NIPPONKOA INSURANCE CO., LTD.

ANNUAL REPORT 2006

NIPPONKOA INSURANCE

NIPPONKOA INSURANCE

NIPPONKOA Insurance Co., Ltd. was established in April 2001 through a merger of The Nippon Fire & Marine Insurance Co., Ltd. (founded in 1892) and The Koa Fire & Marine Insurance Co., Ltd. (founded in 1918). Japan's third-oldest non-life insurance provider, the Company commands nearly 10% of the domestic non-life insurance market and plays a leading role in the industry, which is third in size after only the United States and Germany.

In line with its fundamental philosophy of enhancing customer satisfaction, the Company, which is not affiliated with any financial group, has developed operations involving a wide range of customers—beyond the *keiretsu* (corporate group framework)—and established numerous strategic business alliances. NIPPONKOA's strength lies in its powerful sales network of highly capable professional sales agents and its extensive close ties with financial institutions, including nationwide and regional banks. At the same time, it has distinguished itself as a creative force in the industry by developing new products that reflect a solid understanding of changing lifestyles and customer needs.

Making full use of these unique features and competitive advantages, the Company will strive to deepen the trust of customers and meet the expectations of shareholders by expanding its operations and improving profitability. It will at the same time step up activities aimed at fulfilling its corporate social responsibilities in terms of compliance, environmental issues and other matters, and by actively disclosing corporate information.

Credit Ratings

NIPPONKOA has received the following ratings from credit rating agencies (as of July 31, 2006):

Standard & Poor's	A+
Moody's	A2
A.M. Best	A

Corporate Philosophy

With an independent spirit, guided by its liberal corporate culture, the NIPPONKOA Insurance Group will contribute to the development of an affluent and healthy society, through unremitting effort and innovative ideas that transform old ways of thinking.

Guiding Principles

1. We make our customers the starting point of all our corporate activities, thereby earning their full trust.
2. We work all-out to boost corporate value and promote disclosure, thereby meeting the expectations of our shareholders.
3. Guided by a high standard of corporate ethics, we promote sincere, fair and environmentally friendly corporate activities.
4. We foster a vigorous corporate setting in which individuals feel free to express their opinions and put them into practice.
5. Working together with our agents, we provide our customers with the highest level of comfort and satisfaction.

Contents

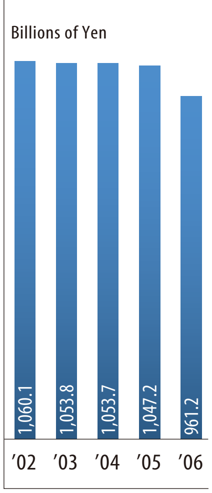
CONSOLIDATED FINANCIAL HIGHLIGHTS

NIPPONKOA INSURANCE CO., LTD. and its subsidiaries
Years ended March 31

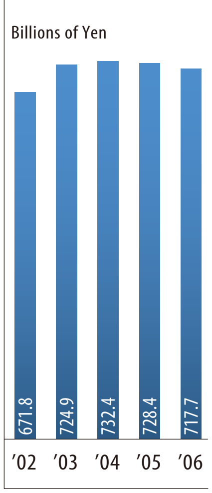
					Millions of Yen	Thousands of U.S. Dollars*1
	2006	2005	2004	2003	2002	**2006**
Operating income	**¥ 961,233**	¥1,047,293	¥1,053,793	¥1,053,827	¥1,060,141	**$ 8,182,800**
Net premiums written for non-life insurance	**717,727**	728,421	732,486	724,979	671,823	**6,109,877**
Life insurance premiums	**61,048**	58,124	54,864	45,559	38,862	**519,697**
Ordinary profit (loss)	**24,486**	21,634	49,390	(34,208)	(31,052)	**208,451**
Net income (loss)	**10,670**	13,467	19,319	(25,890)	(22,741)	**90,835**
Net income (loss) per share (in yen and U.S. dollars):						
Basic	**13.08**	16.35	23.18	(30.72)	(26.90)	**0.111**
Diluted*2	**13.07**	16.35	—	—	—	**0.111**
Total assets	**3,759,621**	3,422,186	3,432,069	3,217,703	3,240,237	**32,004,950**
Shareholders' equity	**791,328**	582,408	598,360	444,144	533,019	**6,736,429**
Shareholders' equity ratio	**21.0%**	17.0%	17.4%	13.8%	16.4%	
Return on equity (ROE)	**1.6%**	2.3%	3.7%	-5.3%	-4.0%	
Net cash provided by (used in):						
operating activities	**3,864**	(22,283)	65,645	55,698	(40,374)	**32,896**
investing activities	**22,052**	23,836	(96,072)	(12,128)	78,336	**187,729**
financing activities	**(15,800)**	(12,987)	(11,998)	(14,604)	(32,430)	**(134,505)**
Cash and cash equivalents at end of year	**152,733**	141,861	153,399	196,689	155,114	**1,300,194**

*1: U.S. dollar amounts are translated from yen at the rate of ¥117.47 = US$1, the approximate rate prevailing at March 31, 2006.
*2: There were no potential common shares to be issued from the year ended March 31, 2002 to the year ended March 31, 2004.

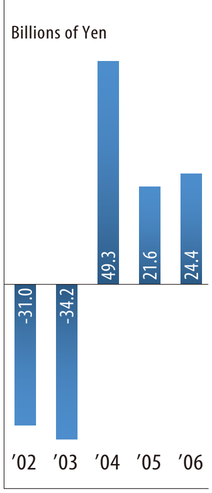
Operating income



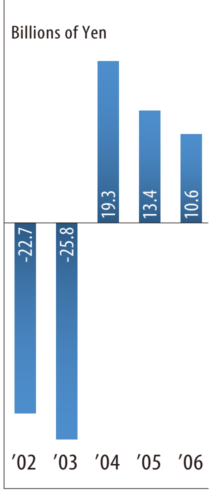
Net premiums written for non-life insurance



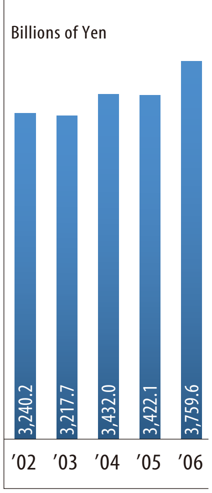
Ordinary profit (loss)



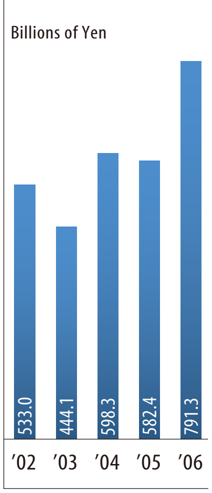
Net income (loss)



Total assets



Shareholders' equity



TO OUR SHAREHOLDERS

Ken Matsuzawa
President & CEO

NIPPONKOA has launched a new three-year medium-term business plan, entitled "KAKUSHIN—New Challenges for the Future." The aim of this new plan is to establish a more efficient business structure.

Overview of Fiscal 2005

I would like to begin with an overview of the results for fiscal 2005 (ended March 31, 2006), which was the final year of the previous medium-term business plan entitled ***"from ZERO—New Departures,"*** launched in fiscal 2004.

Net premiums written in fiscal 2005 declined 2.0% year on year to ¥708.3 billion. (All figures in this section, unless otherwise mentioned, are nonconsolidated results for NIPPONKOA Insurance Co., Ltd.) The main reason for this shortfall was a sharp decline in the number of agencies, reduced in pursuit of a more efficient sales network. This led to a fall in a certain number of contracts, which was not covered by sales through life insurance companies, financial institutions and other growth channels, as these results also came in under the plan's target. The loss ratio improved by 1.8 percentage points from the previous fiscal year to 62.7%. While paid losses for fire insurance greatly improved as claims from natural disasters returned to average levels for the year, paid losses increased for voluntary automobile insurance claims, where we have pursued expeditious processing of payment procedures and faced a concentration of claim payments during the fiscal year on contracts in force, the number of which increased substantially during the previous fiscal year. The expense ratio worsened by 1.3 percentage points from the previous fiscal year to 35.7%. This was due mainly to expenses incurred to enhance our basic IT infrastructure, and to the decline in net premiums written, which is the denominator for this ratio.

As a result, the underwriting balance (net premiums written less net losses paid and underwriting expenses) amounted to ¥11.2 billion, an increase of 39.0% compared to the previous fiscal year. Asset management was positive as a result of a recovery in the stock market and other factors.

As a result of the above, ordinary profit rose 18.9% year on year to ¥26.7 billion. Net income fell 8.8% from the previous fiscal year to ¥13.2 billion due to recording of impairment losses as extraordinary losses and others.

The numbers for the fiscal year were not what we had hoped for, but during the two-year business plan ***"from ZERO,"*** we had undeniable success with our thorough revision of products and operations made from the standpoint of a strict compliance posture. We carried out a range of measures to strengthen our business foundation, including enhancement of the basic IT infrastructure, establishment of "CR Factory," the largest call center in the financial and insurance industry, the inclusion of Sonpo 24 Insurance Co., Ltd. and ZEST Asset Management Limited as subsidiaries in our corporate group, restructuring our distribution network, successful completion of new sales alliances, and improvements to the efficiency of our own sales bases. We are confident, therefore, these achievements of the previous business plan will make a significant contribution to the success of the new business plan.

Launch of the New Medium-Term Business Plan *KAKUSHIN*

NIPPONKOA has established a new medium-term business plan entitled ***"KAKUSHIN— New Challenges for the Future,"*** which commenced in fiscal 2006. We recognize our high expense ratio to be our most pressing issue. Even allowing for the harsh business environment, we consider the decline in premium income during the period of the previous medium-term business plan described in the preceding section to be a serious matter. To overcome this problem, it is necessary for us to both achieve premium growth and cost reduction through a program of selection and concentration.

Premium Growth

We cannot deny that we caused a decline in premium income through our effort to improve efficiency of the sales network, but it is also a fact that the restructuring of this network has created greater capacity for new development. We intend to use this capacity to strengthen our existing sales network, acquire new agencies, and make other advancements.

To increase premium income, it is necessary for us to strengthen our sales network, and offer attractive products. We are pursuing product development aimed at creating products that are easy for both customers and agents to understand. This was the concept behind "Car BOX," a new voluntary automobile insurance product for which we are expanding sales as a strategic product in our new medium-term business plan. We also plan to continue to make proactive advances into such growth fields as third-sector products and packaged products for small and medium-sized companies.

Cost Reduction

NIPPONKOA's expense ratio has steadily declined as a result of continuous streamlining efforts made since deregulation of non-life insurance premium rates in 1998. The improvement in the expense ratio came to a halt, however, as a result of a ¥30 billion investment in IT infrastructure made over the past three years. The expense ratio has in fact worsened slightly. Under the new medium-term business plan, we plan to effectively utilize this enhanced IT base to revise our operational processes and improve the expense ratio. We also expect the "CR Factory," which went into operation in May 2006, to make a significant contribution to improving the expense ratio.

Numerical Targets for NIPPONKOA

The final numerical targets for fiscal 2008 (ending March 31, 2009) are net premiums written of ¥750 billion, with a loss ratio of 60.0 % and an expense ratio of 32.8%. We have also set targets for ordinary profit of ¥40 billion, net income of ¥25 billion, and adjusted ROE of approximately 8%.

Future Business Portfolio

Currently, nearly 100% of the consolidated net income of the NIPPONKOA Insurance Group is derived from the domestic non-life insurance business. We expect this to also be the case at the conclusion of the *KAKUSHIN* plan. Over the next three years, we will pursue optimal strategies for us as a corporate group, moving on to diversification of our earnings structure from fiscal 2009 and after.

NIPPONKOA Life Insurance will reach its standard policy reserve requirement in fiscal 2008, after which the life insurance business will begin contributing to consolidated earnings. Sonpo 24 is also expected to achieve single-year profitability that same fiscal year, when it too is expected to start contributing to consolidated earnings. We are also making efforts to expand earnings in our overseas insurance business, as well as gain profits from new and related businesses. As a result, we expect to expand consolidated net income to around ¥50 billion by the first half of the 2010s.

The Meaning of "KAKUSHIN (Reform, Core, Confidence)"

We named this plan in reference to the following objectives: to "Reform" our business structure, always maintaining an attitude of challenges, effecting premium growth and cost reduction; to establish a "core competence," which should become the "Core" of the Group; and to display strong "Confidence" in the arrival of a bright future for the NIPPONKOA Insurance Group.

In Conclusion

NIPPONKOA was issued a business improvement order last year by the Financial Services Agency over unpaid expense claims to certain customers, in accordance with the Insurance Business Law. We humbly accept the facts of this case, and are taking measures to improve and strengthen our management and administrative systems and prevent a reoccurrence.

NIPPONKOA is an insurance business, an industry with an extremely public aspect. Accordingly, we are working in partnership with our agencies, and devoting our full effort to conducting our business in an honest and fair manner, to earn the trust of customers and respond to their needs, as well as be viewed by society as a responsible company. We look forward to your continued support and understanding of NIPPONKOA.

August 2006

Ken Matsuzawa

Ken Matsuzawa
President & CEO

The New Medium-Term Business Plan

KAKUSHIN
Reform, Core, Confidence
—New Challenges for the Future—

"KAKUSHIN (Reform, Core, Confidence)" —New Challenges for the Future—

FISCAL 2006 → FISCAL 2008

Outline of the Medium-Term Business Plan

Business Structural Reform

We are aiming to cope with both "premium growth" and "cost reduction" by pursuing low-cost operations utilizing IT, etc., and by injecting selective resources mainly into prioritized markets expected to grow from a cost-effectiveness point of view.

Establishing Our Core Competence

We are establishing the following items in the plan as the core competence of the NIPPONKOA Insurance Group.

- An efficient business foundation to support execution of Group strategies
- A strong distribution network that will excel in both sales and operation power
- Products providing capabilities that will make it possible to offer "attractive" and "easy-to-understand" products in a timely manner
- Advanced underwriting and claims services capability that will support a low and stable loss rate
- A high-performing investment framework that will contribute to profits

Numerical Target

(Non-consolidated)

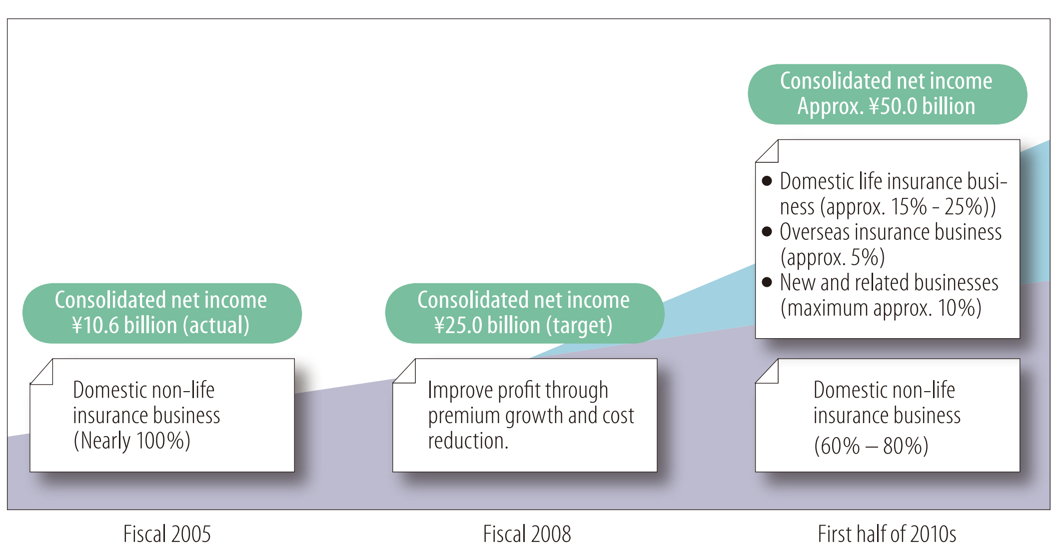
Net premiums written	Loss ratio	Expense ratio	Net income	Adjusted ROE*
¥750 billion	60.0 %	32.8 %	¥25 billion	approx. 8 %

NIPPONKOA Life Insurance Co., Ltd.	Amount of business in force for individual insurance	¥5.5 trillion**
Sonpo 24 Insurance Co., Ltd.	Net premiums written	¥18 billion**

* Calculated excluding net unrealized gain on available-for-sale securities
**The figures for NIPPONKOA Life and Sonpo 24 are also the numerical targets for fiscal 2008.

Explanatory Notes Regarding the Chart

- *NIPPONKOA will increase profits through premium growth of the non-life insurance business and cost reductions over the period through to fiscal 2008.*
- *From fiscal 2009 and after, NIPPONKOA will continue to maintain growth in the non-life insurance business, while achieving further premium growth by positioning the life insurance business as a pillar for earnings through growth in the total amount of business in force. We will further boost Group profits through an increase in earnings in the overseas insurance business by strengthening our presence in Asia and other emerging markets, and through initiatives in new and related businesses from which we can expect to realize synergies with the insurance business.*



*An overview of NIPPONKOA's new three-year medium-term business plan ending March 31, 2009 entitled **"KAKUSHIN—New Challenges for the Future"** can be found in the "To Our Shareholders" section of this report. In this section, we present a more detailed explanation of specific business strategies.*

1. Increasing Premium Income

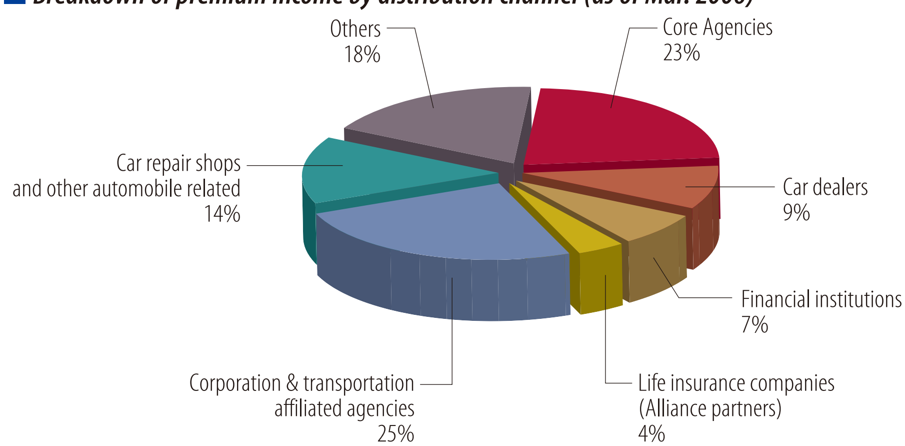
NIPPONKOA believes that increasing premium income is essential to enhance profitability. Although our results for fiscal 2005 were not what we had hoped for, we are implementing a variety of measures aimed at recovery.

(1) Maintaining a Diversified Sales Network

NIPPONKOA receives premium income through its diverse sales network. This arrangement enhances our flexibility in responding to changes in the business environment, and is effective in maintaining contact with customers. We will maintain this diverse network as we seek to increase premium income.

Sales performance for fiscal 2005 by distribution channel is shown in the following chart.

■ *Breakdown of premium income by distribution channel (as of Mar. 2006)*



Note: Premium income composition is on a sales performance basis as of March 31, 2006.
(Excludes savings-type insurance.)

(2) Major Initiatives by Channel

NIPPONKOA, in consideration of efficiency and growth, concentrates on four major areas shown in the graph on page 6: Core Agencies; car dealers; financial institutions; and life insurance companies (alliance partners). These channels are all highly efficient, generating large amounts of premium income per agency.

Core Agencies

Core Agencies are a group of specialized agencies built up by NIPPONKOA over a long period of time, consisting of approximately 2,600 agencies throughout Japan. Core Agencies have a high level of loyalty to NIPPONKOA, and as professionals in insurance sales supply the consulting-type sales that strongly support our initiatives.

NIPPONKOA has adopted the agency trainee system. Under this system, we employ candidates as temporary employees, providing training over a three-year period that helps create new Core Agencies. We plan to employ nearly twice as many candidates during fiscal 2006 as in previous years, as part of a concerted effort to expand our future business scale.

Car Dealers

The car dealer channel, part of the automotive channels that handle mainly automobile insurance, is exceptional in terms of both scale and efficiency. NIPPONKOA is not dependent on a relationship with any particular automobile manufacturer, but maintains a wide range of relationships. Approximately 10% of our voluntary automobile insurance is sold through this channel. During fiscal 2005, this channel achieved a rise in premium income at a time when income from voluntary automobile insurance declined in many channels due to falling average premium per vehicle.

Financial Institutions

Financial institutions are a channel in which NIPPONKOA can realize its strengths. We have built strong relationships with financial institutions throughout Japan, including major banks in all regions. We have also accumulated a high level of expertise in offering an agency IT system, training personnel to conduct insurance sales, and other areas. The types of insurance permitted to be sold through financial institutions have gradually increased. Restrictions will be fully removed in December 2007, and we expect strong growth once our mainstay voluntary automobile insurance is included in the types of insurance permitted for sale. We will continue to work in tandem with all financial institutions to expand premium income through this channel.

Life Insurance Companies (Alliance Partners)

The alliance partner channel is NIPPONKOA's distinctive sales channel. We have had cooperative selling agreements with Taiyo Life Insurance Company since March 2002, and Meiji Yasuda Life Insurance Company since January 2004, under which sales personnel from both companies sell NIPPONKOA's non-life insurance products. NIPPONKOA is the only non-life insurance company in Japan to have succeeded in forming such marketing agreements with multiple major life insurance companies. This channel holds much potential, and we expect strong growth in the future.

NIPPONKOA has succeeded in developing this highly flexible alliance strategy, which allows us to maintain close relationships with major regional financial institutions, forge alliances with multiple life insurance companies, and gain other advantages, because NIPPONKOA is independent and does not belong to any particular corporate group. We will continue to utilize this unique independence to seek out a wide range of alliances and expand our premium income.

(3) Offering Attractive Products

NIPPONKOA must offer attractive products if it is to be the first choice for customers. We have an acknowledged capability for product development, and take pride in the fact that our products are among the most attractive in the industry.

Corporate customers' needs for insurance vary depending on business scale and content. We provide consulting for comparatively large customers to create made-to-order products, while for small and medium-sized companies we conduct a simple analysis to offer package products with wide-reaching coverage. Growth in the latter has been particularly notable in recent years, and we expect positive results to continue.

Individual customers can find it extremely troublesome to purchase insurance to completely cover all the various risks of daily life. To help resolve this problem, and in response to feedback from customers, NIPPONKOA offers package products that form the backbone of our product lineup. One of these is "Car BOX," launched in 2006. This is our core voluntary automobile insurance product, which delivers wide protection at a reasonable price. Numerous basic packages are available, making it easy for customers to select the one that is most appropriate for them.

NIPPONKOA will continue to stay abreast of market needs, and by providing the products that make us the first choice of customers, enhance our premium income.

2. Expanding the Underwriting Balance

The profitability of NIPPONKOA's core business of insurance is expressed primarily by the underwriting balance. We are making strenuous efforts with regard to both the loss ratio and the expense ratio as a means of expanding the underwriting balance.

(1) Continuous Effort to Improve the Loss Ratio

The loss ratio depends heavily on external factors such as economic and social conditions, natural disasters, and other factors. Nevertheless, we will strive to improve our loss ratio over the long term by means of prudent underwriting and thorough assessment of the value of individual claims.

NIPPONKOA also strives to pay claims as early as possible. Shortening the time required to settle claims not only improves customer satisfaction but also helps reduce claim amounts by, for example, reducing the number of days necessary for substitute automobiles.

(2) Business Process Reform to Lower the Expense Ratio

NIPPONKOA invested ¥30 billion in IT over the three-year period from fiscal 2003 through fiscal 2005. Improvement in the expense ratio stagnated as a result, but we proceeded with the investment because of our belief in its necessity from a long-term perspective. Development proceeded steadily, and nearly all of the planned systems are now in operation. We will continue to utilize these systems to enhance the efficiency of our operating processes.

NIPPONKOA has also constructed the largest call center in the industry, which went into operation in May 2006. Initially, it operates in tandem with the Tokyo regional call center, responding to the increase in incoming calls and enhancing backup capacity in times of disaster. Its area of operations will be gradually expanded, and it will take on tasks previously handled by each regional sales office, improving efficiency.

The Sales Structure Reform we have been pursuing is also projected to contribute to an improvement in the expense ratio. An increase in large-scale agencies with strong operational capabilities and a decrease in the number of inefficient, small-scale agencies have significantly boosted the efficiency of sales activities at all offices of NIPPONKOA.

3. Asset Management Strategies

The most important consideration for asset management is the improvement of return versus risk. To implement measures to achieve this goal strongly and efficiently, NIPPONKOA takes the following approach to asset management.

(1) Strengthening Pure Investments

NIPPONKOA believes that it should pursue absolute return in managing funds for which the source is underwriting other than maturity refund type insurance.

NIPPONKOA makes a variety of efforts in pursuit of an absolute return. We utilize diversified management methods, with our asset management divisions divided along management method lines. The targets for each division are set at an absolute value that is an appropriate standard for that management method.

We also pursue alternative investments as part of this strategy. In March 2005, we acquired a gatekeeper company for fund-of-hedge funds investments, making it a subsidiary. Together with improving the performance of our hedge funds, we concentrated on personnel exchanges with this subsidiary as a means of acquiring management expertise.

(2) Strengthening Asset and Liability Management

NIPPONKOA makes a considerable effort to strengthen its asset and liability management (ALM). We believe that it is important to enhance ALM in pursuit of the risk/return balance.

Our first priority is appropriate interest rate risk control. We manage large amounts of funds with fixed funding costs, such as funds allocated for maturity repayments for savings-type insurance. For these funds traditional ALM, such as duration controls, is effective.

Another focus is a reduction in the volume of stocks held. Non-life insurance companies in Japan have long held “relationship stocks” or shares in the companies of their corporate customers. This arrangement provides for stable growth of the insurance business while supporting the business foundation of their customers, as well as allowing them to share in the company’s earnings as a shareholder. However, with the maturation of the Japanese economy and widening disparity of earnings between companies, it is necessary for us to rigorously monitor the profitability of each corporate customer, and to sell stocks that do not secure an appropriate return.

We also believe it necessary to bring the balance of relationship stocks within the amount of shareholders' equity. NIPPONKOA therefore plans, in accordance with this policy goal, to reduce relationship stocks by ¥100 billion in book value over the next seven years.

4. Life Insurance Business

NIPPONKOA regards life insurance to be one of its core businesses, on a par with its non-life insurance business. We view the life insurance business as an indispensable part of our business, not only because it allows us to meet the needs of customers by offering a more expanded product line-up, but also because it helps stabilize the business by complementing the more volatile non-life insurance business, which is susceptible to natural disasters and other influences.

NIPPONKOA Life Insurance Co., Ltd. is the Group's strategic subsidiary for the life insurance business. Since its founding, NIPPONKOA Life has marketed its products to customers through the parent company's agencies, steadily expanding its business offerings.

The number of life insurance customers so far pales in comparison with non-life customers, and we have been unable to fully exploit the latent potential of the Group. We believe that there is still a great deal of capacity for customer development, as well as for increasing the amount of business in force.

We will continue to focus on the Core Agencies of NIPPONKOA as we strengthen the sales structure, and step up efforts for sales through financial institutions. We will also strive to build new direct sales channels.

5. Sonpo24 Insurance Co., Ltd.

Sonpo 24 Insurance was added to the NIPPONKOA Insurance Group in July 2004 as a non-life insurance company solely providing voluntary automobile insurance through direct sales. Specializing in voluntary automobile insurance with competitive premiums and straightforward coverage, it coexists with NIPPONKOA itself, and serves to strengthen the non-life insurance business that is the core of the Group's business. NIPPONKOA is the only major non-life insurance group in Japan with its own direct sales company.

The most distinctive feature of Sonpo 24 is that it also conducts sales through intermediary agencies. The role of these intermediary agencies is to refer customers to Sonpo 24, with the contract procedures conducted directly between customers and Sonpo 24 by telephone or on the website. This method minimizes the administrative burden on agencies, and makes it possible for those with limited experience to begin offering the products relatively easily. More than 1,800 agencies have already registered as agents of Sonpo 24, including large-scale agencies such as life insurance companies and retailers.

Life insurance companies offering voluntary automobile insurance as intermediary agencies of Sonpo 24 include Meiji Yasuda Life Insurance Company and Asahi Mutual Life Insurance Company, as well as Taiyo Life Insurance Company, which was added in July 2006.

Sonpo 24 is still a fledgling company and therefore not yet turning a profit, but by deepening ties with NIPPONKOA we expect to achieve profitability for the subsidiary on a single-year basis in fiscal 2008.

6. Evaluating Risk and Ensuring Adequate Capital

For a non-life insurance company, an awareness of the amount of capital needed to cover retained risk, and verification of the sufficiency of the solvency margin are prerequisites for maintaining the soundness of business operations.

NIPPONKOA evaluates and manages overall risk using Dynamic Financial Analysis, a method that simulates changes in claim occurrences, asset management scenarios and numerous other parameters to predict possible changes in capital levels. Using this method, we define the amount of retained risk as equivalent to a decline in capital assuming a once-in-a-century worst-case scenario, and regularly assess the sufficiency of capital.

The analysis of our solvency margin at the end of March 2006 confirmed that NIPPONKOA has sufficient capital to continue business operations with virtually no disruption, even if a once-in-a-century worst-case scenario were to occur during fiscal 2006. As a result, we believe that the Company has adequate capital to cover its retained risk.

To maintain a high degree of freedom in capital policies and strategic investments, NIPPONKOA will strive to increase profitability, while at the same time lower retained risk by reducing holdings of relationship stocks and other risky assets.

7. Shareholder Return

NIPPONKOA has repurchased 10 million shares each year over the last seven years, for a total repurchase of 70 million shares. Of these, 40 million shares have already been retired.

Shareholder dividends in fiscal 2005 were ¥7.5 per common share, for a dividend payout ratio of 46.0%.

NIPPONKOA will continue to strive to provide appropriate and stable shareholder returns, while continuing to monitor capital sufficiency, and conduct profitability analyses.

Shareholder Return Indices

	FY2003	FY2004	FY2005
Dividend per Share	¥7.5	¥7.5	¥7.5
Dividend Yield	1.1%	1.0%	0.7%
Dividend Payout Ratio	39.4%	42.4%	46.0%
Total Return Ratio	77.3%	87.6%	118.1%

Note: Total return ratio is the sum of dividend and share buyback divided by net income.

Cautionary Statement

This publication contains estimates, projections, targets, and other figures and statements related to the plans and future performance of NIPPONKOA Insurance Co., Ltd. (the "Company") and its subsidiaries. These estimates, projections, etc., are not historical facts. Rather, they are forward-looking figures and statements based on the Company's assumptions and beliefs in light of the information currently available to it.

Accordingly, these figures and statements involve risks and uncertainties and do not guarantee actual future performance results. The Company cautions you that a number of factors could cause actual performance results to differ materially from those contained in this publication. Such factors include, but are not limited to, the items listed in "Information on Risks and Uncertainties Related to Operations" on page 38 of this annual report.

NIPPONKOA supports the prosperity of society through its insurance business, as well as focuses on the pursuit of corporate social responsibility (CSR), based on our belief in contributing to the realization of a sustainable society for the next generation. We will continue to strengthen our CSR program through such initiatives as tightening of corporate governance, ensuring strict compliance, and taking measures to address environmental issues.

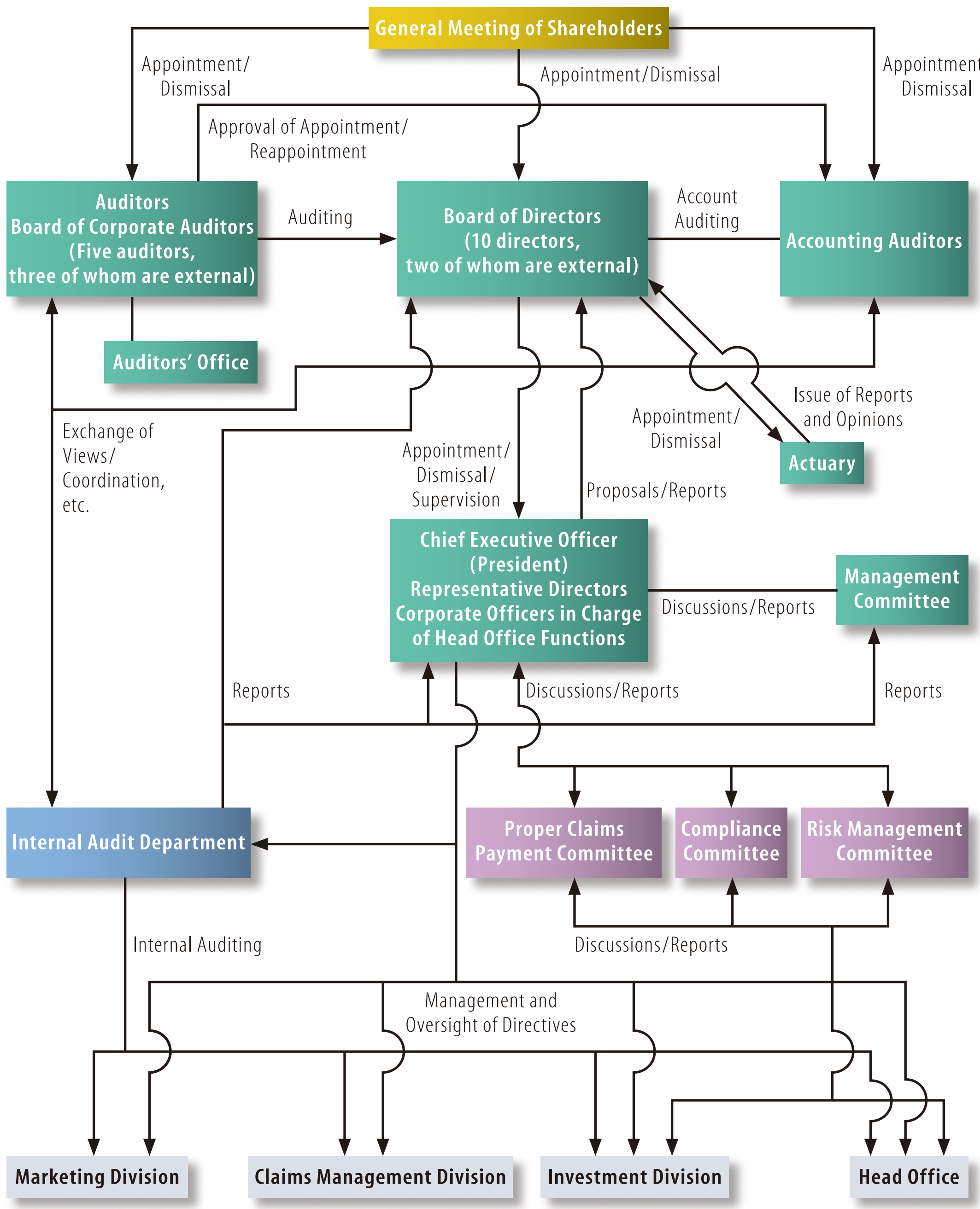
Corporate Governance

In accordance with NIPPONKOA's fundamental approach to corporate governance, we have introduced a corporate officer system, separating the responsibilities of corporate officers, who manage the affairs of the Company under the direction of the chief executive officer, from those of the Board of Directors, which oversees and monitors operations. This arrangement expedites decision-making, and clarifies the responsibility of directors. Board members are appointed for one-year terms to enable management to react flexibly to changes in the business environment and to clarify the board members' responsibilities.

NIPPONKOA's corporate governance structure is as follows:

- ▶ Two of the 10 directors, and three of the five corporate auditors, are from outside the Company.
- ▶ The Board of Directors meets regularly twice a month in principle, with the flexibility to convene extraordinary meetings as the need arises. A Management Committee composed of representative directors, corporate officers in charge of operations, and other executives has also been established to discuss important issues involving operations.
- ▶ Outside experts such as lawyers and accounting auditors provide wide-ranging advice and oversight of management.
- ▶ A Compliance Committee and a Risk Management Committee have been established to strengthen measures with regard to a range of management issues. We have also newly established a Proper Claims Payment Committee to ensure timely and proper payment of insurance benefits.

Corporate Governance Structure

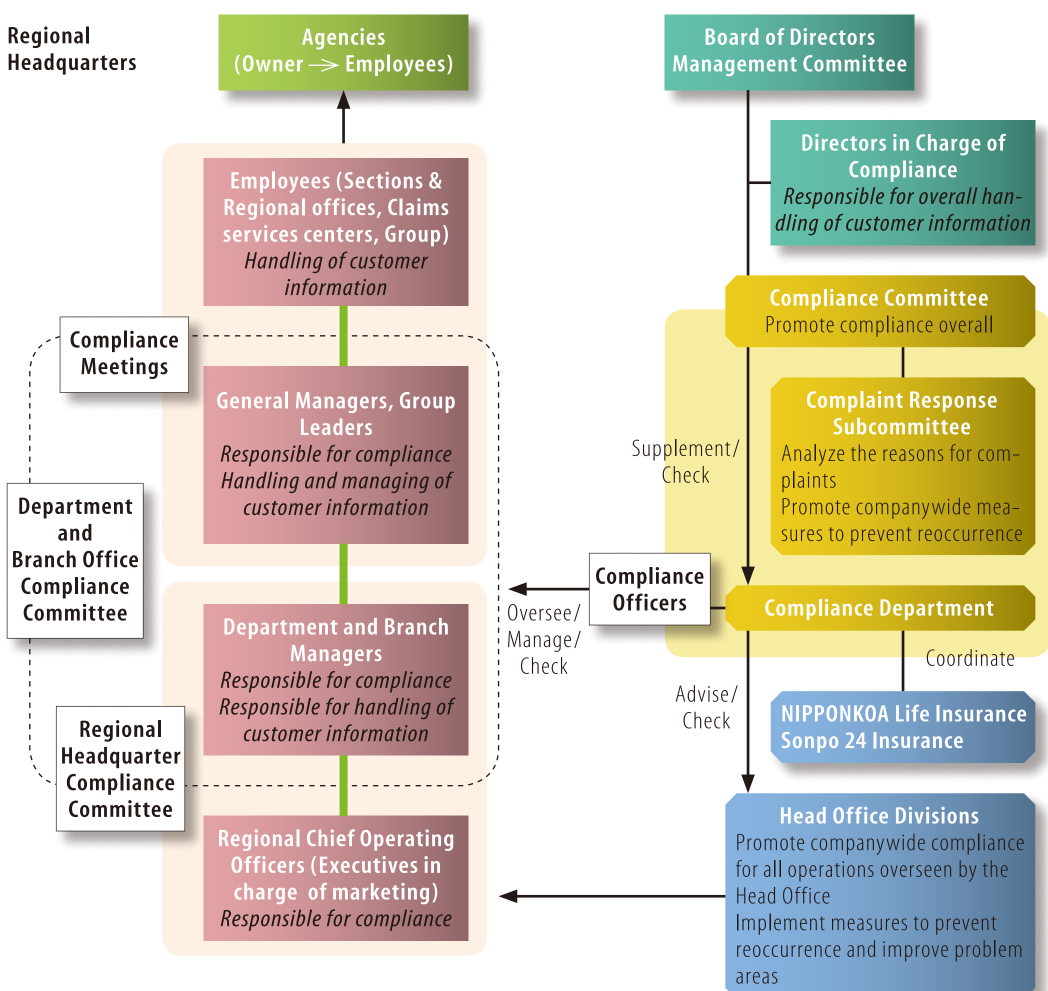


Compliance

As regulations are relaxed through financial liberalization, financial institutions are being required to assume a strict corporate posture in line with the principle of self-responsibility. NIPPONKOA has placed compliance and its strict observance as the starting point for all of its corporate activities, in order to gain the trust of society and customers, and to be the company selected by customers.

NIPPONKOA has established a Compliance Committee and a Compliance Department as part of its compliance measures, and has assigned compliance officers reporting directly to the Compliance Department to each of the regional headquarters to reinforce supervisory function. The role of these officers is to oversee and manage compliance with laws and regulations at 10 regional headquarters throughout Japan, as well as for departments and branches under their authority. Each department head (division, branch, department, and claims service center managers) has been given responsibility for compliance as a means of building a clear and strong compliance structure.

Compliance Structure



Ensuring an Effective Compliance Program

NIPPONKOA is working to raise awareness of compliance among all employees and establish a corporate culture that emphasizes compliance through such measures as formulation and distribution of a compliance manual, training for all employees and agencies, and compliance meetings at all workplaces. At the same time, we are also working to ensure proper administration of paperwork through establishment of a voluntary review system for operations, and operational reviews conducted by the Compliance Department.

Any case of improper conduct is met with stern measures and formulation of policies to prevent reoccurrences, as well as companywide disclosure of the incident. We have also established a Complaint Response Subcommittee to investigate the circumstances of any complaints, analyze their causes and implement measures to prevent reoccurrence.

Further, in response to a new law for protection of personal information enacted in Japan on April 1, 2005, NIPPONKOA has appointed a Chief Privacy Officer (CPO), established a department to oversee privacy operations, and taken other steps to ensure proper handling of customer information.

Risk Management

NIPPONKOA recognizes that strict self-management of increasingly diverse and complex risks, sound business operations and steady earnings growth are essential to gain the trust of markets and a wide range of customers. The following basic policies have been adopted to strengthen and enhance risk management.

1. Remain fully alert to the possibility that changes in the insurance business environment could lead to operational risk, and conduct risk management as a means of dealing with such changes quickly and accurately.
2. Analyze and evaluate risks properly, once they have been accurately identified, and make every possible effort to construct and introduce rational, quantifiable methods.
3. Move to prevent generation and/or escalation of losses by alleviating and exposing risks from the standpoint of efficient and effective operations.
4. When it is necessary to incur risk intentionally in order to maintain and expand earnings opportunities, endeavor to ensure that the risk is maintained at an appropriate level.
5. Act aggressively to minimize risks feared to exert a direct negative influence on customers, in order to gain and retain customer trust.

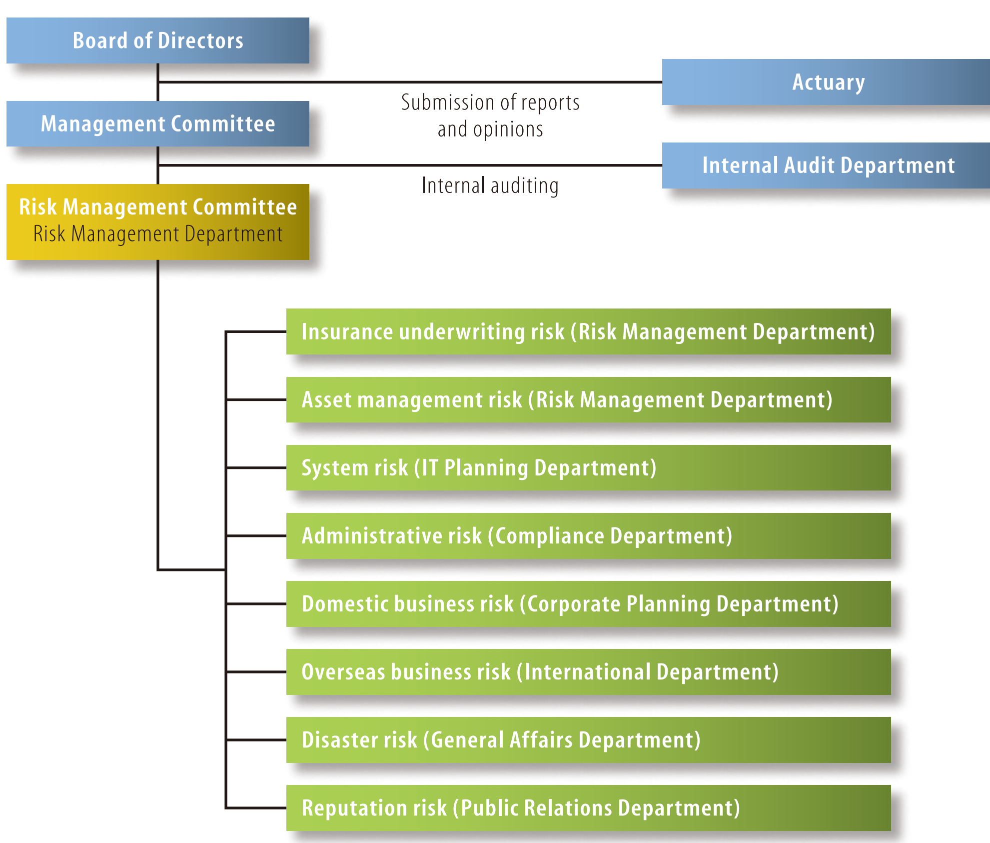
Risk Management Structure and Methods

NIPPONKOA divides the risks it must manage in the course of its business operations into eight categories: insurance underwriting risk; asset management risk; system risk; administrative risk; domestic business risk; overseas business risk; disaster risk; and reputation risk. Each department overseeing operations exposed to these risks acts to recognize, analyze, evaluate and manage them.

The Risk Management Committee maintains comprehensive control over the risk management status of every department throughout the Company. This multilayered management approach provides a risk management structure that is directly connected to management decision-making, and strengthens risk management.

NIPPONKOA employs the Dynamic Financial Analysis (DFA) model* to quantify risk, and to conduct stress tests assuming specific stress events, such as natural disasters. We also undertake measures aimed at realizing more sophisticated methods of profitability management, along with integrated risk management that contributes to the efficient and effective allocation of management resources.

*DFA model: A model that repeatedly simulates profits and losses based on an array of economic scenarios, in order to optimize the dynamic risk/return relationship throughout the Company.



Environmental Preservation and Social Contribution

NIPPONKOA has adopted environmentally friendly corporate activity as part of its Guiding Principles, and places special emphasis on fulfilling its social responsibilities as an insurance company. We have undertaken the following environmental initiatives and social contribution activities as a means of ensuring the preservation and sustainability of the global environment.

Initiatives to Address Environmental Issues

NIPPONKOA has designed and implemented an Environmental Management System (EMS) based on the international ISO 14001 standards. We received ISO 14001 certification in June 2002, and as of June 2005 had acquired certification for NIPPONKOA Life Insurance, Sonpo 24, and all branches throughout Japan.

As one of our insurance business measures to benefit the environment, in fiscal 2005 we launched NK Recycle Net*, a service to help achieve the aims of the Automobile Recycling Law. As part of our environmental risk management services we publish *Environmental Risk Review*, an environmental information journal. To enhance client services, in February 2006 we convened an environmental seminar entitled "Mandatory Corporate CO_2 Reductions and the New Business of the Emissions Trading Market—Survivors and Strugglers."

Since 1996, NIPPONKOA has managed the 12.7-acre NIPPONKOA Forest in the foothills of Mt. Yatsugatake in Nagano Prefecture. Under a program for forest preservation administered by Japan's Forestry Agency, we will raise Japanese larch and broad-leaved trees there for 34 years, after which the profits generated by harvesting the trees will be shared between NIPPONKOA and the government and used to support further forest development initiatives.

Further details, and the results of these initiatives are published in NIPPONKOA's environmental report. From fiscal 2006, however, we will issue a CSR report that gives a full introduction to CSR measures in our corporate activities, including environmental measures.

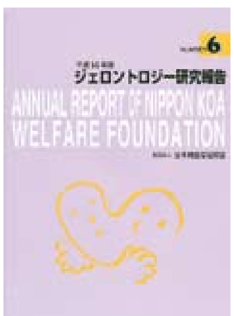
*A service for automobile-related businesses that supports appropriate disposal of end-of-life vehicles.

Environmental Risk Review

Social Contributions

The Omoiyari Club is a social contribution program in which the Company provides matching gifts to charitable organizations such as social welfare, environmental conservation, or international aid bodies, when club members donate a portion of their monthly salary to them. The NIPPONKOA Welfare Foundation, established in 1991, offers support for families caring for elderly members with senile dementia, provides scholarships for students who plan to become care workers, and aids gerontology research.

NIPPONKOA also supports art exhibits, music concerts and other cultural events in accordance with its corporate philosophy of contributing to the development of a rich and healthy society. We provided extensive support for the Staatlichen Kunstsammlungen Dresden event held in Tokyo from June to September 2005, as a co-sponsor of the exhibit.



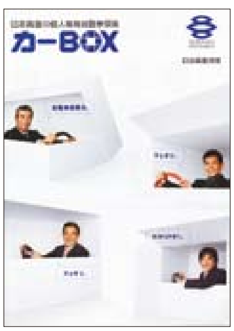
Gerontology Research Report

The "Lady Go!" Project

The "Lady Go!" project is a companywide effort to create a workplace that all employees, regardless of gender, find rewarding, and which allows them to perform to the best of their abilities. The role companies must play as members of society to address the issue of a declining birthrate—an issue facing all of society—is growing. In accordance with this view, NIPPONKOA is promoting and implementing a variety of initiatives that support both work and childcare, centered on the creation of a work environment that allows employees to devote themselves to childcare, an environment in which employees can comfortably raise children while working, and an environment that allows employees to return to work even if they had to resign due to reasons such as marriage or childbirth.

New Products and Services

NIPPONKOA offers the latest insurance products and services that quickly respond to a wide variety of needs for both individual and corporate customers. New products and services are developed on the basis of views from a product committee composed of consumer representatives and experts, and reflect customer feedback received through surveys and other means. Existing products and services are also flexibly revised in response to changing conditions, ensuring that they always reflect accurately the insurance needs of customers.



Car BOX


Shushin Medico


Anshin Box

"Car BOX" voluntary automobile insurance

In September 2006, NIPPONKOA will implement a full-scale reform of its voluntary automobile insurance business, launching the new product "Car BOX." This product, exclusively for individual customers, was developed from the concept of "everything necessary in an optimal form," and strongly reflects the viewpoints of customers and agents. Numerous advantages for customers are provided in this policy, including new features such as an Internet discount* and a special integrated package covering a range of expenses relating to personal injury, which requires a high level of customer service, as well as a fundamental reform of previous products to eliminate and consolidate coverage.

* This discount applies to customers who use a cashless payment method and choose the option of not having a paper policy issued. In place of a paper policy, customers may view coverage clauses and details of their policies through NIPPONKOA's website.

"Shushin Medico" long-term medical insurance

In October 2005, NIPPONKOA launched "Shushin Medico," a medical insurance product that provides coverage throughout a person's entire life for hospitalization or surgery resulting from injury or illness. The policy also offers special plans for those confident about their health, such as the No-Claim Discount Plan with discounts on insurance premiums, and the No-Claim Bonus Plan that pays a benefit, if no claim payments for hospitalization or hospital treatments are made for a three-year period.

"Anshin Box" personal accident comprehensive insurance

In December 2005, NIPPONKOA launched "Anshin Box," a new personal accident insurance product incorporating "order-made" clauses in which the standard insurance clauses may be varied in accordance with the type of policy chosen by the customer when choosing enter the policy. The first of its kind in the non-life insurance industry, this feature is part of our effort to eliminate the difficult-to-understand aspects of insurance. With the "order-made" clause format, the details of compensation and method for payment of insurance premiums are reflected in the standard insurance clauses of each individual policy. This extra step eliminates the cumbersome process of reading both the standard provisions and the special terms together.

Fire prevention and safety service in China

In November 2005, NIPPONKOA launched a loss control service for Japanese companies with offices located in areas throughout China. This service, offered in cooperation with facility inspection firms in China, focuses on providing advice for improvement of inspection and maintenance of electrical equipment and fire prevention systems, controls on smoking and handling of hazardous materials at offices. Assessment reports regarding activities for fire prevention and safety at offices are provided in both Japanese and Chinese.

Amount of business in force
(Total individual insurance/annuity)
Billions of Yen

Group Strategies

NIPPONKOA focuses on both life and non-life insurance in Japan in its efforts to ensure continued business expansion and greater earnings capacity for the entire NIPPONKOA Insurance Group. To this end, we are focusing on two strategic subsidiaries and are strengthening cooperation between them. NIPPONKOA Life Insurance Co., Ltd. handles the life insurance business, which stands alongside non-life as one of our core businesses, while Sonpo 24 Insurance Co., Ltd. sells voluntary automobile insurance through a new business model utilizing intermediary agencies.

NIPPONKOA Life Insurance Co., Ltd.

NIPPONKOA Life Insurance has continually increased the amount of business in force since its establishment in 1996 by strengthening its sales structure and developing new products. Cooperation between NIPPONKOA Life Insurance and the Company facilitates cross-selling of life and non-life insurance, while new product development and other product strategies contribute to further growth and a stable earnings model. In tandem with its efforts to improve customer satisfaction, NIPPONKOA Life Insurance is strengthening its efforts with regard to both compliance and risk management, earning the trust of customers.

Net premiums written
(Total voluntary and compulsory automobile liability insurance)
Millions of Yen

Sonpo 24 Insurance Co., Ltd.

Sonpo 24 employs a new business model utilizing independent intermediary agencies, mass media and the Internet to conduct direct sales of voluntary automobile insurance with straightforward coverage at a reasonable price. Its strength lies in the high-quality customer service it is able to offer through cooperation with our claims-handling department.

While NIPPONKOA Insurance also provides voluntary automobile insurance with complete coverage, the straightforward coverage and reasonable price offered by Sonpo 24 allows the NIPPONKOA Insurance Group to respond to a wide range of customer needs.

自動車保険、かしこく選べば。
そんぽ24

Hana Koala *is a trademark of Sonpo 24*

Related Business Operations

NIPPONKOA also actively pursues businesses that supplement and strengthen the insurance business, such as defined contribution pension plans, investment trust fund sales and investment advising. Initiatives in business fields that generate synergies allow us to respond to the varied needs of customers.

Defined Contribution Pension Plans

A defined contribution pension plan system, similar to the 401(k) plans in the United States, was introduced in Japan in October 2001. NIPPONKOA took advantage of this development to begin offering a comprehensive service for clients that included consulting on introducing the new system, administration and management, as well as investment education for employees. In June 2003, we launched the "NIPPONKOA DC Economy Plan" to support the introduction of the 401(k) system in small and medium-sized companies. This plan covers several firms under a single agreement, reducing costs and simplifying administrative procedures. Also, to encourage firms to entrust us with their operational management duties, and to strengthen ties with friendly financial institutions, we have actively pursued business collaborations, such as joint implementation of administrative functions and product offerings with these financial institutions.

Investment Trust Fund Sales

NIPPONKOA began selling investment trust funds in April 2001 in anticipation of the changing needs of ever-diversifying financial institutions. In January 2003, we began selling a savings-type trust fund, in which an investment trust fund is purchased automatically through regular withdrawals of ¥10,000 or more directly from the customer's bank account. Introduced as a means of diversifying the sales methods for investment trusts, this service has been well received for the way it allows for lower purchase amounts, equalizes price fluctuation risk, and reduces account transfer cost for payments. We will continue to promote trust fund sales, focusing on savings-type trust funds as mainstay products.

ZEST Asset Management Limited

In March 2005, the NIPPONKOA Insurance Group acquired all shares of Sojitz Asset Management Ltd., an asset management company specializing in fund-of-funds and a pioneer in the use of hedge funds in Japan. The acquisition was made to develop a new asset management business and to strengthen our asset management capabilities. The company was renamed ZEST Asset Management Limited and made a subsidiary.

ZEST Asset Management began operations in April 2005, responding to the needs of institutional investors seeking absolute returns regardless of market fluctuations, and increasing the added value of the NIPPONKOA Insurance Group by offering information on such alternative investments as hedge funds. Personnel exchanges with ZEST Asset Management, which has advanced expertise in selecting hedge fund managers, enhances the asset management capabilities at NIPPONKOA, and makes it a key company in outsourcing operations for the NIPPONKOA Insurance Group.

Measures to Enhance Customer Satisfaction

NIPPONKOA considers the customer to be the starting point for all operations, and implements a variety of measures aimed at improving customer satisfaction in all aspects of its business. A few examples of these initiatives are presented here.

Improving Claims-Handling Services

The true worth of insurance is demonstrated at the time of an accident, and in recognition of this fact NIPPONKOA has revised its claims-handling structure by introducing an industry-leading system to enhance customer response capabilities immediately following an accident and afterward. New claims-handling systems for fire and personal accident insurance, and voluntary automobile insurance, were introduced in July and December 2004, respectively, significantly improving customer service in response to accidents. The introduction of these systems was accompanied by a fundamental reform of the claims-handling structure, and we are pursuing further advancements through the introduction of an industry-leading operations process to ensure fast and accurate accident response and quick payment of claims.

More Thorough Explanations of Contract Terms

NIPPONKOA, in accordance with its guidelines regarding solicitation policy, makes every effort to provide customers with proper explanations of its insurance products when concluding a policy. However, in response to the Financial Services Agency's revisions in April 2006 to its guidelines for supervising insurance companies, we have revised the documentation for individual insurance products that provides explanations of important points, listing separately the "information necessary for customers to understand the insurance product" (the contract summary), and "information that the insurance company must bring to the attention of customers" (important points that customers should be aware of when signing). Through these measures we are working to explain our insurance products in easier-to-understand terms.

Efforts to Improve Administration

Non-life insurance companies that offer a large number of insurance products need their agents and employees to have accurate knowledge of products to be able to recommend the product best suited to the customer's need and to handle administrative procedures accurately and quickly after the policy has been concluded. NIPPONKOA has undertaken a comprehensive project of administrative improvement aimed at ensuring operational quality of the highest standards in industry and earning the trust and support of customers. These efforts will help eliminate and prevent administrative errors and irregularities, as well as raise awareness regarding improving administrative quality and minimizing administrative risk throughout the Company. Administrative training for agents is also being strengthened as a means of increasing response capabilities.

Better Customer Satisfaction through Direct Feedback

NIPPONKOA conducts customer surveys each year involving thousands of customers as a means of receiving direct feedback. The surveys gauge opinions and provide, assessments of, and suggestions for, NIPPONKOA and its agencies. The results are shared with the divisions in charge of relevant aspects to help improve operations and service, as well as with employees and agencies as a means of enhancing service. We also regularly conduct surveys among salespersons and agencies to gather feedback from those persons who have daily contact with customers. These surveys are made available to all employees.

"CR Factory"

In May 2006, NIPPONKOA opened "CR Factory," the largest call center in the financial-insurance industry, in Akita city, Akita Prefecture. The "CR Factory" handles customer calls, answering inquiries concerning administrative procedures related to insurance contracts and insurance claims. With the new "CR Factory" operating alongside existing call centers, we are able to improve operational quality, strengthen customer response, provide high-quality service, and create new value at our interaction point with customers.

International Operations

With increasing globalization of the economy, Japanese companies are very actively moving into overseas markets, increasing the need for insurance services overseas. In response to this situation, NIPPONKOA has developed various measures for each of the world's major regions, enhancing our ability to take advantage of overseas opportunities.

Basic Policies Related to Overseas Strategy

Strengthening Services for Policyholders Moving into Overseas Markets

To provide various services locally to our corporate policyholders who have moved into overseas markets, NIPPONKOA is strengthening its services and support organization in each region in line with client needs through alliances with leading local insurance companies, together with optimal placement of representative offices, overseas branches, subsidiaries, and affiliates.

Development of Low-Cost Operations

One important task is raising profitability with development of overseas business. To this end, we strive to develop low-cost operations by continually improving our loss ratio and expense ratio at each overseas base.

Thorough Risk Management and Compliance

To further improve overseas risk management and compliance, we are pursuing various policies to strengthen internal control, together with strictly enforcing management measures at each business base to a degree equal to that of our domestic management system.

Overseas Sales Organization

NIPPONKOA has constructed an extensive overseas network, establishing insurance underwriting firms and companies providing insurance-related services in the major bases, along with setting up 25 representative offices in 15 countries throughout the world.

In addition, we have prepared a business structure adapted to the characteristics of each region by establishing regional general managers in Europe and North America and persons in charge of East Asia and Southeast Asia-Oceania.

Strengthening Sales Organization in China

In China, Japanese companies, one after the other, have moved into this huge market with the development of a favorable investment environment, starting with the legal system, since that country's participation in the World Trade Organization (WTO). NIPPONKOA is developing an organization to provide services to all regions in China, establishing six representative offices and forming a business alliance with AIU Greater China, which has the largest network of any foreign-owned insurance company in China.

Underwriting Agencies
Australia: CGU Insurance Limited
Singapore: NIPPONKOA Management Service (Singapore) Private Limited

Underwriting Agencies
United States: The Travelers Marine Corporation
Guam (United States): Nanbo Guam, Ltd.
Canada: St. Paul Fire and Marine Insurance Company, Canada

● Representative Office
● Overseas Subsidiary or Affiliate

Establishment of the Suzhou Branch Office

To further strengthen our business structure, we are preparing to open a branch in Suzhou, a city of considerable economic growth that has a concentration of Japanese companies, which will allow us to start direct insurance sales and services.

Establishment of the Insurance Institute of China KOA Innovation Fund

In April 2006, we established The Insurance Institute of China KOA Innovation Fund with the goal of assisting individuals and organizations that have demonstrated innovation in theory, systems, products, and other aspects of the insurance field in China. This is the first such undertaking by a Japanese insurance company.

Strengthening Services in Europe and North America

European Subsidiary's Service Organization

NIPPONKOA Insurance Co. (Europe) Ltd., our wholly owned subsidiary headquartered in London, has operating licenses in the main European countries and provides services such as underwriting and accident claims settlement. In Central and Eastern Europe, the company has established alliances with foremost local insurance companies and uses leading European specialists in areas such as risk consulting and assessment, enabling it to provide complete services. In March 2006, it received an Insurer Financial Strength Rating of "A" from Standard & Poor's.

Service Organization in the United States

NIPPONKOA has had a collaborative agreement for over 30 years with St. Paul Travelers Companies, Inc., a comprehensive property and casualty insurance firm with the second largest market share in the United States. Our partner provides high-level services on a nationwide scale, starting with casualty insurance services and sophisticated risk control services.

Reinsurance

Reinsurance is one of the essential parts of the Company's operations and is an important aspect of the business dealings with both domestic and overseas partners. NIPPONKOA has developed solid, long-term relationships with fellow insurance companies, allowing it to effectively diversify risks and provide reinsurance as needed. As for assumed business, we strive to be prudent and selective in our underwriting by focusing on the transparency of the risks involved.

This section outlines the operating results of the NIPPONKOA Insurance Group for fiscal 2005 (April 1, 2005–March 31, 2006), covering primarily the financial results of the parent company as well as its life insurance subsidiary.

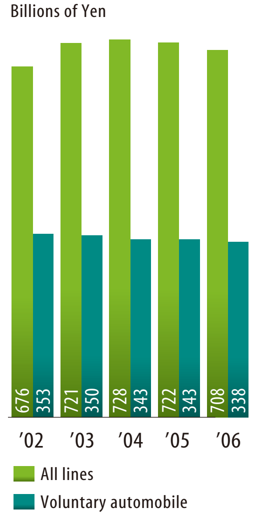
The translation of yen amounts into U.S. dollar amounts are included solely for convenience and have been made, as a matter of arithmetical computation only, at ¥117.47=US$1, the approximate rate prevailing at March 31, 2006.

1. Key Indicators

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Non-consolidated basis:			
Parent company			
Net premiums written	**¥708,319**	¥722,858	**$6,029,790**
Loss ratio*1	**62.7 %**	64.5 %	**62.7 %**
Expense ratio*2	**35.7 %**	34.4 %	**35.7 %**
Underwriting profit (loss)	**1,108**	(35,962)	**9,434**
Ordinary profit	**26,798**	22,534	**228,133**
Net income	**13,273**	14,559	**112,992**
Life insurance subsidiary			
Ordinary profit	**1,104**	896	**9,398**
Net income	**63**	189	**543**
Consolidated basis:			
Ordinary profit	**¥ 24,486**	¥ 21,634	**$ 208,451**
Net income	**10,670**	13,467	**90,835**

*1: Loss ratio = (Net losses paid + Loss adjustment expenses) / Net premiums written × 100
*2: Expense ratio = (Operating and administrative expenses on underwriting + Net commissions and brokerage expenses) / Net premiums written ×100

Trend in net premiums written
(Parent company)
Billions of Yen



2. Net Premiums Written

The following is a review of net premiums written in fiscal 2005.

Regarding fire insurance, net premiums for general-type fire insurance increased, but there was a decrease in net premiums for long-term fire insurance. The net result was a 2.7% decline in net premiums written.

In voluntary automobile insurance, which accounts for approximately 50% of total premium income, the average premium per vehicle decreased because of an expansion in discounts given to drivers with an excellent record and there was a decline in the number of insured vehicles. The result was a 1.7% decrease in net premiums written.

For personal accident insurance, premiums decreased 3.5% because of weakness in sales of savings-type policies caused by Japan's low interest rates.

Premium income in the "Other" line increased 0.6% due to strong sales of general liability insurance and others. Net premiums from marine insurance increased 7.6% as the result of robust foreign trade.

Consequently, net premiums written for all lines decreased 2.0%. On a consolidated basis, net premiums written declined 1.5%.

Net Premiums Written

	2006 Amount (Millions of Yen)	2006 Change (Millions of Yen)	2006 % change	2005 Amount (Millions of Yen)	2006 Amount (Thousands of U.S. Dollars)
Non-consolidated basis (Parent company):					
Fire	**¥106,088**	**¥ (2,922)**	**(2.7)%**	¥109,010	**$ 903,110**
Marine	**17,990**	**1,267**	**7.6 %**	16,722	**153,150**
Personal accident	**59,756**	**(2,198)**	**(3.5)%**	61,955	**508,699**
Voluntary automobile	**338,116**	**(5,711)**	**(1.7)%**	343,828	**2,878,325**
Compulsory automobile liability	**107,218**	**(5,456)**	**(4.8)%**	112,674	**912,729**
Other	**79,148**	**483**	**0.6 %**	78,665	**673,774**
All lines	**¥708,319**	**¥(14,538)**	**(2.0)%**	¥722,858	**$6,029,790**
Consolidated basis:					
All lines	**¥717,727**	**¥(10,693)**	**(1.5)%**	¥728,421	**$6,109,877**

3. Net Losses Paid

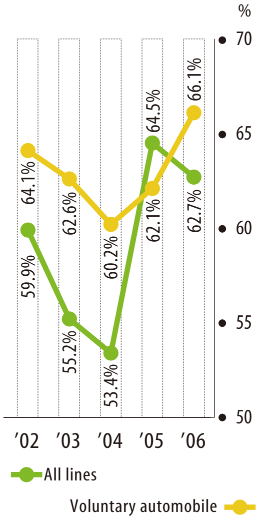
Net losses paid in fiscal 2005 were much lower than in fiscal 2004, when there were a large number of natural disasters in Japan. During the past fiscal year, ¥9.7 billion was paid out in claims for natural disasters compared with ¥68.9 billion in fiscal 2004. Fire insurance was mostly impacted by the decline in natural disaster losses, with its loss ratio improving 39.0 percentage points, to 46.5%.

The loss ratio worsened for marine insurance, personal accident insurance and voluntary automobile insurance. However, the number of contracts increased in all these categories in fiscal 2004, so fiscal 2005 results were influenced by the first full fiscal year of payments involving these policies. NIPPONKOA was Japan's only major insurance company that recorded growth in voluntary automobile insurance premiums in fiscal 2004. There was also a 4.0% increase in the number of vehicles insured in fiscal 2004. Therefore, the fiscal 2005 loss ratio for voluntary automobile insurance was especially affected by these trends.

The loss ratio for compulsory automobile liability insurance also deteriorated, but this was the result of the termination of reinsurance ceded to the government following a revision in this insurance system.

As a result, the overall loss ratio decreased 1.8 percentage points to 62.7%.

Trend in loss ratio
(Parent company)



Net Losses Paid

	2006 Amount (Millions of Yen)	2006 Change (Millions of Yen)	2006 Loss ratio	2005 Amount (Millions of Yen)	2005 Loss ratio	2006 Amount (Thousands of U.S. Dollars)
Non-consolidated basis (Parent company):						
Fire	**¥ 45,551**	**¥(43,580)**	**46.5 %**	¥ 89,132	85.5 %	**$ 387,771**
Marine	**8,546**	**1,881**	**48.6 %**	6,665	41.2 %	**72,757**
Personal accident	**25,507**	**1,931**	**47.2 %**	23,575	42.7 %	**217,141**
Voluntary automobile	**205,156**	**10,842**	**66.1 %**	194,313	62.1 %	**1,746,457**
Compulsory automobile liability	**75,515**	**9,507**	**75.8 %**	66,007	64.6 %	**642,847**
Other	**48,730**	**(394)**	**66.9 %**	49,124	68.0 %	**414,831**
All lines	**¥409,007**	**¥(19,811)**	**62.7 %**	¥428,819	64.5 %	**$3,481,805**
Consolidated basis:						
All lines	**¥413,773**	**¥(18,631)**		¥432,404		**$3,522,372**

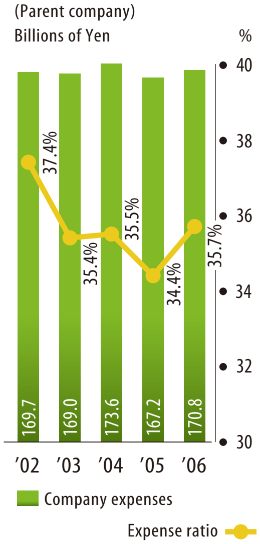
4. Expenses

The Company is continuously working to reduce its expenses to achieve the goal of low-cost operations.

Personnel expenses were about the same as one year earlier, but non-personnel expenses rose ¥3.6 billion because of large-scale IT investments and other items.

As a result, Company expenses increased ¥3.6 billion, raising the expense ratio 1.3 percentage points to 35.7%.

Company expenses and expense ratio
(Parent company)



Expenses

	Millions of Yen					Thousands of U.S. Dollars
	2006			2005		2006
	Amount	Change	% of net premiums written	Amount	% of net premiums written	Amount
Non-consolidated basis (Parent company):						
Underwriting costs and expenses:						
Net commissions and brokerage	¥123,873	¥(1,955)	17.5 %	¥125,829	17.4 %	$1,054,512
Operating and administrative expenses on underwriting	129,213	6,655	18.2 %	122,558	17.0 %	1,099,974
Total	¥253,087	¥ 4,699	35.7 %	¥248,387	34.4 %	$2,154,486
Company expenses*1:						
Personnel expenses	¥ 88,319	¥ 26	12.5 %	¥ 88,293	12.2 %	$ 751,848
Non-personnel expenses	73,433	3,616	10.4 %	69,816	9.7 %	625,122
Contributions	501	(14)	0.1 %	516	0.1 %	4,272
Taxes	8,619	39	1.2 %	8,579	1.2 %	73,373
Total	¥170,873	¥ 3,667	24.1 %	¥167,206	23.1 %	$1,454,617
Consolidated basis:						
Company expenses*1 (Total)	¥185,715	¥ 7,685	25.9 %	¥178,029	24.4 %	$1,580,957

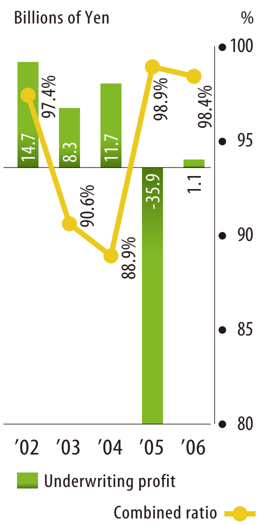
*1: Company expenses = Loss adjustment expenses + Operating and administrative expenses

5. Underwriting Profit (Parent Company)

Due to the above items, the underwriting balance (net premiums written minus net losses paid minus the sum of loss adjustment expenses and underwriting costs and expenses) increased ¥3.1 billion from the previous fiscal year to ¥11.2 billion.

Underwriting profit improved ¥37.0 billion, resulting in a profit of ¥1.1 billion. The improvement in underwriting profit was greater than the increase in the underwriting balance, because underwriting profit for fiscal 2004 reflected one-off additional provisioning for the catastrophe reserve.

Results of underwriting
(Parent company)



Underwriting Balance/Profit

Millions of Yen

	2006 Amount	2006 % of net premium written	2005 Amount	2005 % of net premium written
Non-consolidated basis (Parent company):				
Net premiums written	**¥708,319**	**100.0 %**	¥722,858	100.0 %
Less: Net losses paid & Loss adjustment expenses	**444,001**	**62.7 %**	466,392	64.5 %
Less: Underwriting costs and expenses	**253,087**	**35.7 %**	248,387	34.4 %
Underwriting balance	**¥ 11,230**	**1.6 %**	¥ 8,077	1.1 %
Underwriting profit (loss)	**¥ 1,108**	**0.2 %**	¥ (35,962)	(5.0)%

Underwriting Funds as of March 31, 2006

	Underwriting reserves (total) Amount	Underwriting reserves (total) Change	Of which premium reserve Amount	Of which premium reserve Change	Of which catastrophe reserve Amount (Millions of Yen)	Of which catastrophe reserve Change	Reserve for outstanding claims Amount (Millions of Yen)	Reserve for outstanding claims Change
Non-consolidated basis (Parent company):								
Fire	¥ 449,186	¥ 13,398	¥352,187	¥ 6,239	¥ 96,998	¥ 7,159	¥ 32,386	¥(2,599)
Marine	22,232	344	6,007	(421)	16,225	765	8,616	245
Personal accident	62,221	785	30,567	(1,024)	31,654	1,810	13,586	1,370
Voluntary automobile	148,902	(17,801)	97,186	(2,739)	51,715	(15,061)	110,553	(1,053)
Compulsory automobile liability	188,552	10,436	188,552	10,436	—	—	28,262	(65)
Other	123,079	5,919	80,391	191	42,688	5,728	48,478	4,844
All lines	¥ 994,175	¥ 13,082	¥754,893	¥12,681	¥239,282	¥ 401	¥241,883	¥ 2,741
Reserve for deposit premiums on savings-type policies	1,191,606	(71,783)						
Total	¥2,185,781	¥(58,701)						

Breakdown of interest and dividend income
(Parent company)
Billions of Yen

6. Investment Income

The parent company's interest and dividend income increased ¥3.8 billion in fiscal 2005 to ¥51.2 billion.

Additionally, interest and dividend income on deposit premiums of savings-type policies (to be returned to the policyholders upon maturity), decreased ¥1.7 billion. As a result, there was an increase of ¥5.5 billion in net interest and dividend income.

Interest and Dividend Income

	2006 Amount (Millions of Yen)	2006 Change	2006 % change	2005 Amount (Millions of Yen)	2006 Amount (Thousands of U.S. Dollars)
Non-consolidated basis (Parent company):					
Interest and dividend income	**¥51,279**	**¥ 3,817**	**8.0 %**	¥47,462	**$436,535**
Less: Interest and dividend income on deposit premiums	**28,238**	**(1,766)**	**(5.9)%**	30,005	**240,391**
Net interest and dividend income	**¥23,041**	**¥ 5,584**	**32.0 %**	¥17,456	**$196,143**
Consolidated basis:					
Interest and dividend income	**¥56,061**	**¥ 4,782**	**9.3 %**	¥51,278	**$477,238**

7. Realized Gains/Losses on Securities, and Revaluation Loss on Securities

The net gain on the sale of securities (sales gains minus sales losses) declined ¥45.6 billion to ¥8.5 billion in fiscal 2005, and realized gains including redemption profit on securities totaled ¥9.0 billion, ¥45.7 billion less than one year earlier. (All figures are for the parent company.)

The primary reason for this decrease is that the Company sold a smaller amount of relationship stocks in fiscal 2005: a book value of ¥5.5 billion, compared to a book value of ¥59.9 billion sold in fiscal 2004.

The revaluation loss on securities at the parent company was ¥0.8 billion.

Realized Gains/Losses on Securities

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Non-consolidated basis (Parent company):			
Net gain (loss) on sale of securities:			
Domestic bonds	**¥ 321**	¥ (853)	**$ 2,740**
Domestic equities	**7,301**	50,332	**62,158**
Foreign securities, etc.	**892**	4,674	**7,596**
Total	**8,515**	54,153	**72,495**
Redemption profit on securities	**489**	621	**4,164**
Realized gains	**¥9,005**	¥54,775	**$76,659**
Consolidated basis:			
Net gain on sale of securities	**8,597**	55,284	**73,188**
Redemption profit on securities	**364**	619	**3,105**
Realized gains	**¥8,962**	¥55,904	**$76,294**

Revaluation Loss on Securities

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Non-consolidated basis (Parent company):			
Domestic bonds	**¥ —**	¥—	**$ —**
Domestic equities	**840**	673	**7,153**
Foreign securities, etc.	**9**	31	**81**
Total	**¥849**	¥704	**$ 7,235**
Consolidated basis:			
Total	**¥849**	¥704	**$7,235**

8. Profit and Losses

Due to all of the above items, fiscal 2005 profit and losses were as follows.

The difference between non-consolidated and consolidated net income was ¥1.5 billion larger than in fiscal 2004. The primary reason is that fiscal 2004 consolidated earnings include only six months of earnings from Sonpo 24, which was acquired in July 2004, while fiscal 2005 includes a full year of earnings from this consolidated subsidiary.

Summary of Profit and Losses

		Millions of Yen		Thousands of U.S. Dollars
		2006	2005	**2006**
		Amount	Amount	**Amount**
Non-consolidated basis (Parent company):				
Underwriting:				
Underwriting profit (loss)	(1)	**¥ 1,108**	¥(35,962)	**$ 9,434**
Miscellaneous income (expenses) related to underwriting	(2)	**(613)**	139	**(5,226)**
Total of underwriting	(1)+(2)=(A)	**494**	(35,823)	**4,207**
Investment, etc.:				
Investment profit (loss):				
Net interest and dividend income	(3a)	**23,041**	17,456	**196,143**
Net gain on sale of securities	(3b)	**8,515**	54,153	**72,495**
Less: Revaluation loss on securities	(3c)	**849**	704	**7,235**
Redemption profit on securities	(3d)	**489**	621	**4,164**
Gain on money held in trust	(3e)	**7,100**	1,644	**60,445**
Gain (loss) on derivative financial instruments	(3f)	**(7,355)**	(7,200)	**(62,616)**
Other investment income (loss)*1	(3g)	**291**	(134)	**2,481**
Total of the above	(3)	**31,232**	65,837	**265,878**
Less: Investment expenses, etc.	(4)	**6,666**	7,074	**56,748**
Other ordinary income (loss)	(5)	**1,738**	(404)	**14,796**
Total of investments, etc.	(3)-(4)+(5)=(B)	**26,304**	58,357	**223,926**
Ordinary profit	(A)+(B)	**26,798**	22,534	**228,133**
Special income (loss)		**(8,623)**	2,122	**(73,409)**
Less: Income taxes, including deferred tax		**4,902**	10,097	**41,732**
Net income		**¥13,273**	¥ 14,559	**$112,992**
Consolidated basis:				
Ordinary profit		**24,486**	21,634	**208,451**
Net income		**¥10,670**	¥ 13,467	**$ 90,835**

*1: Other investment income (loss) is composed of the following items:
Gain (loss) on foreign exchange - Addition to reserve for investment losses + Other investment profit (loss)

9. Financial Base

In terms of financial base, the Company preserved the soundness of its assets in fiscal 2005. On a non-consolidated basis, unrealized gain on domestic equities totaled ¥776.2 billion and unrealized gain on all securities totaled ¥784.1 billion at the end of March 2006.

Unrealized Gain on Available-for-Sale Securities as of March 31, 2006

	Millions of Yen			Thousands of U.S. Dollars		
	Cost (a)	Value shown on balance sheet (b)	**Unrealized gain (before tax) (b – a)**	Cost (a)	Value shown on balance sheet (b)	**Unrealized gain (before tax) (b – a)**
Non-consolidated basis (Parent company):						
Domestic bonds	¥ 965,440	¥ 953,821	**¥ (11,618)**	$ 8,218,614	$ 8,119,705	**$ (98,908)**
Domestic equities	384,082	1,160,372	**776,290**	3,269,619	9,878,032	**6,608,413**
Foreign securities, etc.	407,859	427,319	**19,460**	3,472,029	3,637,690	**165,660**
Total of securities	¥1,757,382	¥2,541,513	**¥784,131**	$14,960,263	$21,635,429	**$6,675,165**
Consolidated basis:						
Total of securities	¥1,865,101	¥2,659,577	**¥794,475**	$15,877,259	$22,640,481	**$6,763,222**

The solvency margin ratio is one of the measures which the Financial Services Agency in Japan uses in assessing the financial condition of insurance companies. A company is regarded as having adequate solvency if this ratio exceeds 200%. With a ratio of 1,056.5%, the parent company has a very sound financial position.

Solvency Margin Ratio

	Millions of Yen
	2006
Non-consolidated basis (Parent company):	
Solvency margin	
Total shareholders' equity*1	**279,897**
Reserve for price fluctuations	**15,442**
Catastrophe reserve	**280,953**
Reserve for doubtful accounts (general)	**433**
Unrealized gain or loss on available-for-sale securities (before tax effect deduction)	**704,157**
Unrealized gain or loss on land	**2,670**
Subordinated debts	**—**
Deduction items	**15,000**
Other items	**73,029**
A. Total amount of solvency margin	**¥1,341,584**
Risks	
Ordinary insurance risks (R_1)	**39,928**
Assumed interest rate Risks (R_2)	**2,102**
Asset management risks (R_3)	**135,951**
Business management risks (R_4)	**5,651**
Major catastrophe risks (R_5)	**104,612**
B. Total amount of risks: $\sqrt{R_1^2+(R_2+R_3)^2}+R_4+R_5$	**¥ 253,976**
Solvency margin ratio: A / (B x 1/2) x 100	**1,056.5 %**

*1: Excluding predetermined outflows from the Company, deferred assets and unrecognized gain or loss on other securities.

10. Balance Sheet, Investment Assets

A summary of the non-consolidated balance sheet for the parent company is shown below.

Overview of Balance Sheet

	Millions of Yen				Thousands of U.S. Dollars
	2006		2005		2006
	Amount	Proportion	Amount	Proportion	Amount
Non-consolidated basis (Parent company):					
Total assets:	**¥3,477,787**	**100.0 %**	¥3,202,962	100.0 %	**$29,605,747**
Liabilities:					
Reserve for outstanding claims	**241,883**	**7.0 %**	239,141	7.5 %	**2,059,104**
Underwriting reserves:					
Premium reserve	**754,893**	**21.7 %**	742,211	23.2 %	**6,426,263**
Catastrophe reserve	**239,282**	**6.9 %**	238,880	7.5 %	**2,036,963**
Reserve for deposit premiums on savings-type policies	**1,191,606**	**34.3 %**	1,263,390	39.4 %	**10,143,919**
Total (Underwriting reserves)	**2,185,781**	**62.8 %**	2,244,482	70.1 %	**18,607,146**
Others	**260,771**	**7.5 %**	140,678	4.4 %	**2,219,899**
Total liabilities	**¥2,688,436**	**77.3 %**	¥2,624,302	81.9 %	**$22,886,151**
Shareholders' equity	**¥ 789,351**	**22.7 %**	¥ 578,659	18.1 %	**$ 6,719,596**

Investment assets, which represent a large percentage of total assets, are shown on page 36. The Company divides these assets into three categories: "Deposit Premium Account," "General Account (Pure Investment Assets)," and "General Account (Other Assets). "

Balance of Assets by Investment Category as of March 31, 2006

	Deposit premium account	General account: Pure investment	General account: Other investment	Total (Millions of Yen): Amount	Total (Millions of Yen): Proportion	Total (Thousands of U.S. Dollars): Amount
Non-consolidated basis (Parent company):						
Securities:						
Domestic equities	¥ —	¥ 5,333	¥1,214,911	¥1,220,244	36.8 %	$10,387,709
Yen denominated-securities, excluding equities:						
Public and corporate bonds	815,815	262,071	2,263	1,080,150	32.6 %	9,195,118
Others	10,000	52,506	6,264	68,770	2.1 %	585,430
Total	825,815	314,578	8,527	1,148,921	34.7 %	9,780,548
Foreign currency denominated-securities:						
Public and corporate bonds	23,798	232,091	—	255,889	7.7 %	2,178,342
Others	—	20,046	18,887	38,934	1.2 %	331,442
Total	23,798	252,138	18,887	294,824	8.9 %	2,509,785
Total of securities	849,614	572,049	1,242,326	2,663,989	80.4 %	22,678,043
Monetary receivables bought	21,358	4,182	104	25,646	0.8 %	218,322
Money in trust	—	64,039	50	64,089	1.9 %	545,578
Loans	219,496	—	64,021	283,518	8.6 %	2,413,537
Bank deposits	51,226	22,663	69,682	143,573	4.3 %	1,222,213
Call loans	3,000	—	—	3,000	0.1 %	25,538
Land and buildings	—	—	127,676	127,676	3.9 %	1,086,884
Investments assets (total)	¥1,144,696	¥662,934	¥1,503,862	¥3,311,493	100.0 %	$28,190,118
Total assets				¥3,477,787		$29,605,747

11. Life Insurance

This last section of this review covers life insurance operations. Since we started the life insurance business by establishing a subsidiary in 1996, we have worked steadily to raise the amount of business in force. As a result, the amount of business in force for individual insurance at the end of March 2006 totaled ¥3.26 trillion as this figure continued its steady growth.

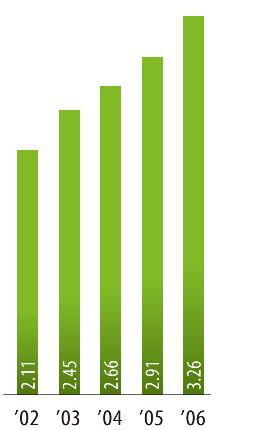
Ordinary profit was only ¥1.1 billion, but this figure was held down by accelerated provisioning for the policy reserves to reach the level calculated by the standard method prescribed by the FSA*.

Ordinary profit and net income, before reflecting the additional portion of the provision for policy reserves in order to achieve the FSA standard, were ¥4.6 billion and ¥2.3 billion, respectively.

Embedded value increased ¥9.5 billion year on year to ¥70.7 billion.

As described above, the profitability of the life insurance business continues to increase. The life insurance subsidiary is committed to further raising earnings by increasing the amount of business in force with the aim of contributing to consolidated earnings as soon as possible.

Amount of business in force
(Individual life insurance/annuity)
Trillions of Yen



***Standard method for calculating policy reserve:**
The Financial Services Agency in Japan requires insurance companies to set aside funds for standard policy reserves that are considered necessary from the standpoint of assuring the soundness of an insurance company's financial position and for the protection of policyholders. The reserve is calculated based on the net level premium method using prescribed values for the expected mortality rate and assumed interest rate.

Life Insurance Business

	Millions of Yen				Thousands of U.S. Dollars
	2006			2005	**2006**
	Amount	**Change**	**% change**	Amount	**Amount**
Life insurance subsidiary:					
Amount of business in force at term-end					
Individual insurance, individual annuity	**¥3,266,479**	**¥351,628**	**12.1 %**	¥2,914,851	**$27,806,928**
Premium and other receipts	**76,748**	**5,662**	**8.0 %**	71,085	**653,344**
Investment income	**4,914**	**(61)**	**(1.2)%**	4,976	**41,837**
Ordinary profit	**1,104**	**208**	**23.2 %**	896	**9,398**
Net income	**¥ 63**	**¥ (125)**	**(66.3)%**	¥ 189	**$ 543**

Embedded Value (Life insurance subsidiary)

	Billions of Yen			Millions of U.S. Dollars
	2006	2005	Change	**2006**
Embedded value:				
Adjusted book value	**30.2**	30.0	0.2	**257.1**
Existing business value	**40.5**	31.2	9.3	**344.8**
Total	**¥70.7**	¥61.2	¥9.5	**$601.9**
EV of new business	**¥ 4.8**	¥ 4.0	¥0.8	**$ 40.9**

INFORMATION ON RISKS AND UNCERTAINTIES RELATED TO OPERATIONS

This information is required by the amended Japanese disclosure rule to be mentioned in financial reports in Japan.
Matters relating to future developments in this section are based on the Company's best judgment as of June 29, 2006, when the financial report was submitted to the Ministry of Finance of Japan.

Of the items contained in this annual report pertaining to operating and financial conditions, those that are considered to have an important influence on investor decision-making are listed below. The Company is aware of these risks and intends to make every reasonable effort to avoid exposure to them, and shall take appropriate steps to deal with any such events should they occur.

Matters relating to future developments in this section are based on the Company's best judgment as of June 29, 2006, when the financial report was submitted to the Ministry of Finance of Japan.

(1) State of the Japanese economy
Most of the NIPPONKOA Insurance Group's insurance business is based in Japan, and with regard to asset management, the majority of Group assets is invested in Japanese equities, bonds, and loans. As a result, the financial condition and business performance of the Group will be strongly influenced by the state of the Japanese economy.

(2) Intensified competition in the non-life insurance industry
Competition in the non-life insurance industry in Japan has intensified significantly due to the effects of wide ranging deregulation. These effects include large-scale mergers, the opening of the industry to new competitors, a rush to develop new products, downward pressure on premium rates, and the establishment of new marketing channels through banks and other businesses. In this business environment, the financial condition and business performance of the NIPPONKOA Insurance Group may be affected if it is unable to remain competitive or loses a significant portion of its market share, etc.

(3) Downgrading of financial rating
Financial ratings play an important role as indicators of the financial stability of an insurance company. NIPPONKOA is presently rated "A+" by Standard & Poor's, "A+" by R&I, and "A" by A.M. Best; however, these rating agencies periodically review their findings, and there is no guarantee that the Company will continue to receive the same ratings. If the Company's financial rating should be downgraded, this could affect the Company's marketing as well as a variety of its other business activities.

(4) Risk accompanying changes in relevant laws, regulations, accounting systems, etc.
The NIPPONKOA Insurance Group conducts its insurance business under the conditions and limitations imposed by the Insurance Business Law, regulations imposed by the relevant authorities and others, appropriate accounting systems, and so on. As a result, should these laws, regulations or systems change in the future, such changes could affect the Group's business operation, business performance, and so on.

(5) Natural disasters
The NIPPONKOA Insurance Group is exposed to a heavy potential loss should it incur large losses to settle insurance claims for damages caused by natural disasters such as earthquakes, typhoons, floods, etc. The Company maintains a catastrophe reserve for such eventualities, and also purchases reinsurance coverage to help cover such losses, but depending on the scale of the natural disaster, the Group's financial condition and business performance could be seriously affected by such an event.

(6) Risk of damages in excesses of normal predictions for insurance underwriting
The NIPPONKOA Insurance Group maintains an insurance contract reserve to cover future liabilities, but should events occur that were not foreseeable at the time, and generate damages that exceed normal predictions, the Group's financial condition and business performance could be affected.

(7) Reinsurance risk
The NIPPONKOA Insurance Group works to diversify its underwriting risk by means of reinsurance; however, rapid changes in the insurance and reinsurance markets could make it more difficult to obtain reinsurance coverage, and/or could drive up reinsurance premiums, resulting in exposure to unexpected risk. Moreover, the bankruptcy or other failure of one or more of our reinsurers could make it impossible to recover part or all of the amount being reinsured, and this could affect the Company's financial condition and business performance.

(8) Overseas operations
Overseas insurance markets include inherent insurance risks that do not exist in the Japanese market, so the business environment overseas differs from that in Japan. Moreover, the assets held by overseas offices are affected by the economic conditions of the country in which they are located. Further, in some countries and regions where business operations have been established, there may be country risks that could hinder business operations, such as political or social disorder resulting from terrorism or riots, sudden changes in relevant laws and regulations, or other risks.

It is possible that the Company's overseas operations could suffer unforeseen damages as a result of such events, and these could affect the NIPPONKOA Insurance Group's financial condition and business performance.

(9) Life insurance and other businesses
The NIPPONKOA Insurance Group is investing substantially to establish subsidiaries for a life insurance business, mail-order non-life insurance, and other operations in Japan. The markets in which the Company is developing these businesses are extremely competitive, with companies that have already established solid business foundations. There is a possibility that the NIPPONKOA Insurance Group will be unable to gain earnings as expected.

(10) Risk of stock price volatility
The NIPPONKOA Insurance Group holds a large amount of marketable securities as assets. Stock markets are subject to considerable fluctuations, and in such cases changes in stock prices may have a major effect on the Group's financial condition and business performance.

(11) Interest rate risk
Part of the assets of the NIPPONKOA Insurance Group consists of bonds and loans. When interest rates rise, there is a risk that the price of bonds may fall, and when interest rates fall, there is a risk of a decline in interest income.

Moreover, with regard to savings-type insurance and life insurance products (products which guarantee the customer a fixed yield), the Company is exposed to a possible loss if the actual yield is less than the originally guaranteed yield. In this way, changes in interest rates may have an effect on the Group's business performance.

(12) Liquidity risk
If it should become difficult to manage cash flow due to the occurrence of a major disaster, or if there is a sudden increase in payouts as the result of a sharp rise in insurance contract cancellations, or if the Company is forced to sell assets or raise funds when the markets are disrupted or under other adverse conditions, the NIPPONKOA Insurance Group's financial condition and business performance may be affected.

(13) Credit risk
The NIPPONKOA Insurance Group holds as assets equities, bonds, loans, etc. However, if the companies that have issued these securities and/or bonds, the parties responsible for repayment of those loans should go bankrupt, or other events occur, it is conceivable that the equities and bonds of such companies could fall in value, and that collection of principal and interest could prove impossible. Such losses could affect the Group's financial condition and business performance.

(14) Risk associated with exchange rate fluctuations
The NIPPONKOA Insurance Group conducts business transactions in foreign currencies such as U.S. dollars and euros. These transactions generate earnings and expenses, as well as assets and liabilities that are denominated in foreign currencies. These are all exposed to risks associated with exchange rate fluctuations that could affect the Group's financial condition and business performance.

(15) Retirement benefit liabilities
Regarding retirement benefit liabilities and expenses, the NIPPONKOA Insurance Group makes estimates of future liabilities over the long term, based on forecast values and other basic rates. Consequently, changes in the business environment or conditions underlying the assumptions for those forecast values could significantly affect future liabilities, and have a major impact on the financial position and/or business performance of the NIPPONKOA Insurance Group.

(16) Legal risk
The NIPPONKOA Insurance Group, in the course of its business operations, is subject in Japan to general laws regulating corporate management, such as the company and anti-trust laws, as well as to financial laws and regulations such as the Insurance Business Law. Overseas, the Company is subject to the relevant laws and regulations of each country or region. To ensure compliance with these laws and regulations, the Company conducts a thorough compliance program for employees and insurance solicitors, as well as undertakes legal risk management.

Nevertheless, in the event of a legal dispute arising from failure to comply with these laws and regulations, or from other causes, there is a possibility that lawsuits will be brought against the NIPPONKOA Insurance Group, and that depending on the extent of that lawsuit, the Group's operational management and/or business performance may be affected.

(17) Major disaster risk
There is a possibility that damage resulting from major disasters such as earthquakes, typhoons, floods, etc. may damage the NIPPONKOA Insurance Group's offices and/or systems, impairing its ability to continue normal operations. Depending on the extent of such damage, the Group's operational management and/or business performance may be affected.

(18) Leaks of customer-related data
The NIPPONKOA Insurance Group handles a great deal of customer-related data, including both personal and company-related information. The Group exercises great care in the management of this information; however, in the unlikely event that a significant leak of such data should occur, not only would our customers suffer serious inconvenience, there is also a danger that the Company's social reputation and trust could be seriously damaged. Such an event could have a serious impact on the Group's operational management and/or business performance.

(19) Other risks
System breakdowns and clerical or operational errors could become obstacles hindering business operations, and could cause customers to lose their trust and confidence in the Company, and there is a danger that this could produce financial losses. Moreover, such events could result in the imposition of administrative sanctions by the relevant authorities. The NIPPONKOA Insurance Group is making every effort to see that such incidents do not occur, but if such an event should happen, the Group's financial condition and business performance could be affected.

FINANCIAL SECTION

CONSOLIDATED BALANCE SHEETS

NIPPONKOA INSURANCE CO., LTD. and its subsidiaries   As of March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	**2006**
ASSETS			
Cash and bank deposits (Note 8)	**¥ 166,498**	¥ 149,470	**$ 1,417,373**
Call loans	**3,000**	15,000	**25,538**
Monetary receivables bought	**25,646**	14,485	**218,322**
Money in trust (Note 3)	**95,439**	69,905	**812,458**
Investments in securities (Notes 1(e), 3 and 8)	**2,869,252**	2,494,131	**24,425,407**
Loans (Note 5)	**290,721**	357,918	**2,474,858**
Property and equipment (Notes 1(h), 7 and 8):	**280,950**	284,258	**2,391,677**
Less accumulated depreciation	**143,430**	139,551	**1,220,996**
Property and equipment, net	**137,519**	144,706	**1,170,680**
Other assets	**176,209**	182,774	**1,500,040**
Deferred tax assets (Notes 1(n) and 10)	**67**	25	**570**
Reserve for doubtful accounts (Note 1(k))	**(4,734)**	(6,230)	**(40,299)**
Total assets	**¥3,759,621**	¥3,422,186	**$32,004,950**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Underwriting fund:			
Outstanding claims (Note 1(l))	**¥ 250,354**	¥ 246,348	**$ 2,131,219**
Underwriting reserves (Note 1(m))	**2,428,508**	2,444,115	**20,673,435**
	2,678,862	2,690,464	**22,804,655**
Income taxes payable	**2,006**	4,463	**17,082**
Reserve for employees' retirement benefits (Notes 1(o) and 11)	**39,660**	38,576	**337,625**
Reserve for price fluctuations (Note 1(p))	**15,712**	13,007	**133,754**
Other liabilities (Note 8)	**99,172**	76,975	**844,239**
Deferred tax liabilities (Notes 1(n) and 10)	**131,518**	14,699	**1,119,594**
Consolidation adjustment (Note 1(s))	**1,026**	1,319	**8,739**
Total liabilities	**2,967,960**	2,839,504	**25,265,691**
Minority interests	**332**	273	**2,829**
Shareholders' equity:			
Common stock:			
Authorized 1,479,966,089 shares as of March 31, 2006 and 2005; issued 833,743,118 shares as of March 31, 2006 and 2005	**91,249**	91,249	**776,787**
Capital surplus	**46,705**	46,703	**397,591**
Retained earnings	**167,780**	163,187	**1,428,285**
Net unrealized gain on available-for-sale securities (Note 1(e))	**509,540**	296,644	**4,337,622**
Foreign currency translation adjustments (Note 1(c)2)	**(2,330)**	(3,393)	**(19,842)**
Treasury stock:			
30,558,262 shares as of March 31, 2006 and 20,447,426 shares as of March 31, 2005	**(21,616)**	(11,982)	**(184,015)**
Total shareholders' equity	**791,328**	582,408	**6,736,429**
Total liabilities, minority interests and shareholders' equity	**¥3,759,621**	¥3,422,186	**$32,004,950**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

NIPPONKOA INSURANCE CO., LTD. and its subsidiaries   For the years ended March 31, 2006, 2005 and 2004

			Millions of Yen	Thousands of U.S. Dollars (Note 2)
	2006	2005	2004	**2006**
Operating income:				
Net premiums written for non-life insurance	**¥717,727**	¥ 728,421	¥ 732,486	**$6,109,877**
Life insurance premiums	**61,048**	58,124	54,864	**519,697**
Reversal of underwriting reserves (Note 1(m))	**14,809**	9,894	—	**126,068**
Deposit premiums from policyholders	**99,957**	143,669	182,603	**850,915**
Investment income (Note 6)	**56,061**	51,278	50,285	**477,238**
Net realized gains on securities	**8,962**	55,904	27,906	**76,294**
Other operating income, net	**2,667**	—	5,647	**22,709**
	961,233	1,047,293	1,053,793	**8,182,800**
Operating costs and expenses:				
Net losses paid for non-life insurance	**413,773**	432,404	356,667	**3,522,372**
Life insurance losses	**7,795**	7,302	6,920	**66,360**
Provision for outstanding claims (Note 1(l))	**3,635**	24,055	7,889	**30,945**
Provision for underwriting reserves (Note 1(m))	**—**	—	32,183	**—**
Loss adjustment expenses	**35,916**	37,979	34,660	**305,749**
Net commissions and brokerage expenses	**129,780**	132,088	132,942	**1,104,795**
Operating and administrative expenses	**149,798**	140,050	145,767	**1,275,208**
Maturity refunds and dividends to policyholders	**195,197**	245,135	281,051	**1,661,681**
Revaluation loss on securities	**849**	704	6,320	**7,235**
Other operating costs and expenses, net	**—**	5,938	—	**—**
	936,746	1,025,658	1,004,402	**7,974,348**
Ordinary profit	**24,486**	21,634	49,390	**208,451**
Special items:				
Impairment losses on fixed assets (Note 12)	**(6,138)**	—	—	**(52,255)**
Provision for price fluctuation reserve (Note 1(p))	**(2,705)**	(5,089)	(5,173)	**(23,027)**
Reversal of reserve for doubtful accounts (Note 1 (k))	**—**	—	2,178	**—**
Other special gains (losses), net (Note 11)	**154**	7,159	(8,780)	**1,317**
Income before income taxes and minority interests	**15,797**	23,704	37,615	**134,485**
Income taxes:				
Current	**3,113**	6,820	7,640	**26,504**
Deferred (Notes 1 (n) and 10)	**1,985**	3,386	10,620	**16,898**
Minority interests	**29**	30	34	**247**
Net income	**¥ 10,670**	¥ 13,467	¥ 19,319	**$ 90,835**

			Yen	U.S. Dollars (Note 2)
	2006	2005	2004	**2006**
Net income per share (Note 1(q)):				
Basic	**¥13.08**	¥16.35	¥23.18	**$0.111**
Diluted *	**13.07**	16.35	—	**0.111**

* There were no common stock equivalents during the year ended March 31, 2004.

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

NIPPONKOA INSURANCE CO., LTD. and its subsidiaries For the years ended March 31, 2006, 2005 and 2004

	Thousands of common shares	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
		Millions of Yen					
Balance as of March 31, 2003	843,743	¥ 91,249	¥ 46,702	¥ 148,010	¥ 165,318	¥ (2,676)	¥ (4,458)
Net income	—	—	—	19,319	—	—	—
Cash dividends	—	—	—	(5,834)	—	—	—
Cancellation of treasury stock (Note 14)	(10,000)	—	—	(5,174)	—	—	—
Other items	—	—	0	(176)	—	—	—
Change of unrealized gain on available-for-sale securities	—	—	—	—	147,833	—	—
Transfer to foreign currency translation adjustment	—	—	—	—	—	(863)	—
Increase in treasury stock, net	—	—	—	—	—	—	(886)
Balance as of March 31, 2004	833,743	91,249	46,702	156,143	313,151	(3,540)	(5,345)
Net income	—	—	—	13,467	—	—	—
Cash dividends	—	—	—	(6,175)	—	—	—
Bonus to directors	—	—	—	(30)	—	—	—
Other items	—	—	1	(218)	—	—	—
Change of unrealized gain on available-for-sale securities	—	—	—	—	(16,506)	—	—
Transfer to foreign currency translation adjustment	—	—	—	—	—	146	—
Increase in treasury stock, net	—	—	—	—	—	—	(6,637)
Balance as of March 31, 2005	833,743	91,249	46,703	163,187	296,644	(3,393)	(11,982)
Net income	**—**	**—**	**—**	**10,670**	**—**	**—**	**—**
Cash dividends	**—**	**—**	**—**	**(6,099)**	**—**	**—**	**—**
Bonus to directors	**—**	**—**	**—**	**(44)**	**—**	**—**	**—**
Other items	**—**	**—**	**1**	**67**	**—**	**—**	**—**
Change of unrealized gain on available-for-sale securities	**—**	**—**	**—**	**—**	**212,895**	**—**	**—**
Transfer to foreign currency translation adjustment	**—**	**—**	**—**	**—**	**—**	**1,063**	**—**
Increase in treasury stock, net	**—**	**—**	**—**	**—**	**—**	**—**	**(9,633)**
Balance as of March 31, 2006	**833,743**	**¥91,249**	**¥46,705**	**¥167,780**	**¥509,540**	**¥(2,330)**	**¥(21,616)**

	Thousands of common shares	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
		Thousands of U.S. Dollars (Note 2)					
Balance as of March 31, 2005	833,743	$776,787	$397,581	$1,389,180	$2,525,281	$ (28,892)	$(102,006)
Net income	**—**	**—**	**—**	**90,835**	**—**	**—**	**—**
Cash dividends	**—**	**—**	**—**	**(51,925)**	**—**	**—**	**—**
Bonus to directors	**—**	**—**	**—**	**(380)**	**—**	**—**	**—**
Other items	**—**	**—**	**10**	**576**	**—**	**—**	**—**
Change of unrealized gain on available-for-sale securities	**—**	**—**	**—**	**—**	**1,812,341**	**—**	**—**
Transfer to foreign currency translation adjustment	**—**	**—**	**—**	**—**	**—**	**9,049**	**—**
Increase in treasury stock, net	**—**	**—**	**—**	**—**	**—**	**—**	**(82,009)**
Balance as of March 31, 2006	**833,743**	**$776,787**	**$397,591**	**$1,428,285**	**$4,337,622**	**$(19,842)**	**$(184,015)**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

NIPPONKOA INSURANCE CO., LTD. and its subsidiaries For the years ended March 31, 2006, 2005 and 2004

			Millions of Yen	Thousands of U.S. Dollars (Note 2)
	2006	2005	2004	**2006**
Cash flows from operating activities:				
Income before income taxes	**¥ 15,797**	¥ 23,704	¥ 37,615	**$ 134,485**
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:				
Depreciation	**7,324**	7,773	8,734	**62,355**
Impairment losses on fixed assets	**6,138**	—	—	**52,255**
Increase (decrease) in reserve for employees' retirement benefits	**1,084**	(8,877)	5,937	**9,233**
Increase in reserve for outstanding claims	**3,676**	23,913	7,822	**31,297**
Increase (decrease) in underwriting reserves	**(15,670)**	(10,411)	31,688	**(133,397)**
Interest charges	**57**	56	56	**487**
Interest and dividend income	**(56,061)**	(51,278)	(50,285)	**(477,238)**
Net gain on investments and loans	**(12,148)**	(55,630)	(18,831)	**(103,417)**
Net loss (gain) on sale of property and equipment	**(154)**	1,594	4,680	**(1,318)**
Decrease (increase) in other current assets	**8,889**	(2,117)	4,914	**75,672**
Increase (decrease) in other current liabilities	**382**	(2,706)	(13,976)	**3,252**
Other, net	**(7,123)**	6,307	(8,423)	**(60,644)**
Sub-total	**(47,807)**	(67,672)	9,933	**(406,974)**
Interest and dividend received	**58,580**	55,577	54,629	**498,683**
Interest paid	**(57)**	(56)	(57)	**(487)**
Income taxes paid	**(6,851)**	(10,132)	1,140	**(58,324)**
Net cash provided by (used in) operating activities	**3,864**	(22,283)	65,645	**32,896**
Cash flows from investing activities:				
Purchases of monetary receivables bought	**(16,250)**	(13,615)	(17,331)	**(138,335)**
Proceeds from sales or maturity of monetary receivables bought	**7,103**	9,418	19,156	**60,473**
Increase in money in trust	**(30,770)**	(14,151)	(22,980)	**(261,940)**
Decrease in money in trust	**6,661**	9,232	27,346	**56,705**
Purchases of investments in securities	**(631,432)**	(807,810)	(719,865)	**(5,375,267)**
Proceeds from sales or maturity of investments in securities	**602,261**	813,840	547,922	**5,126,935**
Loans made	**(64,908)**	(62,245)	(57,110)	**(552,552)**
Collection of loans	**131,858**	82,088	120,485	**1,122,485**
Increase in cash received under securities lending transactions	**19,461**	—	—	**165,672**
Acquisition of property and equipment	**(9,427)**	(6,519)	(8,249)	**(80,251)**
Proceeds from sales of property and equipment	**3,308**	6,408	4,677	**28,167**
Net decrease in short-term investments	**4,186**	5,664	9,875	**35,636**
Acquisition of shares in a subsidiary that accompany changes in the scope of consolidation	**—**	1,524	—	**—**
Net cash provided by (used in) investing activities	**22,052**	23,836	(96,072)	**187,729**
Cash flows from financing activities:				
Dividends paid	**(6,099)**	(6,175)	(5,834)	**(51,925)**
Treasury stock acquired	**(9,636)**	(6,643)	(6,065)	**(82,033)**
Sales of treasury stock	**3**	7	5	**33**
Dividends paid to minority interests	**(6)**	(5)	(4)	**(57)**
Other, net	**(61)**	(170)	(99)	**(522)**
Net cash used in financing activities	**(15,800)**	(12,987)	(11,998)	**(134,505)**
Effect of exchange rate changes on cash and cash equivalents	**755**	(103)	(863)	**6,430**
Net increase (decrease) in cash and cash equivalents	**10,871**	(11,537)	(43,290)	**92,550**
Cash and cash equivalents at beginning of year	**141,861**	153,399	196,689	**1,207,644**
Cash and cash equivalents at end of year (Note 13)	**¥152,733**	¥141,861	¥153,399	**$1,300,194**

The accompanying notes are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presenting Consolidated Financial Statements

NIPPONKOA Insurance Co., Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounting records and prepare their financial statements in Japan using guidance applicable to insurance companies. The accounts are consolidated on the basis of Japanese generally accepted statutory accounting principles and practices. Foreign subsidiaries maintain their books of account in conformity with those of their country of domicile. The accompanying consolidated financial statements have been prepared by the Company as required by the Securities Exchange Law, and accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

Accordingly, the accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan.

As permitted by the Securities Exchange Law in Japan, amounts of less than one million yen and one thousand dollars have been omitted. Accordingly, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

(b) Principles of Consolidation

The consolidated financial statements include accounts of the Company and its significant subsidiaries (collectively "the Companies"). Consolidated foreign subsidiaries are included on the basis of fiscal years ending on December 31, since the difference in the fiscal year ends does not exceed three months.

As for major transactions occurring between the fiscal year ends of the consolidated foreign subsidiaries and the Company, necessary adjustments are made upon consolidation.

The consolidated subsidiaries of the Company are NIPPONKOA Life Insurance Company Limited, Sonpo 24 Insurance Company Limited ("SONPO24"), Nippon Insurance Company of Europe Limited, NIPPONKOA Insurance (Europe) Limited, NIPPONKOA Insurance Company of America, NIPPONKOA Insurance Company (Asia) Limited and NIPPONKOA Management Services (Europe) Limited.

All other subsidiaries of the Company are not consolidated as their total assets, sales, net income and retained earnings in the aggregate are considered immaterial.

The equity method of accounting for investments in common shares of unconsolidated subsidiaries and affiliates has also not been applied because the net income and retained earnings in the aggregate are considered immaterial.

(c) Foreign Currency Translation

1) Foreign currency accounts:
The Company and its consolidated domestic subsidiaries translate short-term and long-term receivables and payables denominated in foreign currencies into Japanese yen at the exchange rate as of each balance sheet date. The foreign exchange gains and losses from translation are charged to the statements of income to the extent that they are not hedged by forward foreign exchange contracts.

All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions are made. The resulting exchange gains or losses are credited or charged to income.

2) Foreign currency financial statements of consolidated subsidiaries:
The balance sheet accounts of foreign subsidiaries are translated into Japanese yen at the year-end exchange rate except for shareholders' equity, which is translated at historical exchange rates. All revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the year-end exchange rate. Differences arising from such translation are shown in a separate component of shareholders' equity.

(d) Cash Equivalents

Cash equivalents in the consolidated statements of cash flows are short-term, highly liquid investments with an original maturity of three months or less, and subject to insignificant risk of changes in value.

(e) Investments in Securities

Accounting standards and methods for valuation of investments in securities held by the Company and its consolidated domestic subsidiaries are as follows:

i) Held-to-maturity bonds are carried at amortized cost.
ii) Stocks of subsidiaries and affiliates are carried at cost determined by the moving-average method.
iii) Marketable securities classified as available-for-sale are recorded according to their mark-to-market values based on the prices prevailing in the market on the balance sheet date. The unrealized gains/losses, net of tax, on the available-for-sale securities are recognized as a component of shareholders' equity. Cost for sale is calculated by the moving-average method.
iv) Non-marketable securities classified as available-for-sale are recorded at cost determined by the moving-average method or amortized cost method.

Valuations of securities held by the consolidated foreign subsidiaries are based on the market value method.

Securities included in money in trust that are designated for trading purposes are valued by the market value method, and the difference between carrying value and market value is charged or credited to net income. Securities included in money in trust designated as available-for-sale purpose or held-to-maturity purpose are accounted for as described above for these methods respectively.

(f) Derivatives

Based on the Company's accounting standard for derivatives, all derivatives that do not qualify for hedge accounting are recognized as either assets or liabilities and measured at fair value with unrealized gains and losses recognized in the consolidated statements of income.

(g) Hedge Accounting

The deferral hedge accounting method is applied to hedging transactions where interest rate swaps are used to hedge cash flow fluctuation risk due to interest rate fluctuations on bonds and loans. They are also used to hedge interest rate fluctuation risk related to long term insurance contracts based on "The accounting and auditing treatment on the application of the financial products accounting standard to the insurance Industry" (Japanese Institute of Certified Public Accountants Industry Audit Practice Committee Report No. 26, hereafter Industry Audit Practice Committee Report No. 26). For certain transactions fulfilling the required conditions for the application of the exceptional treatment for interest rate swaps, this treatment is applied.

The fair value hedge accounting method is applied to foreign exchange forward contracts and currency option transactions in order to reduce the risk of foreign exchange rate fluctuation on foreign currency denominated assets. Where certain transactions fulfill the required conditions for the application of assignment accounting, this accounting is applied to such transactions. The deferral method is applied to currency swaps.

Hedge effectiveness is judged by comparing the accumulated fluctuation of the market value or cash flows between each hedged item and the related hedging instrument for the period from the commencement of the hedge to the period end. However, effectiveness tests are not required where sufficient correlation exists between hedging instrument and hedged item.

Where JICPA Industry Audit Practice Committee Report No. 26 applies, hedge effectiveness is determined by monitoring fluctuations in the interest rate which effect both the calculation of the theoretical price of the hedged item (Insurance liabilities) grouped by their remaining life and the hedging instrument (Interest rate swap).

(h) Property and Equipment

Property and equipment are primarily recorded at cost less accumulated depreciation. The Company and its consolidated domestic subsidiaries compute depreciation of property and equipment by the declining-balance method based on estimated useful lives. The Company adopted the straight-line method to depreciate buildings (except for their attached facilities) acquired on and after April 1, 1998. The foreign subsidiaries of the Company compute depreciation of equipment by the straight-line method.

(i) Accounting Standard for Impairment of Fixed Assets

Effective from this fiscal year, the accounting standard for impairment of fixed assets ("the Opinion on Accounting Standard for Impairment of Fixed Assets" (by the Business Accounting Council August 9, 2002)) and "Guidance on Accounting Standard for Impairment of Fixed Assets" (ASBJ Guidance No. 6) are applied.

As a result, income before income taxes and minority interests for the period was lower by ¥3,958 million than would have been the case had the previous method had been utilized.

(j) Leases

Finance leases, other than those which are deemed to transfer the ownership of the leased assets to the lessees, are accounted for by a method similar to that used for ordinary operating leases.

(k) Reserve for Doubtful Accounts

A reserve for doubtful accounts is provided under the application of standards for asset self-assessment and standards for write-offs and provisions as follows:

For loans to borrowers that are bankrupt, under special liquidation procedures, barred from bill clearing transactions, or that are otherwise in a state of legal or virtual bankruptcy, a reserve is provided in the amount equivalent to such loans net of the expected realizable collateral value and the estimated recoverable guarantee value.

For loans to borrowers that are found to be facing a material risk of going into bankruptcy in the future, a reserve is provided in the amount equivalent to such loans net of the expected realizable collateral value and the estimated recoverable guarantee value, with further adjustments made as deemed necessary under consideration of such borrowers' overall repayment capabilities.

For all other loans, a reserve is provided based on the actual default ratios derived from the defaults observed during certain past periods.

(l) Reserve for Outstanding Claims

In accordance with the regulations of the Insurance Business Law in Japan, the Company and its domestic consolidated subsidiaries have established a reserve for outstanding claims in amounts estimated to be sufficient, in the opinion of management, to discharge claims incurred and reported. The Company and its domestic consolidated subsidiaries also have a provision for losses incurred but not reported at the balance sheet date.

(m) Underwriting Reserves

Non-life insurance

Pursuant to the provisions of the Insurance Business Law and related rules and regulations in Japan, the Company and SONPO24 are required to maintain underwriting reserves in amounts determined as follows:

1) Premium reserve

Insurance other than compulsory automobile insurance and earthquake insurance

The greater of the unearned premiums or the underwriting balance at the end of the year for policies written during the year, for each line of insurance and type of policy.

Compulsory automobile insurance

Accumulated total sum of premiums written less claims incurred plus related net investment income less contributions to the Japan Red Cross Society and other Japanese institutions. Insurance companies are not permitted to recognize any profit or loss from underwriting compulsory automobile liability insurance.

Earthquake insurance

Accumulated total amounts of the underwriting balance and related net investment income.

In addition to the above, in order to provide for any extraordinary risks which might arise from a catastrophe, the Company is required to maintain a contingency reserve, at an amount determined based on net premiums written, that varies by line of business.

2) Deposits by policyholders

The Company maintains reserves for the deposit portion of premiums, and investment income on such portion, both of which are refundable to policyholders under the contract.

Life insurance

Pursuant to the provisions of the Insurance Business Law and related rules and regulations in Japan, NIPPONKOA Life Insurance Company Limited is required to maintain premium reserves in amounts determined on the basis that future policy benefits for life insurance contracts are calculated pursuant to the five-year zillmerized reserve method.

(n) Income Tax

The provision for income tax is computed based on pretax income, adjusted for permanent differences, included in the consolidated 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. These deferred taxes are measured by applying currently enacted tax rates to the temporary differences.

(o) Reserve for Employees' Retirement Benefits

A reserve for employees' retirement benefits is provided on the basis of estimated amounts of retirement benefit obligation and plan assets at the balance sheet date.

Prior service cost is amortized by the straight-line method for certain periods which shall not exceed the average remaining period of employees' service.

Any actuarial difference incurred in each year is amortized by the straight-line method for periods which shall not exceed the average remaining period of employees' service.

The reserve for retirement benefits to directors and corporate auditors is booked based on the internal corporate policy and is included in the reserve for employee's retirement benefits. The amounts at March 31, 2006 and 2005 were ¥2,285 million ($19,454 thousand) and ¥2,653 million, respectively.

(p) Reserve for Price Fluctuations

In accordance with Article 115 of the Insurance Business Law in Japan, the Company and its domestic consolidated subsidiaries must set aside a reserve of an amount calculated at rates varying according to the kind of asset, unless permission is granted by the Commissioner of the Financial Services Agency, for possible loss from price fluctuation of certain assets. Additionally, the Company may reduce this reserve for net losses resulting from reappraisals and sales of designated assets or from other investment activities, and if permission is granted by the Commissioner of the Financial Services Agency, for any other reason.

(q) Amounts per Share of Common Stock

Basic and diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during each fiscal year.

Diluted net income per share reflects the potential dilution that could occur if outstanding stock options were exercised.

(r) Valuation of Assets and Liabilities of Consolidated Subsidiaries

Regardless of the Company's investment ratio, all of the consolidated subsidiaries' assets and liabilities were valued at fair value as of the respective acquisition dates.

(s) Amortization of Consolidation Adjustment

The difference between cost and fair value of net assets acquired for SONPO24 is being amortized over 5 years by the straight-line method and the difference for other subsidiaries is charged or credited to income in the year of acquisition.

2. U.S. DOLLAR AMOUNTS

The translations of Japanese Yen amounts into U.S. Dollar amounts are included solely for convenience and have been made, as a matter of arithmetical computation only, at ¥117.47=US$1, the approximate rate prevailing at March 31, 2006. The translations should not be construed as representations that the Japanese Yen have been or could be readily converted, realized or settled in U.S. Dollars at the rate or any other rates.

3. INVESTMENTS IN SECURITIES

1) The components of investments in securities as of March 31, 2006 and 2005 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	**2006**
Domestic securities:			
Bonds	**¥1,190,190**	¥1,180,800	**$10,131,871**
Equity securities	**1,196,003**	845,424	**10,181,349**
Foreign securities	**453,057**	443,625	**3,856,790**
Other securities	**30,001**	24,281	**255,396**
Total	**¥2,869,252**	¥2,494,131	**$24,425,407**

Securities carried at ¥76,744 million ($653,313 thousand) and ¥61,112 million as of March 31, 2006 and 2005, respectively, were on loan under securities lending agreements.

Securities held in non-consolidated subsidiaries and affiliates were ¥2,306 million ($19,634 thousand) and ¥2,306 million as of March 31, 2006 and 2005, respectively.

Information regarding each category of the securities classified as held-to-maturity and available-for-sale whose fair value is readily determinable as of March 31, 2006 and 2005 was as follows:

	Millions of Yen			
March 31, 2006	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Bonds	¥ 133,321	¥ 2,371	¥ 5,061	¥ 130,630
Foreign securities	200	8	—	208
Available-for-sale*:				
Bonds	1,064,576	6,931	17,038	1,054,469
Equity securities	387,481	785,942	792	1,172,631
Foreign securities	404,998	19,029	2,948	421,080
Other securities **	8,044	3,356	4	11,396
Total	¥1,998,623	¥817,639	¥25,846	¥2,790,416

	Millions of Yen			
March 31, 2005	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Bonds	¥ 105,198	¥ 2,095	¥ 5,353	¥ 101,941
Foreign securities	200	20	—	220
Available-for-sale*:				
Bonds	1,053,133	22,035	2,266	1,072,902
Equity securities	389,706	434,571	819	823,458
Foreign securities	412,348	14,021	3,399	422,970
Other securities**	9,536	1,824	356	11,004
Total	¥1,970,123	¥474,569	¥12,194	¥2,432,497

	Thousand of U.S. Dollars (Note 2)			
March 31, 2006	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Held-to-maturity:				
Bonds	$ 1,134,941	$ 20,185	$ 43,090	$ 1,112,036
Foreign securities	1,702	70	—	1,773
Available-for-sale*:				
Bonds	9,062,540	59,008	145,048	8,976,499
Equity securities	3,298,555	6,690,580	6,746	9,982,389
Foreign securities	3,447,678	161,996	25,099	3,584,575
Other securities**	68,484	28,569	37	97,017
Total	$17,013,903	$6,960,411	$220,022	$23,754,292

* The Company and its domestic subsidiaries recognized impairment on securities classified as available-for-sale whose fair value is readily determinable as of the balance sheet date if the fair value declined by 30% or more from cost for the years ended March 31, 2006 and 2005.

Impairments recognized in the consolidated statements of income for the years ended March 31, 2006, 2005 and 2004 were ¥51 million ($440 thousand), ¥62 million and ¥378 million, respectively.

**Commodity funds classified as monetary receivable bought on the consolidated balance sheets are included.

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	**2006**
Available-for-sale:			
Bonds	**¥ 2,400**	¥ 2,699	**$ 20,430**
Equity securities	**22,327**	20,921	**190,066**
Foreign securities	**30,515**	19,063	**259,771**
Other securities*	**35,779**	28,686	**304,583**
Total	**¥91,021**	¥71,370	**$774,851**

* Certificates of deposits classified as cash and bank deposits on the consolidated balance sheets amounting to ¥15,070 million ($128,288 thousand) and ¥15,320 million as of March 31, 2006 and 2005, respectively, are included.

* Commercial paper classified as monetary receivable bought on the consolidated balance sheets amounting to ¥1,999 million ($17,024 thousand) as of March 31, 2006 is included.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006, 2005 and 2004 were ¥285,225 million ($2,428,070 thousand), ¥524,778 million and ¥409,661 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average-cost basis, were ¥11,494 million ($97,848 thousand) and ¥2,896 million ($24,660 thousand), respectively, for the year ended March 31, 2006. Those for the year ended March 31, 2005 were ¥61,372 million and ¥6,087 million, respectively. For the year ended March 31, 2004, they amounted to ¥35,525 million and ¥9,211 million, respectively.

The carrying value of debt securities by contractual maturity for securities classified as available-for-sale and held-to-maturity as of March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	**2006**
Due in one year or less	**¥ 170,094**	¥ 293,265	**$ 1,447,980**
Due after one year through five years	**646,559**	611,784	**5,504,036**
Due after five years through ten years	**563,414**	534,877	**4,796,244**
Due after ten years	**260,254**	188,870	**2,215,498**
Total	**¥1,640,322**	¥1,628,798	**$13,963,760**

* Certificates of deposits classified as cash and bank deposits on the consolidated balance sheets amounting to ¥15,070 million ($128,288 thousand) and ¥15,320 million as of March 31, 2006 and 2005, respectively, are included.
* Commercial paper classified as monetary receivable bought on the consolidated balance sheets amounting to ¥1,999 million ($17,024 thousand) as of March 31, 2006 is included.
* Commodity funds classified as monetary receivable bought on the consolidated balance sheets are included.

2) The amount of money in trust for trading purposes as of March 31, 2006 and 2005 were ¥63,434 million ($540,004 thousand) and ¥44,854 million, respectively. Net unrealized gain credited to the income for the year ended March 31, 2006 was ¥3,389 million ($28,854 thousand). Net unrealized gain credited to the income for the year ended March 31, 2005 and 2004 was ¥520 million and ¥1,582 million, respectively. The amount of money in trust held as neither trading nor held-to-maturity as of March 31, 2006 and 2005 was ¥32,005 million ($272,453 thousand) with net unrealized loss of ¥649 million ($5,530 thousand) and ¥25,050 million with net unrealized gain of ¥210 million, respectively.

4. DERIVATIVES AND HEDGE ACCOUNTING

The Company enters into forward foreign exchange contracts, currency option contracts, currency swaps, interest rate swaps, bond futures, stock index futures, independent stock options, weather derivatives and credit derivatives. The consolidated domestic subsidiaries of the Company do not enter into derivative contracts. The consolidated foreign subsidiaries enter into forward foreign exchange contracts.

The Companies utilize derivative financial instruments to hedge their exposure to market risks arising from fluctuations in prices, foreign exchange rates and interest rates.

The Company also utilizes derivatives for trading purposes, for which transactions are strictly controlled from a risk management perspective.

The gross amounts of deferred gains and losses on hedging transactions were ¥7 million ($62 thousand) and ¥333 million ($2,843 thousand), respectively, as of March 31, 2006. Deferred gains and losses as of March 31, 2005 were ¥106 million and ¥103 million, respectively.

In the following schedules of derivative transactions, “Contracted amount” represents the notional principal amount, not the amount affected by market and/or credit risks.

(a) Forward Foreign Exchange Contracts and Currency Swap Agreements

Forward foreign exchange contracts and currency swap agreements outstanding as of March 31, 2006 and 2005 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars (Note 2)
March 31, 2006	Contracted amount	Current value of contracted amount/ fair value	Net unrealized gain (loss)	Net unrealized gain (loss)
Forward foreign exchange contracts*:				
Short positions:				
US$	¥17,403	¥17,879	¥(476)	$(4,054)
Long positions:				
—				
Currency swap agreements:				
Receive fixed GBP, pay fixed Yen	870	9	9	76
			¥(467)	$(3,977)

March 31, 2005	Contracted amount	Current value of contracted amount/ fair value	Net unrealized gain (loss)
			Millions of Yen
Forward foreign exchange contracts*:			
Short positions:			
US$	¥11,805	¥12,054	¥(249)
Long positions:			
—			
Currency swap agreements:			
Receive fixed GBP, pay fixed Yen	870	12	12
			¥(236)

* Forward foreign exchange transactions and currency swap agreements that qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and hedged items are excluded from the above tables.

(b) Interest Rate Swap Agreements

Interest rate swap agreements outstanding as of March 31, 2006 and 2005 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars (Note 2)
March 31, 2006	Contracted amount	Fair value	Net unrealized loss	Net unrealized loss
Interest rate swap agreements:				
Receive fixed rate, pay floating rate	¥138,000	¥(1,509)	¥(1,509)	$(12,847)
			¥(1,509)	$(12,847)

	Millions of Yen		
March 31, 2005	Contracted amount	Fair value	Net unrealized gain
Interest rate swap agreements:			
Receive fixed rate, pay floating rate	¥105,000	¥77	¥77
			¥77

* Interest rate swap agreements that qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and hedged items are excluded from the above tables.

(c) Credit Derivatives

Credit derivatives outstanding as of March 31, 2006 and 2005 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars (Note 2)
March 31, 2006	Contracted amount	Fair value	Net unrealized gain	Net unrealized gain
Credit derivatives				
Short positions:	¥43,161	¥354	¥354	$3,016
Long positions:	¥17,000	¥ 3	¥ 3	$ 27
			¥357	$3,044

	Millions of Yen		
March 31, 2005	Contracted amount	Fair value	Net unrealized gain
Credit derivatives			
Short positions:	¥51,161	¥488	¥488
			¥488

5. LOANS

Loans include “Loans to borrowers in bankruptcy or under legal restructuring procedures” and “Delinquent/overdue loans” on which accrued interest income has not been recognized.

Loans also include “Delinquent/overdue loans for more than 3 months” in addition to the aforementioned loans.

Additionally, loans include “Restructured loans”, which have been restructured to facilitate the restructuring of, or assist the borrowers, by reducing the interest or providing a grace period for the payment of principal/interest, etc. The balances of the loan categories described above as of March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	**2006**
Loans to borrowers in bankruptcy or under legal restructuring procedures	**¥ 128**	¥ 128	**$ 1,092**
Delinquent/overdue loans	**4,114**	6,028	**35,025**
Delinquent/overdue loans for more than 3 months	**7**	2,179	**66**
Restructured loans	**1,526**	3,070	**12,996**
Total	**¥5,777**	¥11,407	**$49,181**

6. INVESTMENT INCOME

Investment income for the years ended March 31, 2006, 2005 and 2004 is summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars (Note 2)
	2006	2005	2004	**2006**
Investment income	**¥56,061**	¥51,278	¥50,285	**$477,238**
Less: Investment income on deposit premiums, etc.	**28,246**	30,008	31,492	**240,458**
Net investment income	**¥27,814**	¥21,269	¥18,793	**$236,779**

7. PROPERTY AND EQUIPMENT

Advanced depreciation of property and equipment at March 31, 2006 and 2005 amounted to ¥20,112 million ($171,210 thousand) and ¥20,420 million, respectively.

The components of property and equipment as of March 31, 2006 and 2005 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	**2006**
Land	**¥ 70,830**	¥ 75,256	**$ 602,967**
Buildings	**166,064**	166,635	**1,413,674**
Furniture and equipment	**44,039**	42,304	**374,897**
Construction in progress	**16**	62	**137**
	280,950	284,258	**2,391,677**
Less: accumulated depreciation	**143,430**	139,551	**1,220,996**
	¥137,519	¥144,706	**$1,170,680**

8. COLLATERAL

Assets pledged as collateral as of March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	**2006**
Cash and bank deposits	**¥ 439**	¥ 425	**$ 3,738**
Securities	**13,885**	12,680	**118,205**
Property and equipment	**5,007**	4,991	**42,628**
Total	**¥19,332**	¥18,098	**$164,572**

Part of the collateral serves to secure borrowings, which are included in "Other liabilities" in the consolidated balance sheets, of ¥2,242 million ($19,093 thousand) as of March 31, 2006 and ¥2,304 million as of March 31, 2005, respectively.

9. LEASES

Information on finance leases, other than those that are deemed to transfer the ownership of the leased assets to the lessees, for the years ended March 31, 2006 and 2005 is summarized as follows:

(a) Acquisition Cost, Accumulated Depreciation and Net Book Value of Movable Property

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	**2006**
Acquisition cost	**¥1,653**	¥1,710	**$14,074**
Accumulated depreciation	**987**	1,054	**8,406**
Net book value	**¥ 665**	¥ 656	**$ 5,668**

(b) Future Minimum Lease Payments

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	**2006**
Within one year	**¥243**	¥294	**$2,072**
Over one year	**422**	361	**3,595**
Total	**¥665**	¥656	**$5,668**

(c) Lease Expense

Lease expense (the amount corresponding to depreciation expense) for the years ended March 31, 2006, 2005 and 2004 amounted to ¥302 million ($2,577 thousand), ¥352 million and ¥394 million, respectively.

(d) Computation of Depreciation Expense

Depreciation expense is computed by the straight-line method over a period up to the length of the relevant lease contract with no residual value. The figures shown in this note include the portion of interest thereon.

10. INCOME TAXES

1) The components of the net deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

March 31, 2006	Millions of Yen	Thousands of U.S. Dollars (Note 2)
Deferred tax assets:		
Underwriting reserves	¥ 92,633	$ 788,573
Reserve for retirement allowance	14,321	121,917
Accruals not currently deductible for computer software development cost	13,784	117,345
Reserve for outstanding losses and claims	11,451	97,482
Revaluation loss on securities	9,892	84,213
Other	33,048	281,333
Sub-total	175,131	1,490,864
Valuation allowance	(22,519)	(191,701)
Total	152,612	1,299,162
Deferred tax liabilities:		
Net unrealized gain on available-for-sale securities	(282,551)	(2,405,304)
Other	(1,513)	(12,882)
Total	(284,064)	(2,418,187)
Deferred tax assets (liabilities), net	¥(131,451)	$(1,119,024)

March 31, 2005	Millions of Yen
Deferred tax assets:	
Underwriting reserves	¥ 97,004
Reserve for outstanding losses and claims	13,380
Reserve for retirement allowance	13,258
Accruals not currently deductible for computer software development cost	12,971
Revaluation loss on securities	10,309
Loss from revaluation of property and equipment	5,832
Reserve for price fluctuations	4,697
Other	17,321
Sub-total	174,775
Valuation allowance	(20,449)
Total	154,326
Deferred tax liabilities:	
Net unrealized gain on available-for-sale securities	(167,674)
Other	(1,324)
Total	(168,999)
Deferred tax assets (liabilities), net	¥ (14,673)

2) The breakdown of the reconciliation between statutory tax rate and effective tax rate for the years ended March 31, 2006, 2005 and 2004 were as follows:

	2006
Statutory tax rate in Japan	**36.1%**
Adjustments:	
Non-taxable revenue including dividends received	**(12.6)**
Operating losses of certain subsidiaries	**7.8**
Others	**0.9**
Effective tax rate	**32.3%**

	2005
Statutory tax rate in Japan	36.1%
Adjustments:	
Increase of valuation allowance on deferred tax asset	14.4
Non-taxable revenue including dividends received	(7.4)
Others	(0.1)
Effective tax rate	43.1%

	2004
Statutory tax rate in Japan	36.1%
Adjustments:	
Increase of valuation allowance on deferred tax asset	18.8
Tax deduction based on IT Investment Promotion Tax Incentive	(4.5)
Non-taxable revenue including dividends received	(4.3)
Non-deductible expenses including entertainment expenses	1.6
Inhabitants' per capita taxes	1.2
Others	(0.4)
Effective tax rate	48.5%

11. RETIREMENT PLAN

(a) Overview

The Company provides a corporate pension plan and a defined benefit plan with a lump-sum payment for retiring employees. It also provides a tax-qualified pension plan and an in-house retirement pension plan, both limited to pensioners. The Company has set up trust funds for the retirement plans.

On April 1, 2004, the Company obtained approval from the Minister of Health, Labor and Welfare to transfer its obligation back to the government for benefits related to past service under the substitutional portion of the welfare pension plan under corporate pension law.

The Company paid to the government the amount of the restoration (minimum actuarial liability) on September 29, 2004. The profit realized by returning the substitutional portion of ¥8,753 million was reported as "Other special gains" which applied for the year ended March 31, 2005.

Because of the change in accounting procedure of retirement benefits for directors and corporate auditors, ¥4,120 million, which corresponds to the previous years cumulative effect, was recorded as a special loss during the year ended March 31, 2004. The new procedure also resulted in increasing ordinary profit by ¥222 million and reducing income before income taxes and minority interests decreased by ¥3,898 million when compared to the previous procedure which applied for the year ended March 31, 2004.

The consolidated domestic subsidiaries of the Company provide a defined benefit plan with lump-sum payments for retiring employees and one of them provides a tax-qualified pension plan. The consolidated foreign subsidiaries of the Company provide defined contribution pension plans.

(b) Reserve for Employees' Retirement Benefits

Reserve for employees' retirement benefits as of March 31, 2006 and 2005 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	**2006**
Retirement benefit obligation	**¥(129,660)**	¥(129,582)	**$(1,103,775)**
Plan assets	**89,922**	69,486	**765,495**
Unfunded portion of retirement benefit obligation	**(39,737)**	(60,096)	**(338,279)**
Unrecognized prior service cost	**(4,649)**	(5,581)	**(39,579)**
Unrecognized actuarial difference	**7,011**	29,755	**59,688**
	¥ (37,375)	¥ (35,922)	**$ (318,170)**

Net service costs charged to the income for the years ended March 31, 2006, 2005 and 2004 consist of the following:

	Millions of Yen			Thousands of U.S. Dollars (Note 2)
	2006	2005	2004	**2006**
Expenses for service	**¥5,232**	¥5,300	¥ 4,747	**$44,542**
Interest expense	**2,325**	2,424	3,381	**19,796**
Expected investment income	**(975)**	(999)	(926)	**(8,302)**
Amortization of prior service cost	**(932)**	(932)	(1,287)	**(7,937)**
Amortization of actuarial difference	**4,095**	4,127	4,494	**34,868**
	¥9,746	¥9,920	¥10,409	**$82,967**

(c) Basis for Calculation of Benefit Obligation as of March 31, 2006 and 2005

The estimated employees' retirement benefits are allocated equally to each service year based on the total service years and vested benefit points. The expected earnings ratio on investments is between 0.0% and 2.0%. The discount rates for the years ended March 31, 2006 and 2005 are 1.8%. Both prior service cost and actuarial difference are amortized over 10 years.

12. IMPAIRMENT LOSSES ON FIXED ASSETS

The fixed assets of the Company and domestic consolidated subsidiaries supplied for the insurance business operations, etc. are classified together as a single fixed asset group, and lease properties and idle properties are grouped together within an individual properties group.

The book values of the following properties, the profitability of which has decreased significantly due to either falling land prices or decreases in rental income levels, were impaired to the recoverable amount. The amount of the resulting decrease has been accumulated within special loss from impairment losses on fixed assets amounting to ¥6,138 million ($52,255 thousand).

The recoverable amount is measured as the higher of net sales value and usage value. The net sales value is measured by the real estate appraiser or inheritance tax assessed value with reasonable adjustments, and the usage value is calculated by the future cash flow discounted by 8.7%.

Impairment losses on fixed assets for the year ended March 31, 2006 is as follows:

March 31, 2006					Millions of Yen
			Impairment losses		
Use	Category	District	Land	Building	Total
Lease properties	Land and buildings	12 properties in Hokkaido	¥2,839	¥1,192	¥4,031
Idle properties	Land and buildings	8 properties in Hokkaido	1,074	1,032	2,106
Total			¥3,913	¥2,224	¥6,138

March 31, 2006					Thousands of U.S. Dollars (Note 2)
			Impairment losses		
Use	Category	District	Land	Building	Total
Lease properties	Land and buildings	12 properties in Hokkaido	$24,168	$10,152	$34,321
Idle properties	Land and buildings	8 properties in Hokkaido	9,149	8,785	17,934
Total			$33,318	$18,937	$52,255

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of March 31, 2006 and 2005 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	**2006**
Items on the consolidated balance sheets:			
Cash and bank deposits	**¥ 166,498**	¥ 149,470	**$ 1,417,373**
Call loans	**3,000**	15,000	**25,538**
Monetary receivables bought	**25,646**	14,485	**218,322**
Investments in securities	**2,869,252**	2,494,131	**24,425,407**
Less:			
Bank deposits with original maturity longer than 3 months	**(19,264)**	(23,108)	**(163,997)**
Monetary receivables bought other than cash equivalents	**(23,646)**	(14,485)	**(201,297)**
Securities other than cash equivalents	**(2,868,752)**	(2,493,631)	**(24,421,151)**
Cash and cash equivalents	**¥ 152,733**	¥ 141,861	**$ 1,300,194**

14. SHAREHOLDERS' EQUITY

Due to the acquisition and cancellation of 10,000 thousand shares on March 29, 2004, retained earnings decreased by ¥5,174 million.

15. SUBSEQUENT EVENTS

The appropriation of retained earnings of the Company including cash dividends in respect of the year ended March 31, 2006 was approved at the shareholders' meeting held on June 28, 2006 as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 2)
Retained earnings at March 31, 2006*	¥136,583	$1,162,708
Appropriations:		
Cash dividends (¥7.50-$0.06)	6,023	51,280
Transfer to legal reserve*	1,300	11,066
Bonus to directors	47	403
Retained earnings to be carried forward	¥129,212	$1,099,958

* The Company set aside a legal reserve of ¥33,047 million ($281,326 thousand) as of March 31, 2006, which is not shown in the consolidated balance sheets.

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

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To the Board of Directors and Shareholders of
NIPPONKOA Insurance Company, Limited

We have audited the accompanying consolidated balance sheets of NIPPONKOA Insurance Company, Limited and its subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NIPPONKOA Insurance Company, Limited and its subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

As described in Note 1(i), effective for the year ended March 31, 2006, NIPPONKOA Insurance Company, Limited and its subsidiaries changed their accounting policy for impairment of fixed assets.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 2 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 28, 2006

The following segment information indicates the figures before eliminating intercompany balances and transactions between "Non-life insurance" and "Life insurance."

1. Non-life insurance

(1) Underwriting

	Millions of Yen		Thousands of U.S. Dollars*1
Direct premiums written	**2006**	2005	**2006**
Fire and allied lines	**¥166,214**	¥171,705	**$1,414,955**
Marine	**22,335**	20,781	**190,139**
Personal accident	**115,957**	157,115	**987,125**
Voluntary automobile	**351,165**	353,981	**2,989,406**
Compulsory automobile liability	**105,160**	111,258	**895,213**
Other*2	**86,310**	85,952	**734,745**
Total	**¥847,145**	¥900,793	**$7,211,587**
Deposit premiums included in Total	**99,957**	143,669	**850,915**

	Millions of Yen		Thousands of U.S. Dollars*1
Net premiums written	**2006**	2005	**2006**
Fire and allied lines	**¥106,497**	¥109,320	**$ 906,591**
Marine	**19,868**	18,311	**169,137**
Personal accident	**59,816**	61,984	**509,203**
Voluntary automobile	**344,660**	347,165	**2,934,033**
Compulsory automobile liability	**107,419**	112,736	**914,441**
Other*2	**79,464**	78,902	**676,470**
Total	**¥717,727**	¥728,421	**$6,109,877**

	Millions of Yen		Thousands of U.S. Dollars*1
Net losses paid	**2006**	2005	**2006**
Fire and allied lines	**¥ 45,454**	¥ 89,291	**$ 386,948**
Marine	**9,520**	7,613	**81,046**
Personal accident	**25,536**	23,598	**217,383**
Voluntary automobile	**208,676**	196,156	**1,776,427**
Compulsory automobile liability	**75,653**	66,070	**644,026**
Other*2	**48,931**	49,674	**416,540**
Total	**¥413,773**	¥432,404	**$3,522,372**

* 1: U.S. dollar amounts are translated from yen at the rate of ¥117.47=US$1, the approximate rate prevailing at March 31, 2006.
* 2: Of which, major lines of insurance are Liability, Transit, Movables all risks and Workers' compensation.

(2) Investments

Investment assets	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars* 2006
Bank deposit	¥ 157,328	¥ 140,557	$ 1,339,307
Call loans	3,000	15,000	25,538
Monetary receivable bought	25,646	14,485	218,322
Money in trust	64,089	45,094	545,578
Securities	2,657,760	2,336,236	22,625,012
Loans	283,518	352,185	2,413,537
Land and buildings	127,753	135,297	1,087,537
Total	¥3,319,095	¥3,038,856	$28,254,833
Total assets	¥3,493,448	¥3,218,608	$29,739,066

Securities	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars* 2006
Domestic securities:			
Government bonds	¥ 473,314	¥ 460,780	$ 4,029,235
Municipal bonds	89,747	109,769	764,003
Corporate bonds	403,968	438,296	3,438,905
Equity securities	1,208,744	861,523	10,289,812
Foreign securities	451,984	441,584	3,847,658
Other securities	30,001	24,281	255,396
Total	¥2,657,760	¥2,336,236	$22,625,012

	Millions of Yen						Thousands of U.S. Dollars*
	2006			2005			2006
Investment income	Earned income	Average invested amounts	Yield per annum	Earned income	Average invested amounts	Yield per annum	Earned income
Bank deposits	¥ 256	¥ 159,389	0.16%	¥ 98	¥ 141,890	0.07%	$ 2,182
Call loans	0	636	0.03	1	10,482	0.01	1
Monetary receivable bought	217	20,374	1.07	139	19,610	0.71	1,855
Money in trust	474	50,780	0.93	137	48,458	0.28	4,041
Securities	43,102	1,899,364	2.27	38,057	1,903,682	2.00	366,927
Loans	5,950	319,620	1.86	6,933	354,011	1.96	50,651
Lands and buildings	1,851	131,997	1.40	2,245	143,168	1.57	15,763
Sub-total	51,853	2,582,163	2.01	47,613	2,621,304	1.82	441,422
Other	524	—	—	509	—	—	4,466
Total	¥52,378	—	—	¥48,123	—	—	$445,888

*U.S. dollar amounts are translated from yen at the rate of ¥117.47=US$1, the approximate rate prevailing at March 31, 2006.

2. Life insurance

(1) Underwriting

	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars* 2006
Amount of business in force:			
Individual insurance	**¥3,042,971**	¥2,698,102	**$25,904,247**
Individual annuity insurance	**223,507**	216,749	**1,902,681**
Group insurance	**864,577**	866,200	**7,359,988**
Amount of new business:			
Individual insurance	**¥ 705,004**	¥ 534,517	**$ 6,001,571**
Individual annuity insurance	**21,772**	53,630	**185,343**
Group insurance	**45,787**	105,380	**389,784**

(2) Investments

Investment assets	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars* 2006
Bank deposit	**¥ 8,970**	¥ 8,655	**$ 76,366**
Money in trust	**31,350**	24,810	**266,879**
Securities	**236,492**	182,894	**2,013,215**
Loans	**7,203**	5,733	**61,321**
Lands and buildings	**6**	—	**58**
Total	**284,023**	222,094	**2,417,841**
Total assets	**¥291,286**	¥228,698	**$2,479,666**

Securities	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars* 2006
Domestic securities:			
Government bonds	**¥168,278**	¥117,255	**$1,432,526**
Municipal bonds	**14,173**	7,885	**$120,656**
Corporate bonds	**40,708**	46,812	**346,543**
Equity securities	**12,258**	8,901	**104,356**
Foreign securities	**1,072**	2,040	**9,132**
Total	**¥236,492**	¥182,894	**$2,013,215**

	Millions of Yen						Thousands of U.S. Dollars*
	2006			2005			2006
Investment income	Earned income	Average invested amounts	Yield per annum	Earned income	Average invested amounts	Yield per annum	Earned income
Bank deposits	**¥ 0**	**¥ 19,213**	**0.00%**	¥ 0	¥ 8,697	0.00%	**$ 0**
Money in trust	**491**	**28,881**	**1.70**	360	21,268	1.70	**4,185**
Securities	**4,070**	**197,638**	**2.06**	3,244	159,204	2.04	**34,647**
Loans	**198**	**6,362**	**3.13**	157	5,074	3.11	**1,692**
Lands and buildings	**—**	**1**	**—**	—	—	—	**—**
Total	**¥4,760**	**¥252,097**	**1.89%**	¥3,763	¥194,244	1.94%	**$40,526**

*U.S. dollar amounts are translated from yen at the rate of ¥117.47=US$1, the approximate rate prevailing at March 31, 2006.

CORPORATE INFORMATION

OVERSEAS GROUP NETWORK

As of August 1, 2006

EUROPE

Representative Offices

London
2nd Floor, 50 Mark Lane,
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Tel : 44-20-7709-7971
Fax: 44-20-7702-2315
Tel : 44-20-7488-9899
Fax: 44-20-7488-9684

Düsseldorf
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Fax: 32-2-771-7169

Paris
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Fax: 33-1-44 53 00 22

Subsidiaries & Affiliates

United Kingdom

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Nippon Insurance Company of Europe Limited
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London EC3R 7QR, U.K.
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NIPPONKOA Management Services (Europe) Limited
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Fax: 1-213-833-2120

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Tel : 1-312-553-9344
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Toronto
c/o St. Paul Fire and Marine
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Subsidiaries & Affiliates

NIPPONKOA Insurance Company of America
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14 Wall Street, Suite 812,
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ASIA & OCEANIA

Representative Offices

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Fax: 86-755-8236-1274

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Qingdao
Room 609, Crown Plaza Qingdao,
76 Xiang Gang Zhong Lu,
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Tun-Hwa S. Road, Taipei,
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c/o Pioneer Insurance & Surety
Corporation, 7th Floor, Pioneer
House, 108 Paseo de Roxas,
Makati City, Philippines
Tel : 63-2-841-0267
Fax: 63-2-841-0269

Hanoi
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Hanoi, S.R. Vietnam
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Ho Chi Minh City
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Ho Chi Minh City, S.R. Vietnam
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Bangkok
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Northpark Project, Vibhavadi-Rangsit
Road, Thungsong Hong, Laksi,
Bangkok 10210, Thailand
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Fax: 66-2-955-0139

Kuala Lumpur
Lonpac Insurance Bhd
"NIPPONKOA Division," 7th Floor,
Bangunan Public Bank, No. 6, Jalan
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Tel : 60-3-2723-7772
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Singapore
36 Robinson Road #11-01 City House,
Singapore 068877,
Republic of Singapore
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Jakarta
c/o PT. Asuransi Permata Nipponkoa
Indonesia, Permata Bank Tower I,
8th Floor, Jl. Jend, Sudirman Kav. 27,
Jakarta 12920,
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Tel : 62-21-5237500
Fax: 62-21-5237506

Sydney
c/o CGU Insurance Limited,
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George Street, Sydney N.S.W. 2000,
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Fax: 61-2-9222-2981

Melbourne
c/o CGU Insurance Limited,
485 La Trobe Street, Melbourne,
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Subsidiaries & Affiliates

Hong Kong

NIPPONKOA Insurance Company (Asia) Limited
Rooms 2704 - 2706 Gloucester Tower,
The Landmark, 11 Pedder Street,
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Tel : 852-2877-3344
Fax: 852-2868-4413

Singapore

NIPPONKOA Management Service (Singapore) Private Limited
36 Robinson Road #11-01 City House,
Singapore 068877,
Republic of Singapore
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Indonesia

PT. Asuransi Permata Nipponkoa Indonesia
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Jl. Jend. Sudirman Kav. 27, Jakarta
12920, P.O. Box 3129, Indonesia
Tel : 62-21-5237500
Fax: 62-21-5237506

Thailand

NIPPONKOA Insurance Broker (Thailand) Company Limited
2/4 Siam Commercial Samaggi
Insurance Tower, 15th Floor,
Northpark Project, Vibhavadi-Rangsit
Road, Thungsong Hong, Laksi,
Bangkok 10210, Thailand
Tel : 66-2-955-0137
Fax: 66-2-955-0139

ORGANIZATION CHART

As of April 1, 2006

- General Meeting of Shareholders
  - Board of Corporate Auditors
    - Auditors
    - Auditors' Office
  - Board of Directors
    - Actuary
    - Chief Executive Officer
    - Corporate Officers in Charge of Head Office Functions
      - Management Committee
      - Internal Audit Dept.

Regional / Marketing

- Hokkaido Regional Headquarters — 4 branches
- Tohoku Regional Headquarters — 6 branches
- Kanto Regional Headquarters — 6 branches
- Kanetsu Regional Headquarters — 4 branches
- Metropolitan Regional Headquarters — 10 branches
- Yokohama Bayside Branch
- Chubu Regional Headquarters — 11 branches
- Kansai Regional Headquarters — 14 branches
- Chugoku, Shikoku Regional Headquarters — 7 branches
- Kyushu Regional Headquarters — 6 branches
- Motors Account Marketing Headquarters — 5 branches
- 7 Commercial Account Marketing Dept. (I –V /Cargo, Property & Casualty/ Hull, Property & Casualty)
- Government & Public Account Marketing Dept.
- Commercial Account Claims Dept.
- Mortgage Administration Dept.
- Tokyo Regional Management Dept.

Head Office

- Investment Headquarters
  - Investment Dept.
  - Corporate Finance Dept.
- Corporate Planning Dept.
  - Affiliated Affairs
  - Corporate Research & Development
  - IR
  - CSR
  - Assigned Business Control
- Risk Management Dept.
- Compliance Dept. — Customers Counseling Office
  - Research & Planning
- Public Relations Dept.
- General Affairs Dept.
- Human Resources Dept.
  - Human Development
- Accounting Dept.
- Information Technology Planning Dept.
- Information Systems Dept.
- Customer Relationship Planning Dept.
- Marketing Planning Dept.
- Sales Promotion Dept.
  - Motors-Channels Promotion
  - Financial Development
  - Financial Affairs
  - Agency Management
- Agency Development Dept.
  - Agency Support
- Logistics-Channels Promotion Dept.
  - Logistics Sales
  - Business Affairs
- Business Process Reengineering Dept.
- Fire & Casualty Underwriting Dept.
  - Commercial Lines
- Automobile Underwriting Dept.
- Marine Underwriting Dept.
- Reinsurance Dept.
- Claims Management Dept.
- Marine Claims Management Dept.
- International Dept.
  - China Business Planning

DIRECTORS AND OFFICERS

As of June 28, 2006

Board of Directors

Ken Matsuzawa*
Yoshiaki Shinozaki*
Makoto Hyodo*
Tatsuhiro Ishikawa
Masahiko Okabe
Atau Kadokawa
Ryoji Okada
Kazuo Hashimoto
Masaya Futamiya
Tetsuo Shinohara

*Representative Director

Corporate Auditors

Toshiyuki Sho
Ken Ishii

Independent Corporate Auditors

Masahiro Yoshiike
Kozue Shiga
Yoji Wakui

Corporate Officers

President and Chief Executive Officer

Ken Matsuzawa

Executive Deputy Presidents

Yoshiaki Shinozaki
Makoto Hyodo

Senior Managing Executive Officers

Atau Kadokawa
Ryoji Okada
Hiroyoshi Morimoto
Kazuo Hahimoto

Managing Executive Officers

Masaya Futamiya
Shuichi Kimoto
Tetsuo Shinohara
Yoshinori Ichihashi
Shinichi Furukawa
Teizou Suzuki
Yasuo Watabe
Akinobu Yoshimori
Tetsuya Yamada
Yasuhide Fujii

Executive Officers

Akihisa Hashimoto
Kenichi Yoshikura
Yoshiaki Kadoya
Yo Kunimi
Eiji Sugimoto
Toshihiko Miyasaka
Yoshinori Tsukimoto
Yoshitoshi Sukigara
Takayuki Naito
Yuichi Yamaguchi
Kazuhumi Yunome
Shunsuke Onoda

CORPORATE DATA

As of April 1, 2006

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Reinsurance Dept. +81-3-3593-5150
Marine Claims Management Dept. +81-3-3231-3526
Public Relations Dept. +81-3-3593-5388
IR +81-3-3593-5383
URL: http://www.nipponkoa.co.jp/

Established

1892

Capital

¥91,249 million

Offices

Domestic: 268
Overseas: 25

Claims Handling Offices

180

Employees (As of March 31, 2006)

8,249

Agents (As of March 31, 2006)

Domestic: 37,488
Overseas: 6

Number of Shares of Common Stock

Authorized 1,479,966,089 shares
Issued 833,743,118 shares

Stock Exchange Listings

Tokyo, Osaka, Nagoya

General Meeting of Shareholders

The General Meeting of Shareholders is to be held within four months of April 1 each year. The latest Annual General Meeting of Shareholders was held on June 28, 2006

Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8212, Japan

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