

Notes to Nonconsolidated Financial Statements

1. Basis of Presenting Nonconsolidated Financial Statements

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies

(1) Nonconsolidation

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

(2) Cash Equivalents

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

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

(3) Securities

Securities are classified and accounted for, depending on management’s intent, as follows:

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

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

(4) Property and Equipment

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

(5) Long-lived assets

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

(6) Income Taxes

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

(7) Allowance for Doubtful Accounts

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

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

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

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

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

(8) Reserves for Reported and Estimated Losses and Claims

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

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

(9) Underwriting Reserves

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

Underwriting reserves can be classified further into the following items:

i) Ordinary underwriting reserve

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

ii) Extraordinary underwriting reserve

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

iii) Reserve for future refunds

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

iv) Reserve for dividends to policyholders

Interest surplus arising from the reserve for future refunds of the above long-term insurance is reserved under this title.

v) Underwriting reserve for compulsory automobile liability insurance

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

vi) Underwriting reserve for earthquake insurance

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

(10) Liability for Retirement Benefits

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

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

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

(11) Reserve for Fluctuation in Value of Investment

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

(12) Presentation of Equity

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

The nonconsolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

(13) Leases

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

(14) Appropriations of Retained Earnings

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

(15) Foreign Currency Translation

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

(16) Derivatives and Hedge Accounting

The Companies use a variety of derivative financial instruments, including foreign currency forward contracts, currency options, interest rate swaps, bond futures and stock index futures as a means of hedging exposure to foreign exchange, interest rates and reducing market risks associated with some securities. The Company also enters into agreements for certain derivative financial instruments as a part of their trading activities, not for speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statement of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

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

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

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

(17) Per Share Information

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

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

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

(18) New Accounting Pronouncements

Lease Accounting

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

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

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

3. Cash and Cash Equivalents

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

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

4. Securities

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

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

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

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

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

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

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

Other available-for-sale securities as of March 31, 2006 and 2007 mainly consisted of investment trusts. The Company has the policy that securities whose fair value fall more than 30% below cost are considered to be impaired.

No impairment loss on available-for-sale securities were recognized for the year ended March 31, 2006 and 2007, respectively.

Available-for-sale securities, held-to-maturity securities and investment securities in subsidiaries and associated companies whose fair value is not readily determinable as of March 31, 2006 and 2007 were as follows:

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

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2007 were ¥253,600 million and ¥178,755 million (\$1,514,232 thousand), respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥20,546 million and ¥2,936 million respectively for the year ended March 31, 2006 and ¥14,806 (\$125,427 thousand) and ¥2,678 million (\$22,692 thousand) respectively for the year ended March 31, 2007.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2007 were as follows:

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

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

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

5. Loans

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

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

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

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

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

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

6. Property and Equipment

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

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

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

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

7. Impairment of Long-Lived Assets

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

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

8. Reserves for Reported and Estimated Losses and Claims

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

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

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

	Millions of yen	Thousands of U.S. dollars
		2007
Provision for reserves for reported and estimated losses and claims (except for (b) below)	¥18,507	\$156,774
Less: Provision for reserves for reported and estimated losses and claims of reinsurance	5,771	48,894
(a) Net of provision for reserves for reported and estimated losses and claims	12,735	107,880
(b) Provision for reserves for reported and estimated losses and claims of earthquake insurance and compulsory automobile liability insurance	(58)	(497)
Total (a) + (b)	¥12,676	\$107,382

9. Underwriting Reserves

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

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

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

	Millions of yen	Thousands of U.S. dollars
		2007
Provision for underwriting reserves for specific insurance contracts	¥ 8,974	\$ 76,026
Less: Provision for underwriting reserves for specific insurance contracts of reinsurance	(2,553)	(21,630)
(a) Net of provision for underwriting reserves for specific insurance contracts	11,528	97,656
(b) Reversal of other underwriting reserves	(14,409)	(122,063)
Total (a) + (b)	¥(2,881)	\$(24,406)

10. Retirement Pension Plan

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

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

The Company has maintained the funded pension plan since 1970.

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

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

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

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

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

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

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

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

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

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

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

11. Equity

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

(a) Dividends

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

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

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

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

12. Income Taxes

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

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

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

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

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

13. Derivatives

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

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

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

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

Fair value of derivative financial instruments

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

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

All foreign currency forward contracts are applied hedge accounting.

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

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

14. Related Party Transactions

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

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

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

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

15. Subsequent Events

Appropriations of retained earnings

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

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