total Equity
Balance, March 31, 2005	382,964	¥47,328	¥40,303	¥ 0	¥7,492	¥69,643	¥121,491	¥(7,747)	¥278,513
Net income	—	—	—	—	—	7,333	—	—	7,333
Cash dividends, ¥8.50 per share	—	—	—	—	—	(2,680)	—	—	(2,680)
Net decrease in unrealized gain on available-for-sale securities	—	—	—	—	—	—	81,334	—	81,334
Repurchase of treasury stock	(3,029)	—	—	—	—	—	—	(1,636)	(1,636)
Disposal of treasury stock	2	—	—	0	—	—	—	1	1
Balance, March 31, 2006	379,938	47,328	40,303	1	7,492	74,295	202,826	(9,382)	362,866
Net income	—	—	—	—	—	6,259	—	—	6,259
Cash dividends,¥8.00 per share	—	—	—	—	—	(3,229)	—	—	(3,229)
Net increase in unrealized gain on available-for-sale securities	—	—	—	—	—	—	2,695	—	2,695
Repurchase of treasury stock	(52)	—	—	—	—	—	—	(38)	(38)
Disposal of treasury stock	4	—	—	1	—	—	—	2	3
Balance, March 31, 2007	379,890	¥47,328	¥40,303	¥ 2	¥7,492	¥77,325	¥205,521	¥(9,418)	¥368,556

	Thousands of U.S. dollars (Note 1)							
		Capital surplus		Retained earnings				
	Common stock	Additional paid-in capital	Other capital surplus	Legal reserve	Un-appropriated	Unrealized gain on available-for-sale securities	Treasury stock, at cost	Total Equity
Balance, March 31, 2006	$400,921	$341,410	$12	$63,473	$629,359	$1,718,138	$(79,479)	$3,073,836
Net income	—	—	—	—	53,022	—	—	53,022
Cash dividends, $0.07 per share	—	—	—	—	(27,356)	—	—	(27,356)
Net increase in unrealized gain on available-for-sale securities	—	—	—	—	—	22,831	—	22,831
Repurchase of treasury stock	—	—	—	—	—	—	(324)	(324)
Disposal of treasury stock	—	—	11	—	—	—	18	30
Balance, March 31, 2007	$400,921	$341,410	$23	$63,473	$655,025	$1,740,970	$(79,784)	$3,122,040

See accompanying Notes to Nonconsolidated Financial Statements.

Nonconsolidated Statements of Cash Flows

Nissay Dowa General Insurance Co., Ltd.
For the years ended March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2007	2007
Cash flows from operating activities			
Income before income taxes	¥ 10,129	¥ 8,916	$ 75,531
Adjustments to reconcile income before income taxes to net cash			
Payment of income taxes	(5,614)	(4,420)	(37,445)
Depreciation	3,644	3,347	28,353
Loss on impairment of long-lived assets	2,065	—	—
Increase in reserves for reported and estimated losses and claims	14,177	12,676	107,382
Decrease in underwriting reserves	(12)	(2,881)	(24,406)
Reversal of allowance for doubtful accounts	(253)	(348)	(2,948)
Increase (Decrease) in liability for retirement benefits	274	(3,771)	(31,948)
Decrease in accrued expenses	(59)	(10)	(88)
Provision for reserve for fluctuation in value of investment	605	631	5,349
Net realized gain on investments in securities	(19,143)	(11,217)	(95,019)
Net realized gain (loss) on sales and disposals of property and equipment	(3,228)	99	839
Foreign currency exchange loss	504	1,875	15,885
Net decrease in other assets	1,460	162	1,378
Net decrease in other liabilities	(1,679)	(215)	(1,824)
Others, net	(1,181)	(2,526)	(21,403)
Net cash provided by operating activities	1,689	2,317	19,634
Cash flows from investing activities			
Decrease (Increase) in short-term investments, net	1,244	(576)	(4,884)
Purchases of investment securities	(301,118)	(232,307)	(1,967,872)
Proceeds from sales or maturity of securities	327,791	221,712	1,878,127
Loans made	(10,491)	(6,646)	(56,299)
Collection of loans	18,300	20,852	176,644
Purchases of property and equipment	(2,197)	(2,551)	(21,615)
Proceeds from sales and disposals of property and equipment	5,519	320	2,713
Others, net	(0)	(0)	(3)
Net cash provided by investing activities	39,047	803	6,810
Cash flows from financing activities			
Purchases of treasury stock, net	(1,634)	(34)	(293)
Cash dividends paid	(2,680)	(3,229)	(27,356)
Others, net	(4)	(1)	(13)
Net cash used in financing activities	(4,319)	(3,265)	(27,663)
Foreign currency translation adjustments on cash and cash equivalents	(571)	(1,574)	(13,336)
Net increase (decrease) in cash and cash equivalents	35,845	(1,718)	(14,555)
Cash and cash equivalents at beginning of year	47,483	83,329	705,882
Cash and cash equivalents at end of year (Note 3)	¥ 83,329	¥ 81,611	$ 691,327

See accompanying Notes to Nonconsolidated Financial Statements.

Notes to Nonconsolidated Financial Statements

1. Basis of Presenting Nonconsolidated Financial Statements

The accompanying nonconsolidated financial statements have been prepared from the accounts maintained by Nissay Dowa General Insurance Co., Ltd. (the "Company"), in accordance with the regulation issued under the Insurance Business Law and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standard Board of Japan (ASBJ) published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006.

The statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the statement of changes in equity" in the current fiscal year.

In preparing the accompanying nonconsolidated financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2006 financial statements to conform to the classifications used in 2007.

Amounts of less than one million Japanese yen and one thousand U.S. dollars have been omitted from the financial statements. As a result, totals in Japanese yen and U.S. dollars shown herein do not necessarily agree with the sum of the individual amounts.

The Company maintains its accounting records in Japanese yen. U.S. dollar amounts included in the nonconsolidated financial statements and notes thereto represent the arithmetical results of translating Japanese yen to U.S. dollars on the basis of ¥118.05 = U.S.$1, the prevailing rate as of March 31, 2007.

The inclusion of such U.S. dollar amounts is solely for the convenience of the reader and is not intended to imply that Japanese yen amounts have been or could be converted, realized or settled in U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

(1) Nonconsolidation

The nonconsolidated financial statements do not include the accounts of subsidiaries. Investments in subsidiaries and associated companies are stated at cost. (Consolidation of the Company's subsidiaries would not significantly change the total assets, net sales nor net income reported in the accompanying nonconsolidated financial statements.)

(2) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, and call loans, all of which mature or become due within three months of the date of acquisition.

(3) Securities

Securities are classified and accounted for, depending on management's intent, as follows:
i) Trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and related unrealized gains and losses are included in earnings, ii) held-to-maturity securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are stated at amortized cost, iii) investment securities in subsidiaries and associated companies are stated at cost determined by the moving-average method, and iv) available-for-sale securities, which are not classified as either of the aforementioned securities, are stated at fair value with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method or at amortized cost. For other than temporary declines in fair value, securities are reduced to net realizable value by a charge to income.

(4) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment is computed by the declining-balance method, except for buildings acquired on and after April 1, 1998, depreciation of which is computed by the straight-line method.

(5) Long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(6) Income Taxes

The provision for income taxes is computed based on the pretax income included in the nonconsolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(7) Allowance for Doubtful Accounts

The allowance for doubtful accounts is calculated based on our standard for self-assessment of assets and the policy for depreciation and provision.

For loans to debtors who are in bankruptcy or reorganization or whose notes are under suspension at clearinghouses and loans to debtors who are substantially deemed to be experiencing financial difficulties, the allowance is provided for based on the amount remaining after deducting the collateral's resale value and collectible collateral amounts through guarantees.

For loans to debtors for which there is probability of financial difficulties in the future, the allowance is provided for based on the amount remaining after deducting the collateral's resale value and amounts collectible from guarantees considering debtors' abilities to repay the entire outstanding debt.

For loans other than those mentioned above, the allowance is provided for by multiplying actual bad debt ratios computed based on the actual bad debt amounts during past periods against outstanding balances.

All assets of the Company are subject to periodical self-assessments conducted by the departments that manage their respective portfolios of assets. In addition, an inspection department, independent of each department conducting self-assessments, reviews the results of the self-assessments.

(8) Reserves for Reported and Estimated Losses and Claims

Outstanding claims for reported losses are required to be set aside by lines of insurance pursuant to the provisions of a regulation issued under the Insurance Business Law. In addition, outstanding claims for the losses incurred but not reported (IBNR) are required to be calculated based on past experience.

Also, the Company estimates "IBNR" reserve of certain line of insurance using statistical methods based on our own long-term experience data at March 31, 2007.

(9) Underwriting Reserves

Underwriting reserves are required to be set aside by lines of insurance pursuant to the provisions of the Insurance Business Law.

Underwriting reserves can be classified further into the following items:

i) Ordinary underwriting reserve
This reserve is based on the unearned premium (calculated by the 1/12 method) at the end of the year or the underwriting balance at the end of the year of business written during the year, whichever is greater, by lines of insurance.

ii) Extraordinary underwriting reserve
This is the reserve set aside to prepare for possible losses resulting from catastrophes. The amount is accumulated each year at a percentage fixed to net premiums written by lines of insurance.

iii) Reserve for future refunds
This is the reserve for future refunds as previously promised to policyholders in savings-type insurance policies. In the case of long-term comprehensive insurance, the investment income based on a fixed rate arising from this fund is also added to the reserve for future refunds.

iv) Reserve for dividends to policyholders
Interest surplus arising from the reserve for future refunds of the above long-term insurance is reserved under this title.

v) Underwriting reserve for compulsory automobile liability insurance
The method of calculation used for this reserve is different from those of other lines of insurance. As compulsory automobile liability insurance is operated on a no-profit/no-loss basis, all underwriting balances are carried forward as reserves, and investment income earned on this account is also set aside for contribution to the Japan Red Cross Society and other institutions.

vi) Underwriting reserve for earthquake insurance
Earthquake insurance for homeowners is operated on a no-profit/no-loss basis, and reinsurance capacity is supplemented by the Japanese government by way of excess of loss reinsurance. The Company must set aside all under-writing balances plus investment income as a reserve.

(10) Liability for Retirement Benefits

Under most circumstances, employees terminating their employment are entitled to lump-sum payments determined by reference to the basic rate of pay at the time of termination, length of service and other conditions under which the termination occurs. If the termination is involuntary, employees are usually entitled to greater payments than in the case of voluntary termination.

The Company provides for liability for retirement benefits based on the net value of the projected benefit obligations and plan assets at the balance sheet date.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

(11) Reserve for Fluctuation in Value of Investment

This reserve covers losses from fluctuations in the Company's investment securities holdings. It represents a certain percentage of assets and is prepared to offset unexpected investment assets transaction losses.

(12) Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.
The nonconsolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

(13) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(14) Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

(15) Foreign Currency Translation

All accounts receivable and payable denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance sheet date. The resulting exchange gains or losses are included in the statements of income for respective periods to the extent that they are not hedged by forward exchange contracts.

(16) Derivatives and Hedge Accounting

The Companies use a variety of derivative financial instruments, including foreign currency forward contracts, currency options, interest rate swaps, bond futures and stock index futures as a means of hedging exposure to foreign exchange, interest rates and reducing market risks associated with some securities. The Company also enters into agreements for certain derivative financial instruments as a part of their trading activities, not for speculative purposes.
Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statement of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in holding of certain deposits. Deposits denominated in foreign currencies are translated at the contracted rate if the forward contracts qualify for hedge accounting.

Foreign currency forward contracts utilized to hedge foreign currency exposures in holding of certain available-for-sale securities as well as hedged available-for-sale securities are measured at fair value. Net unrealized gains or losses are recognized in net derivative financial instruments gains or losses.

Interest rate swaps are utilized to hedge interest rate exposures of loans. These swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other liability or asset.

(17) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding in each period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because there are no potential common shares for the years ended March 31, 2006 and 2007.

Cash dividends per share presented in the accompanying nonconsolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of year.

(18) New Accounting Pronouncements

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

3. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Items on the nonconsolidated balance sheets:			
Cash in banks and time deposits	¥26,574	¥30,849	$261,322
Call loans	57,200	51,400	435,408
Less:			
Time deposits with maturities over three months	(445)	(638)	(5,404)
Cash and cash equivalents	¥83,329	¥81,611	$691,327

4. Securities

Securities as of March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Government and municipal bonds	¥ 172,666	¥ 182,603	$1,546,829
Domestic corporate bonds	147,909	142,525	1,207,332
Domestic equity securities	516,563	509,226	4,313,650
Foreign securities	223,432	247,120	2,093,355
Others	10,308	18,384	155,735
Total	¥1,070,881	¥1,099,860	$9,316,902

Securities loaned for which the borrowers have a right to sell or pledge of ¥1,942 million and ¥1,431 million ($12,128 thousand) as of March 31, 2006 and 2007, respectively, were included in "Government and municipal bonds."

The carrying amounts and aggregate fair values of securities at March 31, 2006 and 2007 were as follows:

	Millions of yen			
March 31, 2006	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Trading				
Domestic equity securities	—	—	—	¥ 980
Available-for-sale:				
Domestic bonds	¥324,751	¥ 1,284	¥5,916	320,118
Domestic equity securities	190,754	318,687	59	509,382
Foreign securities	210,010	5,499	3,036	212,473
Others	9,262	1,606	262	10,607

	Millions of yen			
March 31, 2007	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Domestic bonds	¥326,264	¥ 978	¥2,370	¥ 324,872
Domestic equity securities	195,845	308,263	442	503,666
Foreign securities	224,147	12,712	710	236,149
Others	14,801	3,682	101	18,382
Total	¥761,058	¥325,636	¥3,624	¥1,083,071

	Thousands of U.S. dollars			
March 31, 2007	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Domestic bonds	$2,763,785	$ 8,284	$20,079	$2,751,991
Domestic equity securities	1,659,004	2,611,293	3,746	4,266,551
Foreign securities	1,898,748	107,690	6,022	2,000,416
Others	125,381	31,197	857	155,721
Total	$6,446,920	$2,758,465	$30,704	$9,174,680

Other available-for-sale securities as of March 31, 2006 and 2007 mainly consisted of investment trusts.
The Company has the policy that securities whose fair value fall more than 30% below cost are considered to be impaired.
No impairment loss on available-for-sale securities were recognized for the year ended March 31, 2006 and 2007, respectively.
Available-for-sale securities, held-to-maturity securities and investment securities in subsidiaries and associated companies whose fair value is not readily determinable as of March 31, 2006 and 2007 were as follows:

	Carrying amounts		
	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Available-for-sale:			
Domestic equity securities	¥ 6,038	¥ 5,317	$ 45,041
Foreign securities	7,887	7,899	66,919
Others	51	51	437
Held-to-maturity:			
Domestic bonds	457	256	2,170
Investment securities in subsidiares and associated companies:			
Stocks	162	242	2,057
Foreign securities	3,071	3,071	26,019
Total	¥17,669	¥16,839	$142,645

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2007 were ¥253,600 million and ¥178,755 million ($1,514,232 thousand), respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥20,546 million and ¥2,936 million respectively for the year ended March 31, 2006 and ¥14,806 ($125,427 thousand) and ¥2,678 million ($22,692 thousand) respectively for the year ended March 31, 2007.
The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2007 were as follows:

	Millions of yen			
	Domestic bonds	Foreign securities	Others	Total
Due in one year or less	¥ 17,545	¥ 15,772	¥ 103	¥ 33,421
Due after one year through five years	125,487	191,615	2,110	319,212
Due after five years through ten years	147,430	25,280	3,452	176,163
Due after ten years	34,665	2,793	—	37,458
Total	¥325,128	¥235,460	¥5,666	¥566,256

	Thousands of U.S. dollars			
	Domestic bonds	Foreign securities	Others	Total
Due in one year or less	$ 148,629	$ 133,605	$ 875	$ 283,111
Due after one year through five years	1,063,001	1,623,168	17,874	2,704,045
Due after five years through ten years	1,248,880	214,147	29,250	1,492,278
Due after ten years	293,649	23,664	—	317,313
Total	$2,754,161	$1,994,585	$48,001	$4,796,748

The carrying amounts of securities pledged as collateral amounted to ¥1,867 million and ¥3,933 million ($33,320 thousand) as of March 31, 2006 and 2007, respectively.

5. Loans

Loans as of March 31, 2006 and 2007 included the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Defaulted loans	¥ 18	¥ 33	$ 279
Delinquent loans	233	241	2,049
Past due loans (over three months)	0	—	—
Loans under mitigating conditions	—	—	—
Total	¥252	¥274	$2,329

Defaulted loans represent loans for which the Company assumes that there are no prospects for recovery or repayment of principal or payment of interest and, therefore, the Company does not accrue interest income.

Delinquent loans represent loans for which the Company assumes that there are very few prospects for recovery or repayment of principal or interest and, therefore, the Company does not accrue interest income. For delinquent loans, management does not mitigate conditions of loans on behalf of the recovery of the counterparties as mentioned in the definition of loans under mitigating conditions below.

Past due loans (over three months) represent loans in which the repayment of principal or payment of interest incurred are past due over three months from the due date set forth in the loan agreements, not falling into either the categories of defaulted loans or delinquent loans.

Loans under mitigating conditions represent loans to counterparties in which the Company accepted a reduction in interest rates and revised repayment and payment schedule of principal or interest, or waived certain amounts owned in order to provide financial support to facilitate the recovery of the counterparties, not falling into the categories of either defaulted loans, delinquent loans or past due loans (over three months).

6. Property and Equipment

Property and equipment as of March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Land	¥ 24,515	¥ 24,705	$209,281
Buildings	77,146	77,120	653,283
Others	13,680	14,618	123,832
Construction in progress	2	0	6
Total	¥115,345	¥116,445	$986,404
Less accumulated depreciation	¥ 55,491	¥ 57,803	$489,651
Property and equipment, net of accumulated depreciation	¥ 59,854	¥ 58,641	$496,752

Under certain conditions, such as the exchange of fixed assets of similar kinds and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing a special reserve in the equity section.

Property and equipment were stated at cost less deferred gains of ¥5,293 million and ¥5,293 million ($44,837 thousand) for the years ended March 31, 2006 and 2007, respectively.

7. Impairment of Long-Lived Assets

The Company reviewed its long-lived assets for impairment as of the year ended March 31, 2006 and, as a result, recognized an impairment loss of ¥2,065 million ($17,583 thousand) for certain idle land and buildings.

The carrying amount of that land and buildings was written down to the recoverable amount for the year ended March 31, 2006. The recoverable amount of that idle land and buildings was measured at its net selling price determined by using an appraised value based on real estate appraisal standards. No impairment loss was recognized in 2007.

8. Reserves for Reported and Estimated Losses and Claims

Reserves for reported and estimated losses and claims as of March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Reserves for reported and estimated losses and claims (except for (b) below)	¥103,892	¥122,399	$1,036,845
Less: Reserves for reported and estimated losses and claims of reinsurance	9,961	15,733	133,274
(a) Net of reserves for reported and estimated losses and claims	93,931	106,666	903,570
(b) Reserves for reported and estimated losses and claims of earthquake insurance and compulsory automobile liability insurance	10,320	10,261	86,927
Total (a) + (b)	¥104,251	¥116,928	$990,498

Provision for reserves for reported and estimated losses and claims for the year ended March 31, 2007 was as follows:

	Millions of yen	Thousands of U.S. dollars
Provision for reserves for reported and estimated losses and claims (except for (b) below)	¥18,507	$156,774
Less: Provision for reserves for reported and estimated losses and claims of reinsurance	5,771	48,894
(a) Net of provision for reserves for reported and estimated losses and claims	12,735	107,880
(b) Provision for reserves for reported and estimated losses and claims of earthquake insurance and compulsory automobile liability insurance	(58)	(497)
Total (a) + (b)	¥12,676	$107,382

9. Underwriting Reserves

Underwriting reserves as of March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Underwriting reserves for specific insurance contracts	¥258,275	¥267,251	$2,263,884
Less: Underwriting reserves for specific insurance contracts of reinsurance	18,864	16,311	138,174
(a) Net of underwriting reserves for specific insurance contracts	239,411	250,940	2,125,709
(b) Other underwriting reserves	550,870	536,460	4,544,351
Total (a) + (b)	¥790,281	¥787,400	$6,670,061

Provision for (reversal of) underwriting reserves for specific insurance contracts for the year ended March 31, 2007 was as follows:

	Millions of yen	Thousands of U.S. dollars
Provision for underwriting reserves for specific insurance contracts	¥ 8,974	$ 76,026
Less: Provision for underwriting reserves for specific insurance contracts of reinsurance	(2,553)	(21,630)
(a) Net of provision for underwriting reserves for specific insurance contracts	11,528	97,656
(b) Reversal of other underwriting reserves	(14,409)	(122,063)
Total (a) + (b)	¥(2,881)	$(24,406)

10. Retirement Pension Plan

The Company has an unfunded lump-sum benefit plan and a funded pension plan that has been made available for almost all employees. The benefit plan covers approximately 50% of the amount of the severance payment, and the remaining 50% is covered by the pension plan.

Under the terms of the lump-sum benefit plan, eligible employees who reach mandatory retirement age or earlier voluntary termination are under most circumstances entitled to a lump-sum severance payment based on compensation at the time of severance and years of service.

The Company has maintained the funded pension plan since 1970.

In September 2002, the Company contributed certain available-for-sale securities with a fair value of ¥12,570 million to the employee retirement benefit trust for the retirement benefit plan with lump-sum payment, and recognized a non-cash gain of ¥5,858 million. The securities held in this trust are qualified as plan assets.

On June 1, 2004, the Company obtained an approval from the Ministry of Health, Labour and Welfare to establish a defined benefit pension plan under the Japanese Defined Benefit Pension Plan Law, replacing the qualified defined benefit pension plan based on the Japanese Corporation Tax Law.

The Company has expensed amounts related to the accelerated recognition of prior service cost resulting from this amendment in line with Clause 32 of Corporate Accounting Standard No. 1, which covers accounting for transitions between retirement benefit systems, expensing the relevant unrecognized actuarial loss. As a result, the Company recorded an extraordinary loss of ¥3,026 million for the year ended March 31, 2005.

This move followed an overhaul of the Company's personnel system, greatly reducing the number of employees related to the unrecognized actuarial loss, in response to structural changes through the merger based on the medium-term management plan.

Liability for retirement benefits for employees as of March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Projected benefit obligation	¥(51,084)	¥(51,662)	$(437,632)
Fair value of plan assets	51,164	53,355	451,975
Net projected benefit obligation	80	1,693	14,342
Unrecognized actuarial loss	(8,763)	(7,494)	(63,488)
Liability for retirement benefits	¥(8,682)	¥(5,801)	$(49,145)

The components of net periodic benefit costs for the years ended March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Service cost	¥1,938	¥1,917	$16,242
Interest cost	1,011	1,018	8,631
Expected return on plan assets	(378)	(434)	(3,683)
Recognized actuarial loss	(99)	(681)	(5,775)
Net periodic benefit costs	¥2,472	¥1,819	$15,415

Assumptions used for the years ended March 31, 2006 and 2007 are set forth as follows:

	2006	2007
Discount rate	2.0%	2.0%
Expected rate of return on plan assets		
Defined benefit pension plan assets	1.5%	1.5%
Trust for retirement benefits	0.0%	0.0%
Recognition period of actuarial loss	13 years	13 years

The liability for retirement benefits to directors and corporate auditors at March 31, 2006 and 2007 are ¥2,233 million and ¥1,343 million ($11,378 thousand), respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

11. Equity

On and after May 1, 2006, Japanese companies are subjected to a new corporate law of Japan (the " Corporate Law"), which reformed and replaced the Commercial Code of Japan (the " Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. "The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at anytime during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Insurance Business Law was revised along with the enforcement of the Corporate Law to require that an amount equal to 20% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals that of the common stock. Under the former Insurance Business Law, the aggregate amount of additional paid-in capital and legal reserve that exceeds the common stock may be made available for dividends by resolution of the shareholders. Under the revised Insurance Business Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

12. Income Taxes

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of 36.15% for the years ended March 31, 2006 and 2007.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Deferred tax assets:			
Underwriting reserves	¥43,613	¥ 44,640	$378,151
Impairment loss on investment securities	7,200	7,127	60,377
Liability for retirement benefits	6,517	5,219	44,215
Excess depreciation	2,828	2,570	21,774
Reserves for fluctuation in value of investment	2,079	2,307	19,549
Reserves for reported and estimated losses and claims	2,250	1,907	16,161
Allowance for doubtful accounts	462	323	2,739
Others	4,156	4,309	36,504
Total	¥69,109	¥ 68,406	$579,474
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥(114,834)	¥(116,360)	$(985,686)
Others	(732)	(687)	(5,819)
Total	¥(115,567)	¥(117,047)	$(991,506)
Net deferred tax assets (liabilities)	¥ (46,457)	¥ (48,640)	$(412,032)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying statements of income for the year ended March 31, 2006 and 2007 were as follows:

	2006	2007
Normal effective statutory tax rate	36.15%	36.15%
Tax-exempt dividend income	(9.67)	(12.31)
Deduction for income tax	(2.17)	—
Expenses not deductible for income tax purposes	3.07	3.19
Inhabitant taxes-per capita levy	1.70	1.88
Others	(1.48)	0.89
Actual effective tax rate	27.60%	29.80%

13. Derivatives

The Company utilizes derivative financial instruments such as foreign currency forward contracts, currency options, interest rate swaps, bond futures, stock index futures and weather derivatives. The Company does not enter into derivatives for speculative purposes.

The Company enters into derivative instruments to reduce its exposures to fluctuations in interest rates and foreign exchange rates. It also enters into derivative instruments to control and protect the value on investment income.

Derivatives are subject to market risk and weather risk. Since most of the Company's derivative transactions are related to qualified hedges of owned assets, market risk and weather risk inherent in the hedging derivative instruments is basically offset by opposite movements in the value of hedged assets. Some derivative transactions for trading purposes have occurred in limited amounts. As the counterparties to all derivatives are limited to exchanges or major financial institutions, the Company does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company have been made in accordance with internal policies. A back-office has made the execution and control of derivative transactions daily for internal check. Each derivative transaction is periodically reported to management, where evaluation and analysis of derivatives are made. In addition to above control, risk-management department has reported Derivatives to Board of Derectors and centrally controled relating risks.

Fair value of derivative financial instruments

The fair value of the Company's derivative financial instruments at March 31, 2006 and 2007 were as follows.

	Millions of yen						Thousands of U.S. dollars		
	2006			2007			2007		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Foreign currency forward contracts—									
Selling:									
U.S.$	¥35,754	¥36,392	¥ (637)	¥16,093	¥17,134	¥(1,041)	$136,327	$145,146	$(8,818)
Euro	26,081	26,521	(440)	23,335	24,555	(1,220)	197,673	208,009	(10,336)
Pound	—	—	—	10,661	10,959	(298)	90,312	92,838	(2,526)
Canadian$	7,257	7,151	106	10,746	10,717	29	91,033	90,784	249
Australian$	—	—	—	1,652	1,706	(54)	13,998	14,457	(459)
Total			¥(971)			¥(2,584)			$(21,890)

All foreign currency forward contracts are applied hedge accounting.

	Millions of yen						Thousands of U.S. dollars		
	2006			2007			2007		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Others—Weather derivatives									
written	¥22	¥4	¥ 0	¥8	¥1	¥ 0	$69	$12	$ 2
options premiums	4			1			15		
purchased	22	4	—	8	1	—	69	12	—
options premiums	4			1			12		
Total			¥ 0			¥ 0			$ 2

Note: Fair values are based on the indicated option premium prices from financial institutions.

14. Related Party Transactions

The balances due to or from subsidiaries and associated companies as of March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Accounts receivable	¥103	¥1,585	$13,426
Accounts payable	305	2,098	17,778

Transactions with subsidiaries and associated companies for the years ended March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Revenues	¥ 340	¥ 1,035	$ 8,772
Expenses	8,896	29,727	251,823

15. Subsequent Events

Appropriations of retained earnings

The following appropriations of retained earnings at March 31, 2007 was approved by shareholders at the shareholders meeting held on June 27, 2007:

	Millions of yen	Thousands of U.S. dollars
Appropriations		
Dividends (¥8.00 per share)	¥3,039	$25,744

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Nissay Dowa General Insurance Co., Ltd.:

We have audited the accompanying nonconsolidated balance sheets of Nissay Dowa General Insurance Co., Ltd. (the "Company") as of March 31, 2005 and 2006, and the related nonconsolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These nonconsolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these nonconsolidated 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 nonconsolidated financial statements referred to above present fairly, in all material respects, the financial position of Nissay Dowa General Insurance Co., Ltd. as of March 31, 2005 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2(10) to the nonconsolidated financial statements, the Company changed its method of accounting for retirement benefits to directors and corporate auditors as of April 1, 2005.

As discussed in Note 2(5) to the nonconsolidated financial statements, the Company adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 28, 2006

Member of
Deloitte Touche Tohmatsu

Overseas Network
As of March 31, 2007

OVERSEAS REPRESENTATIVE OFFICES

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Jeddah 21411, Saudi Arabia

Arab Commercial Enterprises Ltd.
P.O. Box 667
Riyadh 11421, Saudi Arabia

Corporate Data
As of March 31, 2007

COMPANY NAME
Nissay Dowa General Insurance Co., Ltd.

URL
http://www.nissaydowa.co.jp/

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PAID-IN CAPITAL
¥47,328,827,152

NUMBER OF EMPLOYEES
3,989

Investor Information
As of March 31, 2007

FISCAL YEAR-END
March 31

ISSUED SHARES
400,055,814
(Authorized shares: 700,000,000)

NUMBER OF SHAREHOLDERS
10,939

SECURITIES EXCHANGE LISTINGS
Tokyo and Osaka

SECURITIES CODE
8759

Nissay Dowa General Insurance Co.,Ltd.

R100

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