ANNUAL REPORT 2000
FOR THE YEAR ENDED MARCH 31, 2000

THE KOA FIRE & MARINE INSURANCE CO., LTD.

Corporate Profile

Since its foundation in 1918, The Koa Fire & Marine Insurance Co., Ltd., has established a solid business base, primarily in the retail market.

Over eight decades, with the aim of providing comprehensive insurance services, the Company has consistently expanded its areas of operations, which range today from non-life insurance sectors such as automobile, fire and personal accident to life insurance. In line with its corporate philosophy of winning and maintaining consumer trust, the Company has continuously worked to ensure sound management.

Drawing on its close ties with Nippon Express Co., Ltd., the Company's major shareholder and Japan's largest transport firm, combined with its own marketing network and superior know-how, the Company has succeeded in attaining a position of leadership in the front rank of the industry.

We have demonstrated ingenuity in operating in the retail market. The innovative maturity-refund-type fire insurance policy we created has won wide acceptance as a form of insurance well suited to the nation's retail market, which is characterized by a strong propensity to save. Today, the policy forms a mainstay category in the Japanese non-life insurance market.

The Koa Fire & Marine Insurance Co., Ltd., and its group companies seek to contribute to society and the economy while maintaining customer trust by introducing innovative products that meet customer needs, developing a solid management foundation, and offering state-of-the-art capabilities and enhanced claims processing services.

The Company is scheduled to merge with The Nippon Fire & Marine Insurance Co., Ltd., on April 1, 2001, taking its first step toward creating a new history. Fully committed to the Company's five major areas of the utmost importance—customers, agencies, shareholders, employees and society—we will continue to engage in aggressive business activities, to make the merger a success.

Contents

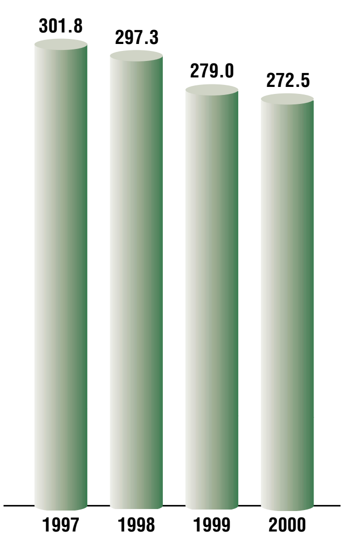
Consolidated Financial Highlights

The Koa Fire & Marine Insurance Company, Limited and Consolidated Subsidiaries For the years ended March 31

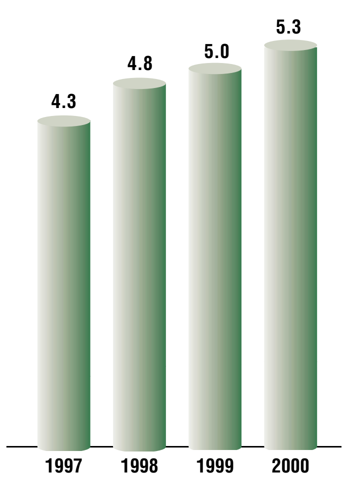
	Millions of Yen				Thousands of U.S. Dollars (*1)
	2000	**1999**	**1998**	**1997**	**2000**
Operating revenues	¥ 479,045	¥ 474,817	¥ 490,609	¥ 509,653	$ 4,512,913
Net premiums written:					
Non-life	272,515	278,976	297,265	301,780	2,567,263
Life	15,783	10,999	6,762	1,488	148,686
Income before income taxes and minority interests	8,148	9,700	9,588	11,901	76,764
Net income	5,293	5,035	4,785	4,255	49,863
Per share amounts (in yen and U.S. dollars):					
Net income	18.41	17.51	16.64	14.80	0.17
Diluted net income	18.36	15.60	14.83	13.23	0.17
Total assets (*2)	1,328,121	1,332,307	1,379,274	1,379,808	12,511,740
Shareholders' equity	129,948	114,859	112,029	109,598	1,224,192
Shareholders' equity ratio (*2)	9.78%	8.62%	8.12%	7.94%	
Return on equity (ROE)	4.32%	4.44%	4.32%	3.92%	
Price earning ratio (PER)	13.63	20.33	34.13	38.85	
Net cash used in operating activities	(44,675)				(420,863)
Net cash provided by investing activities	70,130				660,667
Net cash used in financing activities	(2,683)				(25,278)
Cash and cash equivalents, end of year (*3)	119,332				1,124,181

*: 1. U.S. dollar amounts are translated from yen at the rate of ¥106.15 = US$1, the approximate rate prevailing at March 31, 2000.
2. Total assets and shareholders' equity ratio for the years ended March 31, 1999, 1998, and 1997 have been recalculated in accordance with the revised Insurance Business Law effective as of March 30, 2000.
3. Consolidated statements of cash flows are newly required by the revision of the disclosure code of consolidated financial statements in Japan for the year ended March 31, 2000.

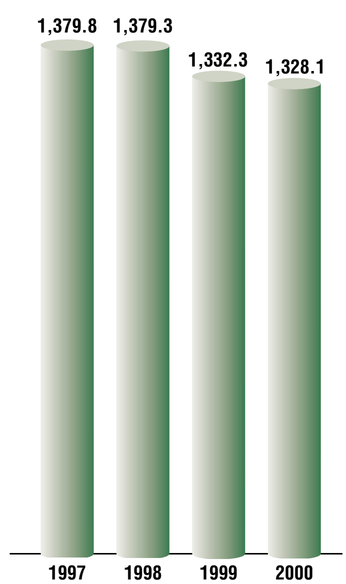
Net Premiums Written for Non-Life Insurance
(Billions of Yen)



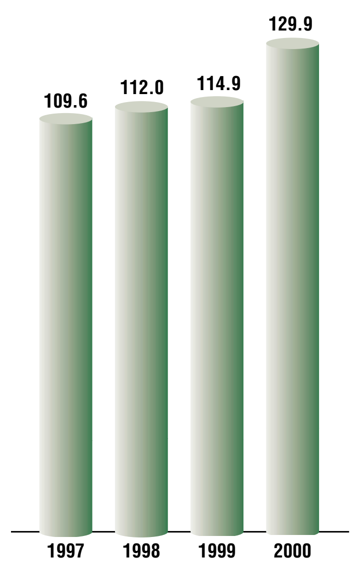
Net Income
(Billions of Yen)



Total Assets
(Billions of Yen)



Shareholders' Equity
(Billions of Yen)



To Our Shareholders

The Koa Fire & Marine Insurance Company, Limited

Operating Environment

During fiscal 1999, the Japanese economy underwent a gradual turnaround as the effect of a range of economic stimulus measures began to be felt. The turnaround, however, fell short of producing a self-sustaining recovery in the private sector supported by demand factors such as personal consumption and private-sector capital investment.

In the non-life insurance industry, acceleration of full-scale liberalization prompted companies to engage in fierce competition in product development, prices and services. This in turn spurred the move toward a new era of integrated operations and business tie-ups.

Actions Taken during Fiscal 1999

Against the background described above, we implemented our Three-Year Management Foundation Enhancement Plan, centered around five basic policies: expanding our business, generating profits, strengthening our capital position, increasing the yield from asset management and fulfilling our social responsibility. Our efforts are aimed at laying the foundation that will enable us to overcome the competition in the fully deregulated insurance business after the final stage of Japan's financial "Big Bang" in 2001. In fiscal 1999, the first year of our plan, we energetically carried out a number of programs designed to generate and expand premium income, drastically reduce operational expenses and improve our balance sheet.

On the product front, we developed and introduced "Comprehensive Household Insurance," which offers blanket coverage against a wide range of risks at home. We also launched "Comprehensive Personal Accident Insurance," a product that can be tailored to match the requirements of each customer. On the first anniversary of the introduction of our "Comprehensive Automobile Insurance K.O.A.," we launched "Grand K.O.A.," a product developed to meet customer needs more accurately by offering an expanded range of risk coverage.

On the service front, our efforts to improve customer services encompassed further upgrading of the service of automobile accident claims processing on holidays and introduction of " Car Life Service, " which covers not only accidents but also breakdowns. We drastically expanded the scope of our information provision service for operators in the transit industry to help prevent accidents, and offered highly effective risk consulting and other services.

As for our operational structure, we sought to further raise management efficiency by consolidating our business bases. At the same time, we strengthened our ability to satisfy the needs of customers by optimally distributing manpower and implementing strategies suited to the characteristics of each region we serve.

In the area of sales network, we focused on enhancing our ability to meet customer requirements and promoting the shift toward a high-efficiency marketing system. To this end, we upgraded agency education programs, bolstered our personal computer-based information dissemination system, and founded the Agency Management Support Center, to provide better guidance and assistance to our agents.

Regarding internal control systems, to ensure the strict observance of laws and regulations, we concentrated on strengthening the legal compliance system required of us as a financial institution. To achieve this, we established the Compliance Committee.

In the coming years, with the deregulation of the so-called "third domain," which consists mainly of medical insurance and insurance against sickness, the insurance industry is expected to see the further advance of liberalization. This movement will accelerate the entry of foreign capital and firms in other businesses, as well as intensify competition in product development and services.

Against this backdrop, the Company and The Nippon Fire & Marine Insurance Co., Ltd., agreed to merge on April 1, 2001, in the spirit of " trust, " " equity " and " fairness, " and with the objective of building a solid management foundation and bolstering competitiveness.

The Company has also formed a business alliance with six firms in the financial industry—The Sanwa Bank, Ltd.; The Taiyo Mutual Life Insurance Co.; Daido Life Insurance Co.; The Toyo Trust & Banking Co., Ltd.; The Nippon Fire & Marine Insurance Co., Ltd.; and Tsubasa Securities Co., Ltd. (the former Universal Securities Co., Ltd.)—so that it can offer a more comprehensive range of financial services to its customers.

Summary of Results in Our Operations

During the fiscal year under review, we strove aggressively to expand our business. Our efforts, centered around implementation of our Three-Year Management Foundation Enhancement Plan, resulted in operating revenues of ¥479,045 million, up 0.89% from the previous term. Net premiums written for non-life insurance declined 2.3%, to ¥272,515 million, while net premiums written for life insurance rose 43.5%, to ¥15,783 million.

Total operating expenses were up 1.2% from the preceding year, to ¥470,897 million. The net loss in non-life insurance and operating and administrative expenses decreased, by ¥1,868 million and ¥4,075 million, respectively. Maturity refunds to policyholders rose by ¥6,700 million, while dividends to policyholders increased by ¥946 million.

As a result, income before income taxes and minority interests amounted to ¥8,148 million, down 16.0% from the previous term, while net income totaled ¥5,293 million, a rise of 5.1%.

Corporate Governance

The Company decided to implement a reform of its management structure, including the Board of Directors, and adopt an operating officer system following the general meeting of shareholders held in June 2000. The move is part of our efforts to overcome the challenging business climate by rapidly carrying out our management strategy and dealing promptly with changes in the operating environment.

Reform of the Board of Directors

We plan to reduce the number of members of our Board of Directors, to ensure that the board is run in a more responsive manner and to enhance its functions of management decision-making and supervision of operations. To maintain and strengthen the capability of operational supervision, the board will include a certain number of directors who do not serve concurrently as operating officers.

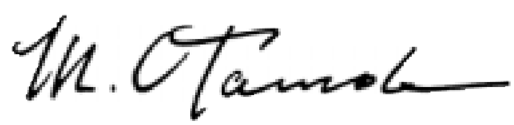
Introduction of the Operating Officer System

This system, in which the majority of the operating officers do not concurrently hold the post of director but focus on carrying out operations in the areas for which they are responsible, aims to improve the Company's business management capability. Business operating officers—operating officers who are responsible for individual divisions of the head office and those in charge of main sales channels—have been delegated greater authority so that business can be conducted more quickly and efficiently. The president holds the post of chief executive officer (CEO), while also overseeing business management of the entire Company.

Establishment of the Management Conference

We abolished the Managing Directors Meeting and established the Management Conference, whose members consist of the president and vice president—who serve concurrently as operating officers—as well as business operating officers. Under the new system, business matters that were resolved previously by the Managing Directors Meeting will be decided by business operating officers after deliberation by the Management Conference.

Fiscal 2000 marks the start of a new chapter for The Koa Fire & Marine Insurance Co., Ltd. We are determined to intensify the vigor and efficiency of our operations, so that the new company created through the merger in April 2001 will grow and prosper into the 21st century. We ask for your kind assistance of our efforts.



Mutsuharu Okamoto
President and Chief Executive Officer
July 2000

In April 2001, we will merge with The Nippon Fire & Marine Insurance Co., Ltd., having signed a memorandum to that effect on March 23, 2000. Pending the approval of the relevant authorities and our shareholders, we intend to create a new company, with the aim of taking a giant step forward in our development. The details of the merger are as follows.

Purpose of the Merger

The Koa Fire & Marine Insurance Co., Ltd., and The Nippon Fire & Marine Insurance Co., Ltd., each have their unique strengths that have won the firm support of their customers and agents. With the merger, we intend to combine those strengths to create a stronger operating base. This will enable us to fulfill the trust of our customers to our maximum potential and contribute even more comprehensively to society.

The new company will have total assets of more than ¥3.1 trillion, ranking it No. 4 in the industry. Net premiums written will total ¥681.6 billion, No. 5 in the industry. We will have a 10% share of the non-life insurance market and a customer base of 11.0 million individuals and 1.1 million corporate clients, putting us in the industry's front rank. By working all-out to achieve the maximum benefits of the merger, we intend to raise these figures higher.

Outline of the New Company

The Post-Merger Company

The Nippon Fire & Marine Insurance Co., Ltd., will be the surviving company after the merger.

Head Office

The head office will be located at 7-3, 3-chome, Kasumigaseki, Chiyoda-ku, Tokyo, the current location of the head office of The Koa Fire & Marine Insurance Co., Ltd.

Directors

The current president of The Koa Fire & Marine Insurance Co., Ltd., Mutsuharu Okamoto, will become chairman of the new company, and the current president of The Nippon Fire & Marine Insurance Co., Ltd., Ken Matsuzawa, will become president. It is expected that approximately 10 directors will be appointed.

Name of the New Company

The name of the new company will be NIPPONKOA INSURANCE COMPANY, LIMITED.

Merger Ratio

In order to insure that the merger ratio is fair to the shareholders of the two companies and determined reasonably and appropriately, the two companies together requested external organizations to appraise the merger ratio.

The merger ratio between The Koa Fire & Marine Insurance Co., Ltd., and The Nippon Fire & Marine Insurance Co., Ltd., will be 1:1. (An allocation of one face value ordinary share of The Nippon Fire & Marine Insurance Co., Ltd., for each face value ordinary share of The Koa Fire & Marine Insurance Co., Ltd.)

Corporate Officer System

Management decision making and the execution of business will be separated, and a corporate officer system will be introduced to accelerate the decision-making process and clarify the lines of management authority and responsibility within the new company.

Stock Option System

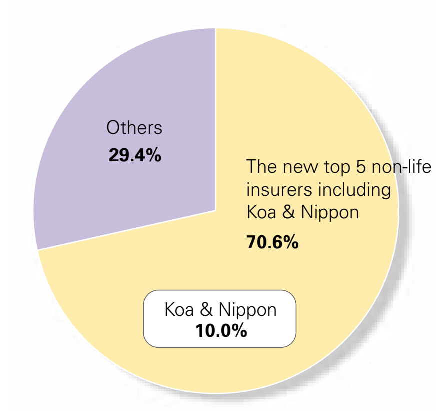
To raise the level of performance incentives and link the compensation system with the interests of shareholders, we plan to introduce a stock option system.

Ensuring Transparency of Operations

The new company aims to achieve the active disclosure of information and greater transparency in operations, by taking such measures as revamping its domestic and international investor relations.

Market Position of the New Company

The market share of net premiums written



Total assets: Over ¥3.1 trillion (No. 4 in the industry)
Net premiums written: ¥681.6 billion (No. 5 in the industry)
Agencies: 61,000 (before elimination of overlaps) (No. 4 in the industry)

Note: Figures are those as of the end of March 2000, assuming the merger of Mitsui Marine and Sumitomo Marine, and that of Dai-Tokyo Fire and Chiyoda Fire.

Business Plan of the New Company

Following the merger, the new company will aim to maximize its corporate value guided by its business plan, based on the following three fundamental points.

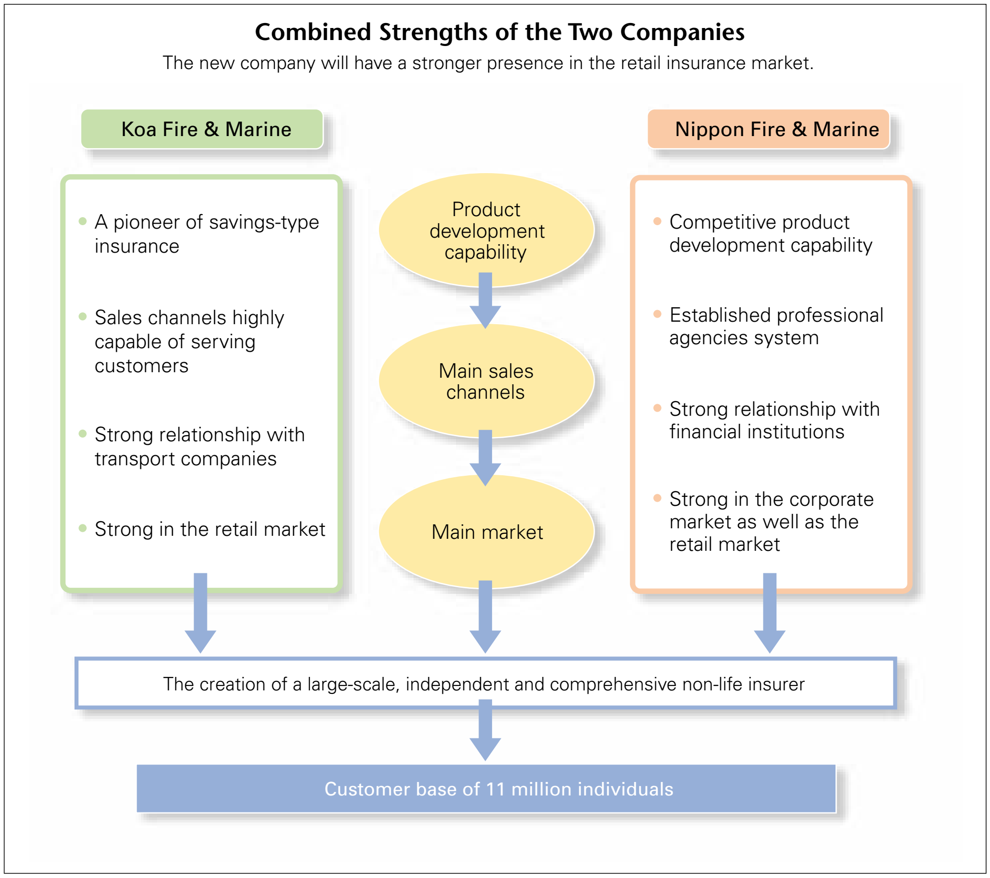
1. Expanding the Scale

In addition to the expansion of scale stemming from the merger, the new company will raise its competitiveness by bolstering its product development and other capabilities, with the goal of increasing its market share to 11% by the end of fiscal 2003.

2. Improving Profitability

In addition to the effect of integration resulting from the merger, the new company will pursue further efficiencies, with the aim of lowering its net operating expense ratio to the 32% level by the end of fiscal 2003. The efficiency targets are as follows:

- Labor efficiency: reduce the work force from 9,000 to 7,000.
- Sales base integration: reduce the number of sales bases from 548 to 330.
- Claim office integration: reduce the number of claim offices from 296 to 210.
- System integration: the systems for non-marine operations will be based on those of The Nippon Fire & Marine Insurance Co., Ltd., while the systems for marine and life operations will be based on those of The Koa Fire & Marine Insurance Co., Ltd.



Moreover, the new company will aim to strengthen its profitability substantially by expanding its investment income. This will be attained by improving the asset portfolio and achieving greater capital efficiency.

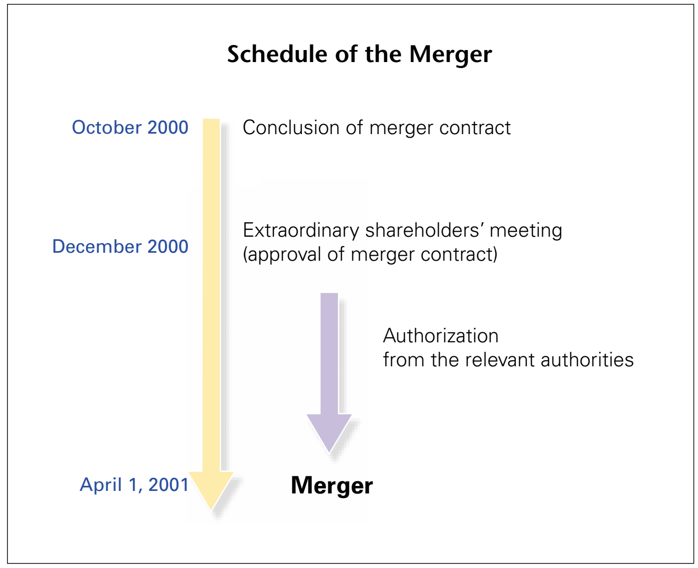
3. Enhancing Financial Strength

Pursuing the optimal balance between capital efficiency and capital strength, the new company will maintain an adequate solvency margin.

Existing Business Tie-Ups and Others

The following business tie-ups and joint product development activities are already under way preceding the merger scheduled in April 2001.

- Sharing of claim handling functions (February 2000).
- Joint recruiting of new graduates for fiscal 2001.
- Joint telephone service for the Sydney Olympic Games.
- Joint development and launch of UMINO-ANSHIN-HOKEN "NAGI," a new marine hull insurance product (April 2000).
- Joint development and launch of SUMAINO-SOGO-HOKEN "FULL HOUSE," an innovative comprehensive insurance policy for home owners (June 2000).
- Launch by The Koa Fire & Marine Insurance Co., Ltd., of savings-type automobile policies based on the same concept and product name as the "Get Back" product offered by The Nippon Fire & Marine Insurance Co., Ltd. (June 2000).
- Joint development and launch of KOJINO-ANSHIN-HOKEN "K MASTER," an insurance policy covering various risks of contractors (June 2000).
- Establishment of a joint organization to launch new businesses (June 2000).



President and Chief Executive Officer Ken Matsuzawa of The Nippon Fire & Marine Insurance Co., Ltd.

President and Chief Executive Officer Mutsuharu Okamoto of The Koa Fire & Marine Insurance Co., Ltd.

Significant Events during the Past Year

The Koa Fire & Marine Insurance Company, Limited

Conclusion of a Memorandum of the Merger with the Nippon Fire & Marine Insurance Co., Ltd.

On March 23, 2000, the Company and The Nippon Fire & Marine Insurance Co., Ltd., agreed to merge on April 1, 2001 in a spirit of "trust," "equity," and "fairness." (For more details, please refer to pages 6–9.)

Alliance with Six Companies in Five Financial Sectors

Financial One
The Alliance for the Future

The Company reached an agreement with The Sanwa Bank, Ltd.; The Taiyo Mutual Life Insurance Co.; Daido Life Insurance Co.; The Toyo Trust & Banking Co., Ltd.; The Nippon Fire & Marine Insurance Co., Ltd.; and Tsubasa Securities Co., Ltd. (the former Universal Securities Co., Ltd.), to form a business alliance, to be known as "Financial One."

Through this tie-up—an open-ended collaboration consolidating the functions and expertise of each participant, free from any restraint related to capital affiliation or the companies' circumstances of establishment—we seek to strengthen competitiveness, especially in the area of the retail market business, so that we can acquire an overwhelming edge in customer convenience. Specific measures to achieve this objective have entailed establishment of a joint venture, Private Financial Management Co., Ltd. The new company, founded with the aim of meeting customer needs such as asset management and asset succession, began operations in May 2000. The seven allied companies also opened Japan's first portal site jointly maintained by five financial sectors, through which various kinds of information are being disseminated.

Adoption of a New Management Structure and an Operating Officer System

In June 2000, we carried out a reform of our management structure, instituting an operating officer system. This change will enable us to speedily implement management strategies, such as properly responding to liberalization, and deal quickly with changes in the business environment. (For more details, please refer to page 4.)

Launch of "Grand K.O.A."

We introduced "Grand K.O.A.," a top-grade automobile insurance policy, in December 1999. This insurance product offers extensive coverage and comprehensive services by combining a personal accident indemnity insurance policy that also pays out the amount of reparation when the policyholder is at fault, and "Car Life Service," which includes emergency repair in case of a breakdown. In this manner, we provide our customers with the best possible year-round, 24-hour insurance coverage for both accidents and breakdowns.

Upgrading of the Service System for Automobile Accident Claims Processing on Holidays

Acting on the belief that the quality of accident claims processing service—not only the content of the coverage—determines whether an insurance policy provides optimal protection, we have upgraded our automobile accident claim processing service on holidays as follows.

Visit to the Parties Involved in an Automobile Accident Resulting in Injury or Death

When an accident occurs on a holiday and our 24-hour Accident Reception Center is notified, our staff in charge visit the customer, at his or her request, to explain all the steps through to the settlement stage and offer advice on how to proceed.

On-Site Damage Appraisal at an Auto Repair Shop on Holidays

In case of an accident involving a vehicle or property damage, our staff (based on a prior arrangement with the policyholder) are present at the damage verification inspection—even on holidays—to expedite completion of repair work and payment of the insurance claim.

Out-of-Court Settlement Negotiation in an Accident Resulting in Injury or Death

At the request of the policyholder, based on a prior arrangement, we undertake negotiations for out-of-court settlement even on holidays, in order to resolve the case most promptly.

Introduction of “FULL HOUSE,” Comprehensive Homeowners Insurance Policy

We launched the comprehensive homeowners insurance policy “FULL HOUSE,” which represents the first major retail insurance product developed jointly with The Nippon Fire & Marine Insurance Co., Ltd. The policy offers innovative coverage not provided previously by fire insurance products, for a very reasonable premium.

Coverage includes payment of expenses related to a temporary dwelling when a policyholder's house sustains damage by calamity and is rendered inhabitable, and payout of the full amount of the insurance claim if the cost to repair a house that suffers calamity exceeds 70% of the value of the building, on the condition that the house is rebuilt.

Philanthropic Activities and Environmental Protection Measures

The Koa Fire & Marine Insurance Company, Limited

Matching-Gift “Omoiyari Club”

The Omoiyari Club, founded by like-minded directors and employees of The Koa Fire & Marine Insurance Co., Ltd., has created a fund consisting of contributions from the club members’ monthly salaries and matching contributions by the Company. The funds raised in this manner are donated to environmental protection organizations and organizations promoting social welfare.

Recipients of the donations are selected based on the recommendations of club members. The total number of recipients of contributions since the club was inaugurated in 1996 has surpassed 80, with the total amount of donations reaching approximately ¥16 million.

Forest of Koa Fire Insurance

As part of the environmental protection activities of the Omoiyari Club, the Forest of Koa Fire Insurance was created on land in Nagano Prefecture within view of Mt. Fuji. The Company shares equally with the Forestry Agency the cost of growing Japanese larches on the land, with the aim of protecting and fostering the forest.

A Drive to Protect the Global Environment

We set up the Global Environment Protection Committee and, acting on one of the Company’s management policies of“ serving society, ”have implemented the programs presented below. In this way, we seek to contribute to the creation of a recycle-based society through efforts geared to efficient use of resources, energy conservation and recycling.

- Stepping up efforts to sort waste for disposal.
- Reducing the amount of paper usage.
- Increasing the percentage of recycled paper usage.
- Reducing the use of electricity.
- Increasing the use of recycled products.

During fiscal 1999, we achieved the following results.

- A reduction in the amount of total paper usage (including copy paper, print paper and brochures): about 15% compared with fiscal 1998.
- An increase in the percentage of recycled paper usage: up more than 7 percentage points from fiscal 1998, to about 21%.

Traffic Safety Campaign Using the Technostar, a Bus Equipped with a Driving Simulator

As part of our drive to prevent traffic accidents and promote mass education in safe driving, we made available the Technostar—a bus equipped with driving simulator developed in May 1991—for traffic safety campaigns and fairs sponsored by various public organizations.

FINANCIAL SECTION

Contents

*Review of Operations, Selected Financial Data and Selected Non-Consolidated Financial Data are non-audited.

Review of Consolidated Operations in Fiscal 1999

The following summarizes the operating performance of The Koa Fire & Marine Insurance Co., Ltd., and its consolidated subsidiaries during fiscal 1999.

Total operating revenues increased 0.89% from the previous term, to ¥479,045 million. Of this amount, net premiums written for non-life insurance accounted for ¥272,515 million, down ¥6,461 million, or 2.3% from the prior term, primarily because of a decrease in revenues from maturity-refund-type fire insurance, personal accident insurance and automobile insurance. Net premiums written for life insurance surged by ¥4,784 million, or 43.5%, to ¥15,783 million.

Total operating expenses were ¥470,897 million, up 1.2%. Of this amount, the net losses in non-life insurance declined 1.3%, to ¥144,247 million, while maturity refunds to policyholders increased by ¥6,700 million, to ¥160,987 million, and dividends to policyholders increased by ¥946 million, to ¥2,237 million. Operating and administrative expenses amounted to ¥59,066 million, decreasing 6.5% from the previous term.

As a result, income before income taxes and minority interests totaled ¥8,148 million, down 16.0% from the previous term. After deduction of income taxes and minority interests, net income amounted to ¥5,293 million, representing an increase of 5.1% from the preceding year.

As for cash flows in fiscal 1999, net cash used in operating activities totaled ¥44,675 million, mainly as a result of a large sum of maturity refunds to policyholders of maturity-refund-type insurance. Net cash provided by investing activities totaled ¥70,130 million, primarily from proceeds from sales and redemption of securities. Net cash used in financing activities amounted to ¥2,683 million, comprising mainly the payment of dividends. After deduction of ¥334 million relating to the effect of exchange rate changes, cash and cash equivalents increased by ¥22,438 million. Total cash and cash equivalents at the year-end stood at ¥119,332 million.

Summary of Results in Our Non-Life Insurance Business (Consolidated)

Fire and Allied Lines

Our efforts to attract new customers and set more appropriate insurance amounts were offset by decreases in revenues from maturity-refund-type fire insurance and insurance policies for businesses. As a result, we recorded net premiums written of ¥52,140 million. A decline in the number of cases involving a large sum of insurance claim payments, however, countered the effect of natural disasters such as typhoons. Accordingly, net losses paid decreased to ¥17,788 million.

Marine

Cargo insurance posted a decline in revenues, due mainly to continued appreciation of the yen. We exercised caution in underwriting hull insurance, giving careful consideration to the aspect of revenues and potential payouts. Consequently, net premiums written for marine insurance totaled ¥7,553 million, while net losses paid amounted to ¥4,130 million.

Personal Accident

Despite our vigorous efforts to sell comprehensive personal accident insurance policies, net premiums written declined from the previous year's level, to ¥25,101 million, due to a decrease in maturity-refund-type personal accident insurance. Net losses paid totaled ¥10,687 million.

Voluntary Automobile

We endeavored to gain new customers and raise the amount of contracts by boosting sales of comprehensive automobile insurance policies and abolishing a ceiling on the sum of indemnity for property damage. Despite these efforts, net premiums written declined to ¥132,430 million, primarily due to the effect of revision of premium rates. Net losses paid amounted to ¥78,285 million.

Compulsory Automobile Liability

We focused on strengthening our sales network in an attempt to expand the number of contracts. Our efforts caused net premiums written to increase compared to the prior term, to ¥23,414 million. Net losses paid totaled ¥15,430 million.

Other

In the transit insurance business, continued stagnation in the domestic cargo transport industry resulted in a year-on-year decline in net premiums written, to ¥10,047 million. Net losses paid totaled ¥5,892 million.

As for insurance other than transit insurance, we strove to increase sales of comprehensive property insurance and liability insurance policies for businesses. As a result, net premiums written amounted to ¥21,829 million, while net losses paid totaled ¥12,034 million.

Summary of Results in Our Life Insurance Business

In fiscal 1999, the amount of newly acquired individual life insurance policies and group life insurance policies reached ¥280,803 million and ¥33,470 million, respectively. The amount of individual insurance in force totaled ¥817,658 million, while that of group insurance was ¥148,663 million.

Asset Management

Total assets at the end of fiscal 1999 declined 0.3% from the previous term, to ¥1,328,121 million, with working assets amounting to ¥1,200,735 million.

We pursued efficient management of funds, with a primary emphasis on low risk and high return, while also paying attention to liquidity. Nevertheless, the harsh fund management environment characterized by continued low interest rates resulted in a 15.0% drop in interest and dividend income, to ¥30,958 million.

Fundamental Policy on Appropriation of Profits

We believe that in the non-life insurance business it is vital to increase corporate value by strengthening our capital position—a major pillar of management foundation—and raising the efficiency of capital utilization. Our basic policy concerning appropriation of profits seeks to secure an adequate amount of internal reserves to enable us to pay insurance claims in time of natural calamities such as earthquakes and typhoons, while maintaining stable dividend payments to our shareholders.

For fiscal 1999, the Company set dividends to shareholders at ¥7.50 per share.

Outlook for Fiscal 2000

Despite a projection that severe employment and income conditions will continue to afflict Japan’s economy, a gradual economic recovery is expected to take place, led by private-sector demand, as the government implements economic stimulus measures and private-sector capital investment picks up.

In the insurance industry, acceleration of liberalization will lead to new entries by firms and intensify competition on product development and services.

Looking ahead to the upcoming merger with The Nippon Fire & Marine Insurance Co., Ltd., the Company will strive to solidify its management structure by strengthening its management foundation and continuing its cost-cutting efforts.

In fiscal 2000, the Company’s net premiums written are forecast at ¥275,000 million. The income will derive from increased sales of “Grand K.O.A.,” the launch of “Get Back,” a maturity-refund-type automobile insurance, and aggressive marketing of “FULL HOUSE,” a comprehensive homeowners insurance policy, as well as comprehensive personal accident and comprehensive property insurance policies. We anticipate that the Company’s operating profit and net income will reach ¥20,000 million and ¥6,000 million, respectively. On a consolidated basis, currently we project net income of ¥6,500 million.

Lastly, we plan to make a lump-sum write-off of the differential arising from accounting change due to adoption of accounting standards for employees’ retirement benefits by the end of fiscal 2000.

In this section, 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

Direct premiums written	Millions of Yen 2000	Proportion	Thousands of U.S. Dollars (*1) 2000
Fire and allied lines	¥ 103,002	26.3%	$ 970,343
Marine	8,086	2.0	76,174
Personal accident	70,475	18.0	663,920
Voluntary automobile	134,774	34.4	1,269,661
Compulsory automobile liability	41,627	10.6	392,149
Other*	34,128	8.7	321,506
Total	¥ 392,092	100.0%	$ 3,693,753
(Deposit premiums included in Total)	(89,516)	(22.8)	(843,295)

Net premiums written	Millions of Yen 2000	Proportion	Thousands of U.S. Dollars (*1) 2000
Fire and allied lines	¥52,140	19.1%	$ 491,190
Marine	7,553	2.8	71,154
Personal accident	25,101	9.2	236,464
Voluntary automobile	132,430	48.6	1,247,572
Compulsory automobile liability	23,414	8.6	220,575
Other*	31,877	11.7	300,308
Total	¥ 272,515	100.0%	$ 2,567,263

Net losses paid	Millions of Yen 2000	Proportion	Thousands of Dollars (*1) 2000
Fire and allied lines	¥ 17,788	12.3%	$ 167,573
Marine	4,130	2.9	38,902
Personal accident	10,687	7.4	100,674
Voluntary automobile	78,285	54.3	737,496
Compulsory automobile liability	15,430	10.7	145,364
Other*	17,927	12.4	168,887
Total	144,247	100.0%	$ 1,358,896

*Of which, major lines of insurance are Transit, Liability, Movables all risks, Workers' compensation and Contractors' all risks.

(2) Investment

Investment assets	Millions of Yen 2000	Proportion	Thousands of U.S. Dollars (*1) 2000
Bank deposit	¥ 63,215	4.8%	$ 595,532
Call loans	62,000	4.7	584,079
Monetary receivable bought	1,990	0.1	18,747
Money trust	13,759	1.1	129,617
Securities	711,748	54.5	6,705,114
Loans	251,901	19.3	2,373,065
Land and buildings	96,122	7.4	905,531
Total	1,200,735	91.9	11,311,685
Total assets	¥ 1,306,526	100.0%	$12,308,301

Securities	Millions of Yen 2000	Proportion	Thousands of U.S. Dollars (*1) 2000
Domestic securities:			
Government bonds	¥ 6,990	1.0%	$ 65,854
Municipal bonds	66,686	9.4	628,222
Corporation bonds	254,166	35.7	2,394,403
Stocks	258,017	36.3	2,430,684
Foreign securities	123,462	17.3	1,163,086
Other securities	2,427	0.3	22,865
Total	¥ 711,748	100.0%	$ 6,705,114

Consolidated Balance Sheets

The Koa Fire & Marine Insurance Company, Limited and Consolidated Subsidiaries March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2000	**1999**	**2000**
ASSETS:			
Cash and cash equivalents (Note 3)	¥ 119,332	¥ 96,894	$ 1,124,181
Investments in securities (Note 4)	726,341	765,677	6,842,588
Loans (Note 5)	252,105	266,923	2,374,993
Net property and equipment (Note 6)	101,530	106,854	956,479
Insurance accounts receivable	40,376	39,549	380,365
Foreign currency translation adjustments	1,114	544	10,498
Deferred tax assets (Note 12)	47,282		445,425
Other assets	57,223	68,938	539,079
Reserve for doubtful accounts	(17,182)	(13,072)	(161,868)
TOTAL	**¥ 1,328,121**	**¥ 1,332,307**	**$12,511,740**

	2000	**1999**	**2000**
LIABILITIES AND SHAREHOLDERS' EQUITY:			
LIABILITIES:			
Reserve for outstanding claims	¥ 70,530	¥ 70,808	$ 664,435
Underwriting reserves (Note 7)	1,055,507	1,069,046	9,943,539
Insurance accounts payable	13,397	13,132	126,207
Commercial paper	20,000	20,000	188,412
Long-term debt (Note 8)	7,941	9,000	74,812
Accrued income taxes	1,119	2,430	10,542
Accrued employees' bonuses	2,142	3,083	20,175
Reserve for employees' retirement benefits (Note 9)	12,180	14,861	114,745
Reserve for price fluctuations	4,993	4,390	47,033
Other liabilities	10,207	10,558	96,164
Total liabilities	**1,198,016**	**1,217,308**	**11,286,064**
MINORITY INTERESTS	**157**	**140**	**1,484**
SHAREHOLDERS' EQUITY (Notes 10 and 15):			
Common stock, ¥50 par value—authorized, 440,000,000 shares; issued, 287,505,019 shares	30,004	30,004	282,653
Additional paid-in capital	19,282	19,282	181,646
Retained earnings	80,663	65,574	759,897
Total	129,949	114,860	1,224,196
Less treasury stock—at cost	(1)	(1)	(4)
Total shareholders' equity	**129,948**	**114,859**	**1,224,192**
TOTAL	**¥1,328,121**	**¥1,332,307**	**$12,511,740**

See notes to consolidated financial statements.

Consolidated Statements of Income

The Koa Fire & Marine Insurance Company, Limited and Consolidated Subsidiaries Years ended March 31, 2000, 1999 and 1998

	Millions of Yen			Thousands of U.S. Dollars (Note 2)
	2000	**1999**	**1998**	**2000**
OPERATING REVENUES:				
Net premiums written:				
Non-life	¥ 272,515	¥ 278,976	¥ 297,265	$ 2,567,263
Life	15,783	10,999	6,762	148,686
Deposit premiums by policyholders	89,516	104,938	124,629	843,295
Reversal of outstanding claims	26	132		248
Reversal of underwriting reserves	47,510	21,782	7,644	447,577
Net investment income	30,958	36,443	38,910	291,642
Net realized gains on investment	22,737	21,547	14,060	214,202
Reversal of price fluctuations reserve			1,339	
Total operating revenues	479,045	474,817	490,609	4,512,913
OPERATING EXPENSES:				
Net losses:				
Non-life	144,247	146,115	144,169	1,358,896
Life	1,884	413	75	17,746
Loss adjustment expenses	13,478	13,503	12,654	126,968
Net policy acquisition and premium collection costs	53,536	54,956	58,759	504,346
Maturity refunds to policyholders	160,987	154,287	172,896	1,516,602
Dividends to policyholders	2,237	1,291	1,234	21,080
Provision for outstanding claims			1,368	
Loss on devaluation of investments in securities and money trusts	5,276	14,694	13,597	49,706
Operating and administrative expenses	59,066	63,141	68,305	556,437
Provision for doubtful accounts	12,642	9,379	3,220	119,094
Provision for price fluctuations reserve	603	661		5,677
Other expenses—net (Note 11)	16,941	6,677	4,744	159,597
Total operating expenses	470,897	465,117	481,021	4,436,149
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**8,148**	**9,700**	**9,588**	**76,764**
INCOME TAXES (Note 12):				
Current	4,010	4,623	4,780	37,777
Deferred	(1,180)			(11,110)
INCOME BEFORE MINORITY INTERESTS	5,318	5,077	4,808	50,097
MINORITY INTERESTS	(25)	(42)	(23)	(234)
NET INCOME	**¥ 5,293**	**¥ 5,035**	**¥ 4,785**	**$ 49,863**
PER SHARE AMOUNTS:		Yen		U.S. Dollars
Net income	¥ 18.41	¥ 17.51	¥ 16.64	$ 0.17
Diluted net income	18.36	15.60	14.83	0.17
Cash dividends	7.50	7.50	7.50	0.07

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

The Koa Fire & Marine Insurance Company, Limited and Consolidated Subsidiaries Years ended March 31, 2000 and 1999

	Thousands	Millions of Yen			
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost
BALANCE, APRIL 1, 1998	287,505	¥ 30,004	¥ 19,282	¥ 62,745	¥ (2)
Cash dividends paid—¥7.50 per share				(2,156)	
Bonuses to directors				(50)	
Net income				5,035	
Decrease in treasury stock—net					1
BALANCE, MARCH 31, 1999	287,505	30,004	19,282	65,574	(1)
Adjustment of retained earnings for the adoption of deferred tax accounting method				46,092	
Adjustment of underwriting reserves for the adoption of deferred tax accounting method				(34,100)	
Cash dividends paid—¥7.50 per share				(2,156)	
Bonuses to directors				(40)	
Net income				5,293	
Decrease in treasury stock—net					0
BALANCE, MARCH 31, 2000	287,505	¥ 30,004	¥ 19,282	¥ 80,663	¥ (1)

	Thousands of U.S. Dollars (Note 2)			
	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at Cost
BALANCE, MARCH 31, 1999	$ 282,653	$ 181,646	$ 617,747	$ (5)
Adjustment of retained earnings for the adoption of deferred tax accounting method			434,221	
Adjustment of underwriting reserves for the adoption of deferred tax accounting method			(321,244)	
Cash dividends paid—$0.07 per share			(20,313)	
Bonuses to directors			(377)	
Net income			49,863	
Decrease in treasury stock—net				1
BALANCE, MARCH 31, 2000	$ 282,653	$ 181,646	$ 759,897	$ (4)

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

The Koa Fire & Marine Insurance Company, Limited and Consolidated Subsidiaries Year ended March 31, 2000

	Millions of Yen	Thousands of U.S. Dollars (Note 2)
	2000	2000
OPERATING ACTIVITIES:		
Income before income taxes and minority interests	¥ 8,148	$ 76,764
Adjustments for:		
Depreciation and amortization	6,846	64,496
Reserve for doubtful accounts	12,591	118,621
Reserve for employees' retirement benefits	(2,681)	(25,255)
Provision for price fluctuation	603	5,677
Net investment income	(30,958)	(291,642)
Net gain on investment in securities	(17,461)	(164,496)
Bonuses to directors	(40)	(377)
Decrease in outstanding claims	(54)	(512)
Decrease in underwriting reserves	(47,611)	(448,528)
Decrease in accrued employees' bonuses	(941)	(8,866)
Other—net	26	245
Sub-total	(71,532)	(673,873)
Net investment income—received	32,208	303,421
Income taxes—paid	(5,351)	(50,411)
Net cash used in operating activities	(44,675)	(420,863)
INVESTING ACTIVITIES:		
Purchases of investment securities	(332,308)	(3,130,548)
Proceeds from sales of securities	389,329	3,667,729
Loans originated	(66,744)	(628,775)
Repayment of loans	72,053	678,788
Purchases of property and equipment	(1,258)	(11,857)
Proceeds from sale of property and equipment	1,068	10,064
Other—net	7,990	75,266
Net cash provided by investing activities	70,130	660,667
FINANCING ACTIVITIES:		
Proceeds from issuance of commercial paper	55,000	518,135
Repayments of commercial paper	(55,000)	(518,135)
Treasury stock acquired	0	1
Dividends paid	(2,156)	(20,313)
Dividends paid to minority interests	(7)	(69)
Other	(520)	(4,897)
Net cash used in financing activities	(2,683)	(25,278)
FOREIGN CURRENCY EXCHANGE LOSS OF CASH AND CASH EQUIVALENTS	(334)	(3,146)
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,438	211,380
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	96,894	912,801
CASH AND CASH EQUIVALENTS, END OF YEAR	¥119,332	$1,124,181

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presenting Consolidated Financial Statements—The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The 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. Effective April 1, 1999, a consolidated statement of cash flows is required to be prepared under Japanese accounting standards. The statement of cash flows for the year ended March 31, 2000 is presented herein. Such statement for the year ended March 31, 1999 is not presented, as Japanese accounting standards do not require retroactive preparation or presentation for prior years' financial statements.

The accompanying consolidated financial statements reflect certain changes in the classification and form of presentation of the consolidated financial statements filed with the Ministry of Finance, as required by the Securities Exchange Law. Such changes are, in the opinion of management, appropriate to make the consolidated financial statements more familiar and informative for readers outside Japan.

b. Principles of Consolidation—The consolidated financial statements include the accounts of The Koa Fire and Marine Insurance Company, Limited (the "Company") and its significant subsidiaries (together, the "Companies"). The number of consolidated subsidiaries was three in 2000 and 1999. Other subsidiaries and an affiliate are not consolidated because the combined total assets, sales, net income and retained earnings would not have a material effect on the accompanying consolidated financial statements. Investments in these unconsolidated subsidiaries and an affiliate are stated at cost. The effect on the consolidated financial statements of not applying the equity method is immaterial.

Consolidated foreign subsidiaries are included on the basis of fiscal years ending on December 31.

All significant intercompany balances and transactions have been eliminated in consolidation.

c. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, call loans, and money held in trust, all of which mature or become due within three months of the date of acquisition. The scope of cash and cash equivalents in 1999 was changed from ¥127,391 million to ¥96,894 million to conform with the presentation in 2000.

d. Investments in Securities—Listed securities are principally stated at the lower of cost, determined by the moving-average method, or market. Unlisted securities are stated at cost determined by the moving-average method.

e. Property and Equipment, and Depreciation—Property and equipment are carried at cost less accumulated depreciation. Interest costs on the specific borrowed funds incurred during the construction period of the related assets are not capitalized.

Depreciation of property and equipment except for buildings acquired after April 1, 1998, of which depreciation is computed by the straight-line method, is computed by the declining-balance method at rates based on the estimated useful lives as stipulated by the Japanese Corporation Tax Law.

f. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that do not transfer ownership of the leased property to the lessee are permitted to be accounted for as rental transactions.

g. Policy Acquisition Costs—Policy acquisition costs are charged to income as incurred.

h. Translation of Foreign Currency Accounts in the Company's Balance Sheets—Current receivables and payables denominated in foreign currencies are translated at the rates in effect at each balance sheet date. Long-term receivables and payables denominated in foreign currencies are translated at the rates prevailing when acquired or incurred, except for those covered by forward exchange contracts, which are translated at the contract rates. In the case where there is significant fluctuation of currencies with possible exchange losses, long-term receivables or payables denominated in foreign currencies are translated at the current exchange rates as of each balance sheet date.

i. Basis of Translation of Financial Statements of Foreign Subsidiaries—The balance sheet accounts of foreign subsidiaries are translated into Japanese yen at year-end rates except for shareholders' equity, which is translated at historical exchange rates. Differences arising from such translation are shown as "Foreign currency translation adjustments" in the accompanying consolidated balance sheets. All revenue and expense accounts of foreign subsidiaries are translated into yen at year-end rates.

j. Reserve for Outstanding Claims
Reserve for reported claims—Provision is made for claims reported prior to the close of the accounting period based on the estimated ultimate cost of settling such claims.

Reserve for incurred but not reported claims—With respect to insurance policies for automobile, personal accident, liability and worker's compensation, provision is made for incurred but not reported claims based on past experience.

k. Underwriting Reserves
(1) Non-life insurance
Reserve for ordinary losses—Provision is made for future ordinary policy losses at either the amount of unearned premiums at year end or premium income less applicable policy losses and other expenses for the year, whichever is greater. Unearned premiums are computed by the pro-rata method based on the period of protection provided by the contract.

Reserve for extraordinary losses—Provision is made for substantial unexpected losses, such as a catastrophe, at predetermined rates applied to premium income for the year.

Reserve for maturity returns—Provision is made for maturity returns under maturity return insurance at an amount equal to the maturity return portion of the insurance premiums plus related interest determined by using a fixed interest rate.

Reserve for dividends to policyholders—Provision is made for dividends payable in addition to the maturity returns under maturity return insurance at an amount equal to the investment income allocable to the maturity return portion of the relevant premiums, less interest accounted for as a reserve for maturity return.

(2) Life insurance
Reserve for losses and dividends from life insurance—Provision is composed of premium reserves (reserves for future ordinary policy losses), unearned premium, reserves for risks (reserves for future contingency) and dividends reserves.

l. Income Taxes—Effective April 1, 1999, the Companies adopted an accounting method for the allocation of income taxes based on the asset and liability method. The cumulative effect of the application of interperiod tax allocation in prior years in the net amount of ¥11,992 million is included as an adjustment to retained earnings as of April 1, 1999. Such cumulative effect is calculated by applying the income tax rate stipulated by enacted tax laws as of April 1, 1999.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

m. Miscellaneous Reserves
(1) Reserve for doubtful accounts
The amount of the provision for reserve for doubtful accounts is determined based on management's judgment and assessment of future losses based on the self assessment system. This system reflects past experience of credit losses, possible credit losses, business and economic conditions, the character, quality and performance of the portfolio, and other pertinent indicators. From the fiscal year ended March 31, 1998, insurance companies implemented the self assessment system for its asset quality. The quality of all loans are assessed by the credit supervisory division with a subsequent audit by the asset review and inspection division in accordance with the Company's policies and rules for self assessment of asset quality.

The Companies have established a credit rating system under which its customers are classified into ten categories. The credit rating system is used for self assessment of asset quality. All customers are reclassified into five categories for self assessment purpose such as "normal," "caution," "possible bankruptcy," "virtual bankruptcy" and "legal bankruptcy." Reserve for doubtful accounts is calculated based on the actual past loss ratios for normal and caution categories, and the fair value of the collateral for secured loans and other factors of solvency including value of future cash flows for other self assessment categories.

(2) Retirement benefits and pension plan
Reserve for employees' retirement benefits is provided at the estimated amount which would be payable at each year end under the Company's unfunded retirement plan if all employees voluntarily terminated their employment at that date.

In addition, the Company's policy for its funded pension plan is to fund and charge to income normal costs as accrued and effective March 1999, the Company will amortize prior service costs by the declining-balance method at an annual rate of 50%, which previously had been amortized by the straight-line method over 11 years.

(3) Reserve for price fluctuation
In conformity with the Insurance Business Law, insurance companies must establish a provision for losses resulting from fluctuations in prices of securities, bank deposits and loans denominated in foreign currencies. The amount of the annual provision for reserve for price fluctuation is calculated using percentages set forth in the Insurance Business Law for each type of security and the balance limitation also stipulated in the Law.

n. Per Share Information—The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 287,504 thousand shares for 2000 and 1999.

Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year with an applicable adjustment for related interest expense (net of tax).

Cash dividends per share shown for each year in the consolidated statements of income represent dividends declared as applicable to the respective period.

o. Reclassifications—Certain reclassifications of previously reported amounts have been made to conform with the current year presentation.

2. U.S. DOLLAR AMOUNTS

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.15 to $1, the approximate rate of exchange at March 31, 2000. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	**1999**	**2000**
Cash on hand and in banks	¥ 56,332	¥ 40,018	$ 530,681
Call loans	62,000	43,900	584,079
Other	1,000	12,976	9,421
Total	¥ 119,332	¥ 96,894	$ 1,124,181

4. INVESTMENTS IN SECURITIES

Investments in securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Government and municipal bonds	¥ 84,205	¥ 79,315	$ 793,266
Corporation bonds	268,598	217,222	2,530,363
Stocks	248,531	268,788	2,341,316
Foreign securities	123,462	199,869	1,163,086
Other securities	2,427	483	22,865
Reserve for possible losses	(882)		(8,308)
Total	¥ 726,341	¥ 765,677	$ 6,842,588

Market value information relating to investments in securities is summarized as follows:

	Millions of Yen					
	2000			1999		
	Aggregate Cost*	Aggregate Market	Unrealized Net Gains/ (Losses)	Aggregate Cost*	Aggregate Market	Unrealized Net Gains/ (Losses)
Bonds	¥ 229,012	¥ 238,342	¥ 9,330	¥ 193,744	¥ 205,762	¥ 12,018
Stocks	238,277	379,688	141,411	258,464	393,215	134,751
Foreign securities	19,296	19,236	(60)	39,875	40,000	125

	Thousands of U.S. Dollars		
	2000		
	Aggregate Cost*	Aggregate Market	Unrealized Net Gains/ (Losses)
Bonds	$2,157,436	$2,245,335	$ 87,899
Stocks	2,244,724	3,576,903	1,332,179
Foreign securities	181,782	181,215	(567)

* The difference between the above carrying amounts and the amounts shown in the accompanying balance sheets principally consists of non-marketable securities for which there is no readily-available market from which to obtain or calculate the market value thereof.

5. LOANS

Loans consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Mortgage loans	¥ 40,854	¥ 52,354	$ 384,866
Loan—trusts	126,049	128,567	1,187,465
Policy loans	10,030	10,556	94,494
Other loans	75,172	75,446	708,168
Total*	¥252,105	¥266,923	$ 2,374,993

* Total loans include following doubtful loans:

	Millions of Yen	Thousands of U.S. Dollars
	2000	2000
Non-performing loans	¥ 20,159	$ 189,915
Renegotiated loans	609	5,736
Total doubtful loans	¥ 20,768	$ 195,651

Non-performing loans are defined as loans for which interest is past due and is not accrued but that exclude loans to borrowers in bankruptcy and “Renegotiated loans.”

Renegotiated loans are defined as loans in which the lender is providing financial support to its borrower by reducing the original interest rate, agreeing to postpone payments of principal or interest, forgiving part of loans or relaxing other lending conditions, but that exclude loans to borrowers in bankruptcy, “non-performing loans” and past due loans. Past due loans are defined as loans for which the principal and/or interest is three months or more past due.

6. PROPERTY AND EQUIPMENT

Property and equipment as of March 31, 2000 and 1999, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Land	¥ 59,172	¥ 59,344	$ 557,434
Buildings	76,032	75,819	716,269
Autos and equipment	18,712	24,529	176,281
Construction in progress	64		609
Total	153,980	159,692	1,450,593
Accumulated depreciation	(52,450)	(52,838)	(494,114)
Net property and equipment	¥101,530	¥106,854	$ 956,479

7. UNDERWRITING RESERVES

Underwriting reserves as of March 31, 2000 and 1999, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	**1999**	**2000**
Reserve for ordinary losses	¥ 260,008	¥ 251,146	$ 2,449,436
Reserve for extraordinary losses	83,095	62,938	782,807
Reserve for maturity returns	689,119	739,595	6,491,942
Reserve for dividends to policyholders	1,077	2,745	10,145
Total	1,033,299	1,056,424	9,734,330
Reserve for losses and dividends for life insurance	22,208	12,622	209,209
Total	¥ 1,055,507	¥ 1,069,046	$ 9,943,539

8. LONG-TERM DEBT

Long-term debt as of March 31, 2000 and 1999, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	**1999**	**2000**
2.0% unsecured convertible bonds due March 2002, convertible at ¥833.20 per share at March 31, 2000	¥ 1,649	¥ 1,649	$ 15,535
1.75% unsecured U.S. dollar convertible bonds due March 2002, convertible at ¥833.20 per share at March 31, 2000	10	10	93
Unsecured bank loans	6,282	7,341	59,184
Total	¥ 7,941	¥ 9,000	$ 74,812

The conversion prices are subject to adjustment in certain circumstances.

Annual maturities of long-term debt as of March 31, 2000 for the next five years were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2001	¥3,186	$30,015
2002	4,755	44,797
2003		
2004		
2005		
Total	¥7,941	$74,812

9. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN

The Company has an unfunded retirement plan and a non-contributory funded pension plan covering all of its employees. Terminated employees are entitled, based on the reason for termination, basic salary at the time of termination and length of service, to lump-sum payments under the unfunded retirement plan and annuity payments under the funded pension plan. In the case of mandatory retirement, or death, of employees with more than 20 years service, pension annuities (or, if the beneficiary elects, a lump sum in lieu thereof) are paid based on length of service.

As of July 31, 1999, the unamortized prior service cost under the funded pension plan amounted to ¥3,992 million ($37,604 thousand).

Total charges to income for the retirement and pension plans were ¥14,358 million ($135,260 thousand) and ¥3,478 million for the years ended March 31, 2000 and 1999, respectively. Effective March 1, 1999, the Company adopted the declining-balance method of amortization for the prior service costs at an annual rate of 50%, which previously had been amortized by the straight-line method, and changed the discount rate. The additional costs amounting to ¥1,853 million ($17,455 thousand) were charged to other expenses.

10. SHAREHOLDERS' EQUITY

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares, with a minimum of the par value, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Insurance Business Law requires companies to appropriate from retained earnings to legal reserve an amount equal to at least 20% of all cash payments made as appropriations of retained earnings until the reserve equals stated capital. This reserve amount, which is included in retained earnings, totaled ¥8,130 million ($76,590 thousand) and ¥7,530 million as of March 31, 2000 and 1999, respectively, and is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the issuance does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the issuance shall not be less than ¥50.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable.

11. OTHER EXPENSES—NET

Other expense—net for the years ended March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Amortized pension plan prior service costs	¥ 1,853	¥ 171	$ 17,455
Employees retirement expenses	9,341		87,998
Other	5,747	6,506	54,144
Other expenses—net	¥16,941	¥6,677	$159,597

12. INCOME TAXES

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2000 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets:		
Underwriting reserves	¥ 32,690	$ 307,959
Reserve for doubtful accounts	5,374	50,628
Reserve for employees' retirement benefits	3,399	32,016
Reserve for outstanding claims	3,039	28,625
Reserve for price fluctuations	1,802	16,979
Other	2,315	21,809
Less valuation allowance	(359)	(3,379)
Deferred tax assets	48,260	454,637
Deferred tax liabilities:		
Deferred charges defined by Article 113 of Japanese Insurance Business Law	(958)	(9,021)
Other	(20)	(191)
Deferred tax liabilities:	(978)	(9,212)
Net deferred tax assets	¥ 47,282	$ 445,425

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 36.1% and 41.5% for the years ended March 31, 2000 and 1999, respectively.

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2000 and the actual effective tax rates reflected in the accompanying consolidated statement of income is as follows:

	Year Ended March 31, 2000
Normal effective statutory tax rate	36.1%
Income not taxable for income tax purposes	(9.6)
Expenses not deductible for income tax purposes	4.7
Inhabitant taxation on capital basis	2.4
Other—net	1.1
Actual effective tax rate	34.7%

The normal effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 1999 differs from the actual effective tax rate, primarily due to the effect of permanently non-deductible expenses and temporary differences in the recognition of asset and liability items for tax and financial reporting purposes.

13. LEASES

The Companies lease certain equipment and other assets.

Lease payments under finance leases for the years ended March 31, 2000 and 1999, amounted to ¥278 million ($2,623 thousand) and ¥83 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2000 and 1999, were as follows:

	Millions of Yen					
	2000			1999		
	Equipment	Other Assets	Total	Equipment	Other Assets	Total
Acquisition cost	¥ 983	¥ 89	¥ 1,072	¥ 576	¥ 5	¥ 581
Accumulated depreciation	(444)	(23)	(467)	(184)	(5)	(189)
Net leased property	¥ 539	¥ 66	¥ 605	¥ 392	¥ 0	¥ 392

	Thousands of U.S. Dollars		
	2000		
	Equipment	Other Assets	Total
Acquisition cost	$ 9,260	$ 841	$10,101
Accumulated depreciation	(4,182)	(222)	(4,404)
Net leased property	$ 5,078	$ 619	$ 5,697

Obligations under finance leases as of March 31, 2000 and 1999, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Due within one year	¥ 236	¥ 128	$ 2,224
Due after one year	369	264	3,473
Total	¥ 605	¥ 392	$ 5,697

The amount of obligations under finance leases includes the imputed interest expense portion.

Depreciation expense which was not reflected in the accompanying consolidated statements of income, computed by straight-line method for the years ended March 31, 2000 and 1999, were ¥278 million ($2,623 thousand) and ¥83 million, respectively.

14. DERIVATIVES

Nature and Purpose of Derivative Financial Instruments
The Company enters into derivative financial instruments (“derivatives”), including foreign exchange forward contracts, currency swaps, currency options, interest swaps, bond futures and bond options in order to hedge foreign exchange risk, interest risk and market risk.

Company’s Policy to Use Derivatives
The Company enters into derivatives limited not to exceed the each amount of investment assets.

Risk Associated with Derivatives
Derivatives are subject to market and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including interest or foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty’s failure to perform according to the terms and conditions of the contract.

The counterparties to those derivatives of the Company are limited to highly reliable financial institutions, or through stock exchange markets; therefore, the Company does not anticipate any losses arising from credit risk.

Risk Control System for Derivatives
Derivative transactions entered into by the Company have been made in accordance with internal policies which regulate the credit limit amount and “loss cut” rules.

The Company had the following derivatives contracts outstanding at March 31, 2000:

	Millions of Yen		Thousands of U.S. Dollars	
	2000		2000	
	Contract or Notional Amount	Fair Value	Contract or Notional Amount	Fair Value
Foreign exchange contracts—Forward written:				
U.S. dollar	¥34,939	¥34,833	$329,148	$328,153
Canadian dollar	3,659	3,628	34,472	34,182
Euro	4,824	4,672	45,441	44,011
Interest rate contract—Interest rate swaps (floating rate payment, fixed rate receipt)	2,500	174	23,552	1,638
Bonds contracts—Futures written	131	131	1,232	1,232

Forward exchange contracted amounts which are assigned to associated assets or liabilities and are reflected on the balance sheet at year end, are not subject to the disclosure of market value information.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Company’s exposure to credit or market risk.

15. SUBSEQUENT EVENT

The following appropriations of retained earnings were approved at the shareholders meeting held on June 29, 2000:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends—¥7.50 ($0.07) per share	¥2,156	$20,313
Bonuses to directors	40	377
Total	¥2,196	$20,690

Independent Auditors' Report

Tohmatsu & Co.
MS Shibaura Building
13-23, Shibaura 4-chome,
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Fax: +81-3-3769-8508
www.tohmatsu.co.jp

Deloitte Touche Tohmatsu

To the Board of Directors of
The Koa Fire and Marine Insurance Company, Limited:

We have examined the consolidated balance sheets of The Koa Fire and Marine Insurance Company, Limited and consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income and shareholders' equity for the years then ended, and the consolidated statement of cash flows for the year ended March 31, 2000, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Koa Fire and Marine Insurance Company, Limited and consolidated subsidiaries as of March 31, 2000 and 1999, and the results of their operations for the years then ended and their cash flows for the year ended March 31, 2000, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1, effective April 1, 1999, the consolidated financial statements have been prepared in accordance with a new accounting standard for interperiod allocation of income taxes.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2000

Selected Non-Consolidated Financial Data

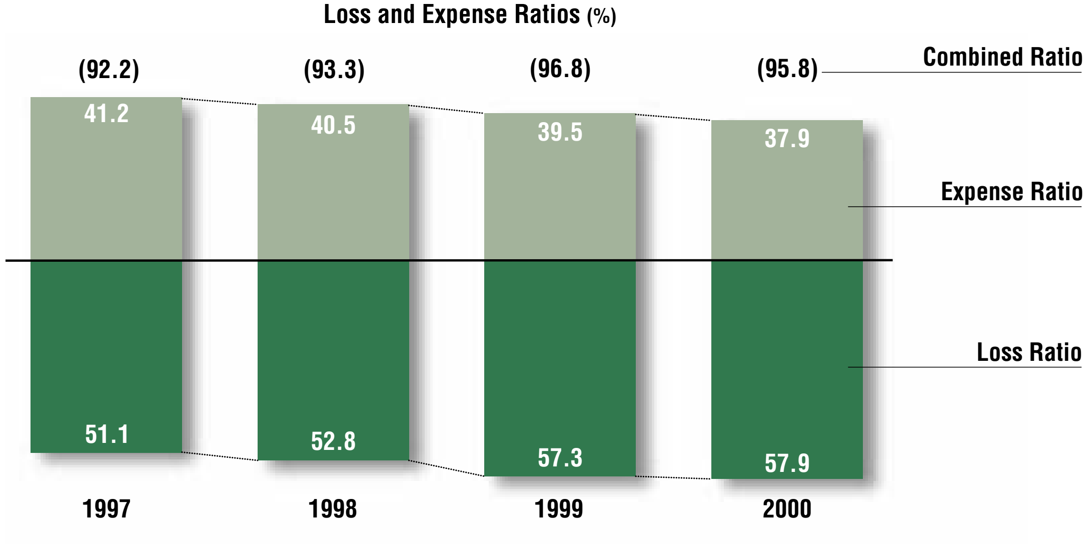
The Koa Fire & Marine Insurance Company, Limited For the years ended March 31

Four-Year Summary

	Millions of Yen				Thousands of U.S. Dollars
	2000	1999	1998	1997	2000
Operating income	¥487,867	¥483,011	¥494,015	¥515,337	$ 4,596,015
Net premiums written	271,226	277,511	295,431	300,164	2,555,119
Investment income	30,330	36,036	38,430	41,129	285,727
Net losses paid	143,492	145,412	143,320	141,200	1,351,784
Ordinary profit	19,878	11,100	8,412	12,708	187,261
Net income	5,330	5,015	4,851	4,274	50,208
Per share amounts (in yen and U.S. dollars):					
Net income	18.54	17.44	16.87	14.87	0.17
Diluted net income	18.48	15.53	15.03	13.29	0.17
Cash dividends	7.50	7.50	7.50	7.50	0.07
Total assets (*1)	1,302,489	1,316,002	1,369,580	1,375,106	12,270,271
Shareholders' equity	129,265	114,139	111,330	108,689	1,217,757
Shareholders' equity ratio (*1)	9.92%	8.67%	8.13%	7.90%	
Return on equity (ROE)	4.38%	4.45%	4.41%	3.97%	
Price earning ratio (PER)	13.55	20.41	33.67	38.69	
Loss ratio (*2)	57.9%	57.3%	52.8%	51.1%	
Expense ratio (*3)	37.9%	39.5%	40.5%	41.2%	

*: 1. Total assets and shareholders' equity ratio for the years ended March 31, 1999, 1998, and 1997 have been recalculated in accordance with the revised Insurance Business Law effective as of March 30, 2000.
2. Ratio of net losses and loss adjustment expenses paid to net premiums written.
3. Ratio of net operating expenses less loss adjustment expenses paid to net premiums written.

Loss and Expense Ratios (%)



Solvency Margin Ratio

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
A. Solvency margin	¥386,592	¥410,659	$3,641,938
B. Total amount of risk	67,609	67,045	636,922
Solvency margin ratio: {A ÷ (B × 1/2)} × 100	1,143.6%	1,225.0%	

A non-life insurance company has an underwriting fund which has been set up for the obligations under various insurance contracts including maturity refunds of savings-type insurance. Despite unexpected damages caused by catastrophic natural disasters, unexpected decline of the fair value of investment assets and all other unexpected business risks, an insurance company should seek to maintain adequate solvency.

The solvency margin ratio is the proportion of “solvency margin” to “unexpected risk (total amount of risk)” as described below. The ratio is calculated based on the Insurance Business Law of Japan and related regulations.

Financial Services Agency monitors the solvency margin ratio to assess the financial condition of insurance companies. If the solvency margin ratio exceeds 200%, companies are regarded as holding adequate solvency.

A: Solvency Margin

This represents the solvency of the insurance company and contains the following components:

(1) Company’s capital
(2) Reserves (catastrophe loss reserves, reserve for price fluctuations, etc.)
(3) Some portion of unrealized gain of marketable stocks and lands
(4) Others

B: Total amount of risk

Total amount of risk considers all risks arising from insurance business and consists of the following:

(1) Underwriting risk (includes risk of catastrophic disasters)
(2) Shortfall risk of expected investment yield regarding savings-type insurance
(3) Investment risk
(4) Management risk

CORPORATE DATA

Contents

Overseas Group Network

The Koa Fire & Marine Insurance Company, Limited

Liaison Offices

New York City
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Tel: (212) 838-9700 Fax: (212) 838-5959

Chicago
180 North Lasalle Street, Suite 3014, Chicago, IL 60601 U.S.A.
Tel: (312) 553-9344 Fax: (312) 553-9347

Los Angeles
600 Wilshire Boulevard, Suite 1470, Los Angeles, CA 90017 U.S.A.
Tel: (213) 627-3111 Fax: (213) 627-3155

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8 Devonshire Square, London EC2M 4PL, England
Tel: (171) 626-1842 Fax: (171) 626-2602

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Stephanien Strasse 36, 40211 Dusseldorf, Germany
Tel: (211) 17-8670 Fax: (211) 16-2266

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Room 2108, Alexandra House, 16-20 Chater Road, Central, Hong Kong
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Singapore
138 Cecil Street, #07-04 Cecil Court, 069538 Singapore
Tel: 220-4946 Fax: 225-3120

Shanghai
Room 2502, Shanghai International Trade Centre, 2200 Yanan Road (w.), Shanghai 200335, China
Tel: (21) 6275-4574 Fax: (21) 6275-4075

Bangkok
c/o The Navakij Insurance P.C.L., 26th Floor, Sathorn Nakorn Building, Sathorn Thani Complex, 100 North Sathorn Road, Bangkok 10500 Thailand
Tel: (2) 636-7990 Fax: (2) 636-7991

Overseas Branch

United States
830 Third Avenue, Suite 810, New York, NY 10022 U.S.A.

Overseas Subsidiaries

United Kingdom
Koa Insurance Company (Europe) Ltd.
8 Devonshire Square, London, EC2M 4PL, England

Germany
Koa Insurance Company (Europe) Ltd.
German Branch
Stephanien Strasse 36, 40211 Dusseldorf, Germany

The Netherlands
Koa Insurance Company (Europe) Ltd.
Underwriting Agency Knight Scheuer Assuradeuren V.o.f.
10 Strawinskyloan, 1077XZ Amsterdam, The Netherlands

United States
Koa Management Services Inc.
830 Third Avenue, Suite 810, New York, NY 10022 U.S.A.

Hong Kong
Koa Insurance Company (Asia) Ltd.
Room 2108, Alexandra House, 16-20 Chater Road, Central, Hong Kong

Singapore
Koa Management Services (Singapore) Pte. Ltd.
138 Cecil Street, #07-04 Cecil Court, 069538 Singapore

Overseas Underwriting Agency

Australia
HIH Casualty and General Insurance Ltd.
34th Floor, 50 Bridge Street, Sydney, N.S.W. 2000, Australia

(As of June 30, 2000)

Board of Directors

As of July 31, 2000

Chairman
Teruhiko Tatsuuma

President and Chief Executive Officer
Mutsuharu Okamoto

Executive Vice President and Operating Officer
Masazumi Kaneko

Senior Managing Director and Operating Officer
Shunji Oki

Managing Directors and Operating Officers
Yusuke Hattori
Kazuhiro Hori
Masanori Miyata

Director
Shoichiro Hamanaka

Director and Operating Officer
Yukio Takeda

Senior Operating Officers
Youichi Akiyama
Isao Mitamura
Minoru Monji
Osamu Ito

Managing Operating Officers
Yasuhiro Nakashoutani
Makoto Mukai
Masahiro Shimizu
Toru Arai

Operating Officers
Akio Okano
Tsutomu Ikeda
Takeshi Sato
Kiyoshi Tsukamoto

Standing Corporate Auditors
Shiro Endo
Zenshiro Nakazawa

Corporate Auditors
Yasuhiko Kô
Nobuyuki Ashikari

Corporate Data

As of March 31, 2000, except where noted

Head Office
7-3, 3-chome, Kasumigaseki, Chiyoda-ku,
Tokyo 100-0013, Japan
Telephone: +81-3-3593-3111
Facsimile : +81-3-5512-6651

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

Established 1918

Capital ¥30,003 million

Network (As of June 29, 2000)

Branch Offices and Departments	54
Sub-Branch Offices	206
Claims Service Centers	103
Overseas Offices	9

Employees 4,534

Agents 27,313

Number of Shares of Common Stock
Authorized: 440,000,000 shares
Issued: 287,505,019 shares

Stock Exchange Listings
The Company's common stock is listed on the first sections of the Tokyo Stock Exchange and the Osaka Securities Exchange.

General Meeting of Shareholders
The General Meeting of Shareholders is normally held within four months of April 1 each year in Tokyo, Japan.

Transfer Agent
The Toyo Trust & Banking Co., Ltd.
4-3, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-0005, Japan