MITSUI SUMITOMO INSURANCE GROUP HOLDINGS, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
March 31, 2009 and 2010

	2009	2010
	(Yen in millions)	
ASSETS		
Investments — other than investments in affiliates (Notes 4 and 16):		
Securities available for sale:		
Fixed maturities, at fair value	¥2,994,870	3,012,303
Equity securities, at fair value	1,703,433	1,997,746
Securities held to maturity:		
Fixed maturities, at amortized cost	475,576	506,307
Mortgage loans on real estate	9,224	7,260
Investment real estate, at cost less accumulated depreciation of ¥48,570 million in 2009; ¥50,992 million in 2010	40,992	36,698
Policy loans	43,254	44,339
Other long-term investments	711,653	691,625
Short-term investments	106,852	69,139
Total investments	6,085,854	6,365,417
Cash and cash equivalents	455,444	381,939
Investments in and indebtedness from affiliates:		
Investments	66,523	75,927
Indebtedness (Note 16)	2,857	3,128
Total investments in and indebtedness from affiliates	69,380	79,055
Accrued investment income	20,228	16,857
Premiums receivable and agents' balances	144,005	152,030
Prepaid reinsurance premiums	203,477	195,626
Funds held by or deposited with ceding reinsurers	78,756	83,690
Reinsurance recoverable on paid losses	58,149	63,410
Reinsurance recoverable on unpaid losses	304,228	293,347
Property and equipment, net of accumulated depreciation (Note 5)	232,047	224,880
Deferred policy acquisition costs (Note 1(h))	325,539	345,731
Goodwill (Note 7)	63,254	66,250
Other assets (Note 12)	194,494	176,504
Total assets	¥8,234,855	8,444,736

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE GROUP HOLDINGS, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)
March 31, 2009 and 2010

	2009	2010
	(Yen in millions, except share data)	
LIABILITIES AND EQUITY		
Liabilities:		
Losses and claims (Note 8):		
Reported and estimated losses and claims	¥1,196,144	1,166,016
Adjustment expenses	60,378	61,061
Total losses and claims	1,256,522	1,227,077
Unearned premiums	1,385,290	1,381,524
Future policy benefits for life insurance contracts	970,217	1,022,413
Investment deposits by policyholders (Notes 9 and 16)	2,043,991	1,956,376
Indebtedness to affiliates	1,616	4,686
Income tax payable (Note 12)	9,401	10,331
Deferred tax liabilities (Note 12)	238,083	397,585
Retirement and severance benefits (Note 14)	126,538	120,334
Ceded reinsurance balances payable	74,000	75,697
Short-term debt (Note 10 and 16)	70,000	—
Long-term debt (Notes 10 and 16)	94,961	94,969
Other liabilities	274,720	152,866
Total liabilities	6,545,339	6,443,858
Shareholders' equity:		
Common stock:		
Authorized —900,000,000 shares; issued — 421,320,739 shares (Note 13(a))	100,000	100,000
Other shareholders' equity:		
Additional paid-in capital (Note 13(a))	123,969	123,970
Retained earnings (Note 13(b))	1,377,400	1,406,964
Accumulated other comprehensive income (Note 13(c))	79,960	376,234
Treasury stock, 2,020,643 shares in 2009 and 6,367,110 shares in 2010, at cost	(4,645)	(14,688)
Total MSIG shareholders' equity	1,676,684	1,992,480
Noncontrolling interests	12,832	8,398
Total equity	1,689,516	2,000,878
Commitments and contingent liabilities (Note 19)		
Total liabilities and equity	¥8,234,855	8,444,736

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE GROUP HOLDINGS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended March 31, 2008, 2009 and 2010

	2008	2009	2010
	(Yen in millions, except per share data)		
Revenues:			
Net premiums written	¥1,537,616	1,448,273	1,395,238
Less increase (decrease) in unearned premiums	34,931	(60,130)	(1,399)
Net premiums earned (Note 11)	1,502,685	1,508,403	1,396,637
Premium income for life insurance contracts (Note 11)	192,731	190,113	188,373
Investment income, net of investment expenses (Note 4)	185,265	154,012	127,733
Net realized gains (losses) on investments (Note 4 and 6):			
Total other-than-temporary impairment losses on investments	—	—	(15,666)
Portion of losses recognized in other comprehensive income	—	—	746
Net other-than-temporary losses recognized in earnings	—	—	(14,920)
Other realized gains on investments	—	—	19,656
Net realized gains (losses) on investments	(17,370)	(134,885)	4,736
Total revenues	1,863,311	1,717,643	1,717,479
Expenses:			
Losses, claims and loss adjustment expenses (Note 11):			
Losses and claims incurred and provided for	906,257	960,041	855,914
Related adjustment expenses	82,370	90,235	81,971
Policyholder benefits for life insurance contracts (Note 11)	156,683	154,056	150,346
Amortization of policy acquisition costs	372,025	398,660	345,204
Investment income credited to investment deposits by policyholders (Note 9)	48,498	44,573	47,304
Other expenses, net (Note 6)	143,719	152,054	169,324
Total expenses	1,709,552	1,799,619	1,650,063
Earnings (loss) before income taxes	153,759	(81,976)	67,416
Income taxes (Note 12):			
Current	25,368	29,874	18,485
Deferred	22,769	(41,910)	(1,398)
Total income tax (benefit) expense	48,137	(12,036)	17,087
Net income (loss)	105,622	(69,940)	50,329
Less: Net income attributable to noncontrolling interests	826	300	346
Net income (loss) attributable to MSIG	¥ 104,796	(70,240)	49,983
Earnings (loss) per share (Notes 2(p) and 13(b)):			
Basic and diluted	¥ 247.59	(166.82)	119.30

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE GROUP HOLDINGS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years ended March 31, 2008, 2009 and 2010

	2008	2009	2010
		(Yen in millions)	
Net income (loss)	¥ 105,622	(69,940)	50,329
Other comprehensive income (loss), net of tax (Note 13(c)):			
Foreign currency translation adjustments	(2,278)	(66,853)	11,132
Unrealized losses on fixed maturity securities on which other-than-temporary credit impairment losses were recognized in net income	—	—	(484)
Unrealized gains (losses) on all other securities	(525,733)	(563,812)	285,886
Net losses on derivative instruments	(24)	—	—
Pension liability adjustments	(11,922)	(6,919)	2,095
Other comprehensive income (loss)	(539,957)	(637,584)	298,629
Comprehensive income (loss)	(434,335)	(707,525)	348,958
Comprehensive income (loss) attributable to noncontrolling interests	2,968	(3,578)	477
Comprehensive income (loss) attributable to MSIG	¥(437,303)	(703,947)	348,481

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE GROUP HOLDINGS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Years ended March 31, 2008, 2009 and 2010

	2008	2009	2010
	(Yen in millions, except per share data)		
Common stock:			
Balance at beginning and end of year	¥ 100,000	100,000	100,000
Additional paid-in capital:			
Balance at beginning of year	124,014	123,981	123,969
Gain on sales of treasury stock	18	1	—
Retirement of treasury stock	(51)	(13)	1
Balance at end of year	123,981	123,969	123,970
Retained earnings:			
Balance at beginning of year	1,485,823	1,471,651	1,377,400
Cumulative effect of change in accounting principle, net of tax (Note 2(t))	—	—	2,224
Net income (loss) attributable to MSIG	104,796	(70,240)	49,983
Dividends paid (Note 13(b))	(21,166)	(24,011)	(22,643)
Retirement of treasury stock	(98,657)	—	—
Other	855	—	—
Balance at end of year (Note 13(b))	1,471,651	1,377,400	1,406,964
Accumulated other comprehensive income (Note 13(c)):			
Balance at beginning of year	1,255,766	713,667	79,960
Cumulative effect of change in accounting principle, net of tax (Note 2(t))	—	—	(2,224)
Other comprehensive income (loss) attributable to MSIG, net of tax	(542,099)	(633,707)	298,498
Balance at end of year	713,667	79,960	376,234
Treasury stock:			
Balance at beginning of year	(91,143)	—	(4,645)
Purchase of common shares	(7,629)	(4,725)	(10,048)
Sale of common shares	64	80	5
Retirement of treasury stock	98,708	—	—
Balance at end of year	—	(4,645)	(14,688)
Noncontrolling interests:			
Balance at beginning of year	16,681	18,585	12,832
Transactions between MSIG and noncontrolling interests	(10)	(1,009)	(4,000)
Net income attributable to noncontrolling interests	826	300	346
Other comprehensive income (loss) —foreign currency translation adjustments	1,737	(4,914)	1,614
Other comprehensive income (loss) — unrealized gains (losses) on securities	405	1,107	(1,483)
Dividends paid to noncontrolling interests	(701)	(1,235)	(911)
Other	(353)	(2)	0
Balance at end of year	18,585	12,832	8,398
Total equity	¥2,427,885	1,689,516	2,000,878
Cash dividends per share (Note 13(b))	¥ 50.00	57.00	54.00

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE GROUP HOLDINGS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2008, 2009 and 2010

	2008	2009	2010
		(Yen in millions)	
Net cash provided by operating activities (Note 20)	¥ 308,007	157,480	94,672
Cash flows from investing activities:			
Proceeds from:			
Securities available for sale:			
Fixed maturities	412,764	475,425	247,594
Equity securities	87,796	181,957	179,709
Fixed maturities available for sale matured	228,766	295,677	353,216
Fixed maturities held to maturity matured	9,345	4,044	2,068
Investment real estate	8,560	32	745
Property and equipment	14,351	2,744	5,295
Collection of:			
Mortgage loans on real estate	2,445	1,785	2,950
Policy loans	41,974	45,194	33,648
Other long-term investments	180,235	193,644	178,084
Purchases of:			
Securities available for sale:			
Fixed maturities	(667,878)	(572,987)	(559,572)
Equity securities	(107,609)	(274,390)	(95,931)
Securities held to maturity:			
Fixed maturities	(73,191)	(38,518)	(37,413)
Investments in:			
Mortgage loans on real estate	(789)	(1,185)	(970)
Investment real estate	(8,631)	(1,448)	(1,368)
Policy loans	(42,987)	(33,899)	(49,746)
Other long-term investments	(214,654)	(172,408)	(145,810)
Property and equipment	(41,883)	(16,125)	(16,686)
Increase (decrease) in cash received under securities lending transactions	6,766	24,466	(60,509)
Decrease (increase) in short-term investments, net	(13,361)	(11,382)	31,628
Decrease (increase) in investments in and indebtedness from affiliates	(9,188)	(4,250)	1,700
Business acquired, net of cash acquired	—	—	(1,317)
Other, net	(10,710)	(13,683)	(9,284)
Net cash (used in) provided by investing activities	(197,879)	84,693	58,031

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE GROUP HOLDINGS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years ended March 31, 2008, 2009 and 2010

	2008	2009	2010
		(Yen in millions)	
Cash flows from financing activities:			
Investment deposits funded by policyholders	¥ 290,741	256,301	232,849
Withdrawals of investment deposits by policyholders	(396,597)	(361,941)	(363,290)
Increase (decrease) in commercial paper, net	29,688	(37,670)	—
Proceeds from long-term debt	29,991	64,968	—
Repayment of short-term debt	(30,000)	—	(70,000)
Acquisition of treasury stock	(7,629)	(4,725)	(10,048)
Dividends paid to shareholders	(21,867)	(25,223)	(23,521)
Other, net	(800)	(785)	(752)
Net cash used in financing activities	(106,473)	(109,075)	(234,762)
Effect of exchange rate changes on cash and cash equivalents	(5,306)	(45,944)	8,554
Net change in cash and cash equivalents	(1,651)	87,154	(73,505)
Cash and cash equivalents at beginning of year	369,941	368,290	455,444
Cash and cash equivalents at end of year	¥ 368,290	455,444	381,939

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

(a) Nature of Operations

On October 1, 2001, Mitsui Sumitomo Insurance Company, Limited ("MSI") was formed through the merger of Mitsui Marine and Fire Insurance Company, Limited ("Mitsui") and The Sumitomo Marine & Fire Insurance Company, Limited ("Sumitomo").

On April 1, 2008, MSI established a holding company, Mitsui Sumitomo Insurance Group Holdings, Inc. ("MSIGH"), through a share transfer and became its wholly owned subsidiary. The share transfer is considered a transaction between entities that have a high degree of common ownership (the "Exchange Transaction"). The only net assets of MSIGH immediately after the Exchange Transaction are those of MSI and its subsidiaries immediately prior to the Exchange Transaction, and the shareholders (and their respective relative ownership percentages) of MSIGH immediately after the Exchange Transaction are identical to the shareholders of MSI immediately prior to the Exchange Transaction. Therefore, the assets and liabilities of MSI and its subsidiaries, as well as their previously reported results of operations and cash flows have been included in MSIGH's consolidated financial statements at their historical amounts because the Exchange Transaction is deemed to lack substance. Further, the consolidated financial statements present MSIGH's financial condition and results of operations as if MSIGH had been in existence, and the Exchange Transaction had occurred, as of the beginning of the earliest period presented. Earnings per share for prior periods have also been retrospectively adjusted to reflect the Exchange Transaction as of the earliest period presented.

MSIGH and its subsidiaries (collectively referred to as "MSIG" or "the Company") operate mainly in the Japanese domestic insurance industry and sell a wide range of property and casualty insurance products. Also, the Company sells life insurance products through a wholly owned subsidiary and a joint venture company. Overseas operations are conducted mostly in Southeast Asia, Europe and the United States of America through overseas branches and subsidiaries.

On April 1, 2010, MSIGH, Aioi Insurance Company, Limited ("AIOI"), and Nissay Dowa General Insurance Company, Limited ("NDGI") were integrated by using a holding company structure. MSIGH is the holding company of the new integrated group. MSIGH conducted share exchanges with AIOI and NDGI, and changed its corporate name into MS&AD Insurance Group Holdings, Inc. AIOI and NDGI became MS&AD's wholly owned subsidiaries.

(b) Basis of Financial Statements

MSIGH and its domestic subsidiaries maintain their books of account in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), and its foreign subsidiaries generally maintain their books of account in accordance with those of the countries of their domicile.

Certain adjustments and reclassifications have been made in the accompanying consolidated financial statements to conform with U.S. generally accepted accounting principles ("U.S. GAAP").

The accompanying consolidated financial statements are expressed in yen.

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Company to make estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the carrying amount of: securities, property and equipment, investment real estate, intangibles and goodwill; valuation allowances for receivables and deferred income tax assets; valuation of derivative instruments; insurance-related liabilities; assets and obligations related to employee benefits, income tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of MSIGH and its majority-owned subsidiaries. In accordance with the Variable Interest Entity Subsections of the Financial Accounting Standards Board ("FASB") Subtopic 810-10 Consolidation – Overall (FASB Interpretation No. 46 (R), "Consolidation of Variable Interest Entities"), the Company also consolidates any variable interest entities (VIEs) of which it is the primary beneficiary, as defined.

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

Investments in affiliates over which the Company has the ability to exercise significant influence, but not control, are accounted for by the equity method. The nature of the noncontrolling interest rights is considered in determining whether the Company's control for majority owned affiliates exists, and consolidation would be precluded to the extent that the noncontrolling interest holds substantive participating rights. Under the equity method of accounting, investments are stated at their underlying net equity value after elimination of intercompany profits. The cost method is used for non-marketable equity securities when the Company does not have the ability to exercise significant influence or control the investee.

The excess of investments in affiliates over the Company's share of their net assets at the acquisition date, included in the equity investment balance, is recognized as investor level goodwill. Such goodwill is not amortized and is included in the overall carrying value of the investment, which is tested for impairment if there are indications that the decline in value below carrying value of the investment is other than temporary. The cost of investments in affiliates as of March 31, 2009 and 2010 amounted to ¥66,523 million and ¥ 75,927 million, respectively. There were no differences between the cost of these investments and the amount of underlying equity in net assets of the investees.

The proportionate share of the affiliates' income which were included in "other expenses, net" for the years ended March 31, 2008, 2009 and 2010 were gains of ¥12,312 million, ¥8,658 million and losses of ¥8,205 million, respectively.

The affiliates include Mitsui Sumitomo MetLife Insurance Co., Ltd. ("MS MetLife"), which offers variable annuity life insurance products to individuals. MS MetLife is a 51%-owned affiliate of the Company and is accounted for under the equity method based on an evaluation of the rights held by the noncontrolling shareholders pursuant to the joint venture agreement, which overcome the presumption that the subsidiary should be consolidated.

Summarized information from the balance sheets and statements of income of MS MetLife as of and for the years ended March 31, 2008, 2009 and 2010 are as follows:

	2008	2009	2010
		(Yen in millions)	
Investments	¥ 196,770	321,309	502,902
Separate account assets	2,288,002	2,095,067	2,582,172
Deferred acquisition costs	135,094	152,487	154,762
Other assets	10,443	10,391	16,313
Total assets	¥2,630,309	2,579,254	3,256,149
Policy benefits and reserves	¥ 223,934	347,900	520,972
Separate account liabilities	2,288,002	2,095,067	2,582,172
Other liabilities	44,304	43,979	44,176
Equity	74,069	92,308	108,829
Total liabilities and equity	¥2,630,309	2,579,254	3,256,149
Revenue	¥ 83,699	89,915	44,760
Expenses	49,093	63,289	71,732
Income taxes	11,895	9,760	(9,727)
Net income (loss)	¥ 22,711	16,866	(17,245)

(b) *Cash Equivalents*

The Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

(c) *Investments in Equity and Fixed Maturity Securities*

Trading securities are recorded at fair value with unrealized gains and losses included in income. Securities available for sale are recorded at fair value with net unrealized gains and losses reported, net of tax, in other comprehensive income (loss). Securities held to maturity, which the Company has positive intent and ability to hold to maturity, are recorded at amortized cost.

For investments that have experienced a decline in value below their respective cost that is considered to be other than temporary, the declines are recorded as realized losses on investments in the consolidated statements of operations. Gains and losses on the sale of investments are included in realized gains and losses in the consolidated statements of operations based on the trade date. The cost of investments sold is determined on a moving-average basis.

(d) *Investments in Loans*

The Company grants mortgage, commercial and consumer loans primarily to customers throughout Japan. As a result of this geographic concentration of outstanding loans, the ability of the Company's debtors to honor their contracts is much more dependent upon the general economic conditions in Japan than those competitors with a greater geographic dispersion of borrowing.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and an allowance for credit losses.

Loans are placed on a cash (non-accrual) basis when it is deemed that the payment of interest or principal is doubtful of collection, or when interest or principal is past due for 90 days or more.

All interest accrued but not collected for loans placed on non-accrual status or charged off is reversed against interest income. The interest on these loans is accounted for on a cash basis until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses

The allowance for credit losses is established as losses are estimated to have occurred through a provision for credit losses charged to earnings. Credit losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific allowance is established for loans that are classified as impaired when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of the loan. The general allowance covers other-than-impaired loans and is established based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfalls in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for mortgage and commercial loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price, or the fair value of the collateral if the loan is collateral-dependent. Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment.

(e) Accounts with Foreign Branches and Agents

The amounts included in the consolidated balance sheets at March 31, 2009 and 2010 with respect to foreign branches and agents of the Company represent data within three months before March 31, 2009 and 2010, respectively. The consolidated statements of operations likewise include amounts for the corresponding periods ended on those dates.

(f) Property and Equipment

Property and equipment, including property classified as investment real estate, are stated principally at cost less accumulated depreciation on buildings and furniture and equipment. Depreciation is computed by the declining-balance method based on the estimated useful lives of the assets. The estimated useful lives for buildings, furniture and equipment are primarily 6 to 60 years, 2 to 20 years, respectively.

The cost and accumulated depreciation with respect to assets retired or otherwise disposed of are eliminated from the respective assets and related accumulated depreciation accounts. Any resulting profit or loss is credited or charged to income.

(g) Impairment or Disposal of Long-Lived Assets

Long-lived assets, such as property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are stated at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The fair values of the assets are determined based on either quoted market prices or independent third party appraisals.

(h) Policy Acquisition Costs

Policy acquisition costs are deferred and amortized over the periods in which the related premiums are earned or in relation to estimated gross profits with respect to certain interest-sensitive life and annuity products. Acquisition costs include agent commissions and certain other costs which vary with and are directly related to the acquisition of business. Such deferred costs are limited to the excess of the unearned premiums over the sum of expected claim costs, claim adjustment expenses and policy maintenance expenses.

Details of policy acquisition costs for the years ended March 31, 2008, 2009 and 2010 are as follows:

Property and casualty insurance:

	2008	2009	2010
		(Yen in millions)	
Deferred at beginning of year	¥ 302,677	287,966	249,422
Capitalized during year:			
Commissions and brokerage	230,377	221,255	222,911
Salaries and other compensation	62,841	63,019	67,568
Other underwriting costs	57,937	60,261	55,142
	351,155	344,535	345,621
Amortized during year	(365,866)	(383,079)	(332,099)
Deferred at end of year	¥ 287,966	249,422	262,944

Life insurance:

	2008	2009	2010
		(Yen in millions)	
Deferred at beginning of year	¥59,583	72,186	76,117
Capitalized during year	19,341	20,097	19,934
Change in shadow adjustment	(579)	(585)	(159)
Amortized during year	(6,159)	(15,581)	(13,105)
Deferred at end of year	¥72,186	76,117	82,787

Other underwriting costs include certain policy issuance costs supporting underwriting functions. These costs are related to the acquisition of new business and renewals and include technology costs to process policies, policy forms and travel.

Shadow accounting adjustments to deferred policy acquisition costs, present value of future profit and certain insurance liabilities, is recognized in equity, together with the unrealized gains or losses.

(i) Losses, Claims, Loss Adjustment Expenses and Policyholder Benefits

Liabilities for reported and estimated losses and claims and for related adjustment expenses for property and casualty insurance contracts are based upon the accumulation of case estimates for losses and related adjustment expenses reported prior to the close of the accounting period on direct and assumed business. Provision has also been made based upon past experience for unreported losses and for adjustment expenses not identified with specific claims. The Company believes that the liabilities for unpaid losses and adjustment expenses at March 31, 2009 and 2010 are adequate to cover the ultimate cost of losses and claims incurred to those dates, but the provisions are necessarily based on estimates and no representation is made that the ultimate liability may not exceed or fall short of such estimates.

For life insurance contracts, reserves for future policy benefits are determined principally by the net level premium method. Assumed interest rates range from 1.10% to 3.10%. Anticipated rates of mortality are based on the recent experience of its life insurance subsidiary.

(j) Insurance Revenue Recognition

Property and casualty insurance premiums are earned ratably over the terms of the related insurance contracts. Unearned premiums are recognized to cover the unexpired portion of premiums written. Life insurance premiums of long-duration contracts are recognized as revenue when due from policyholders.

(k) Reinsurance

Assets and liabilities relating to reinsurance contracts are reported on a gross basis. If risk is transferred, the conditions for reinsurance accounting are met. If risk is not transferred, the contract is accounted for as a deposit. All of the Company’s reinsurance contracts meet the risk transfer criteria and are accounted for as reinsurance.

(l) Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In June 2006, FASB interpretation ("FIN") 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement ("SFAS") No. 109," which is now included in Accounting Standards Codification ("ASC") 740, was issued. FIN48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company's accounting policy is to accrue interest and penalties related to unrecognized tax benefits as a component of income tax expense in the consolidated statements of operations. The initial adoption of FIN48 on April 1, 2007 had no effect on the Company's consolidated financial statements.

(m) Compulsory Automobile Liability Insurance

Japanese law requires that all automobiles be covered by liability insurance for personal injury and that insurance companies may not refuse to issue such policies. The law provides that the regulatory authorities should not approve any application for upward premium rate adjustments if, in the opinion of the regulatory authorities, such adjustments would generate underwriting profits, for the program as a whole, or if it is deemed that the rate adjustments would compensate the insurers for excessive underwriting costs attributable to a lack of effective cost control on the part of the insurers. The law further stipulates that whenever premium rates are such that, in the opinion of the regulatory authorities, such premium revenues generate income which exceeds costs that are effectively controlled by insurers, for the program as a whole, the regulatory authorities may order a downward revision of premium rates.

The Company is not permitted to reflect any profit or loss from underwriting Compulsory Automobile Liability Insurance in the statutory financial statements prepared for distribution to shareholders, unless permission has been obtained from the Financial Services Agency of Japan. Rather, all such accumulated profits are recorded as a liability in the statutory financial statements prepared on the Japanese GAAP basis.

In contrast, in the accompanying consolidated financial statements prepared on the U.S. GAAP basis, Compulsory Automobile Liability Insurance is accounted for similarly with other lines of property and casualty insurance written by the Company, in the absence of a legal or contractual obligation to refund premium amounts in excess of cost to policyholders. Thereby, premiums are earned over the terms of the policies and the unexpired portion of premiums written relating to the unexpired terms of coverage are accounted for as unearned premiums. Earned premiums from underwriting Compulsory Automobile Liability Insurance were ¥193,572 million, ¥217,935 million, and ¥144,166 million for the years ended March 31, 2008, 2009 and 2010, respectively. Likewise, liabilities for reported and estimated losses and claims and for related adjustment expenses are recorded based on the accumulation of case estimates for losses and related adjustment expenses reported prior to the close of the accounting period and on past experience for unreported losses and for adjustment expenses not identified with specific claims. Gross liabilities for losses, claims and related adjustment expenses for Compulsory Automobile Liability Insurance were ¥396,302 million and ¥371,889 million at March 31, 2009 and 2010, respectively.

During the year ended March 31, 2009, the Company revised its method for estimating the IBNR and unearned premiums for Compulsory Automobile Liability Insurance due to the improvement in the availability of relevant premiums, and losses and claims data. Reserving method of IBNR was revised from a loss ratio method with limited inputs to a more scientific method involving loss development based on historical loss trend. The calculation of unearned premiums was also revised to apply proration at more frequent intervals. The effect of these revisions also resulted in adjustments to the calculation of deferred policy acquisition costs, reinsurance recoverable on unpaid losses, loss adjustment expenses and related deferred tax assets and liabilities.

These changes in estimate resulted in an increase of ¥35,573 million in net loss and an increase of ¥84.49 in the basic and diluted loss per share for the year ended March 31, 2009.

(n) Foreign Currency Translation and Transactions

Assets and liabilities of subsidiaries and affiliates located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from the translation of foreign currency financial statements are excluded from the consolidated statements of operations and are accumulated in "Foreign currency translation adjustments," within accumulated other comprehensive income.

Gains or losses resulting from foreign currency transactions have been included in other expenses in the accompanying consolidated statements of operations as losses of ¥10,191 million, losses of ¥7,452 million and losses of ¥450 million for the years ended March 31, 2008, 2009 and 2010, respectively.

(o) Derivatives

All derivatives are recognized on the balance sheet at their fair value.

Changes in the fair values of a derivative instrument are recorded in earnings or equity, depending on its designation and qualification as (1) "fair value hedge" (a hedge of subsequent changes in the fair value of a recognized asset or liability), (2) "cash flow hedge" (a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability) or (3) "foreign currency hedge" (fair value and cash flow hedges may involve foreign-currency risk). In order to qualify as a hedge, the derivative instrument must be: (1) designated as hedge of a specific financial asset or liability at the inception of the contract, (2) effective at reducing the risk associated with the exposure to be hedged, and (3) highly correlated with respect to changes in its fair value or in the related cash flows in relation to the fair value of or cash flows related to the item to be hedged both at inception and over the life of the contract. Through the year ended March 31, 2007, the Company applied hedge accounting to some of its derivatives. The Company reconsidered the cost-effectiveness of that accounting treatment and, as a result, the Company discontinued hedge accounting for those derivatives in the year ended March 31, 2008. Ceasing hedge accounting did not have a material effect on the Company's reported financial position or cash flows.

(p) Earnings per Share

Basic EPS is computed based on the average number of shares of common stock outstanding during each period. Diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

(q) Reclassification

Certain immaterial reclassifications have been made to the amounts as of and for the years ended March 31, 2008 and 2009 in the accompanying consolidated financial statements to conform with the March 31, 2010 presentation.

(r) Goodwill

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is tested for impairment at least annually, or more often if events or circumstances indicate there may be impairment. The impairment test is a two-step process. The first step is to identify any potential impairment using a multiple-of-earnings approach to estimate the fair value of the reporting units. The fair values of the reporting units are then compared to their carrying value, including goodwill. If the carrying amounts of the reporting units exceed their fair value, a second step is performed to measure the amount of impairment, if any.

(s) Fair Value Measurements

The Company adopted the provisions of SFAS No. 157, “Fair Value Measurements”, which is now included in ASC 820, “Fair Value Measurements and Disclosures”, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The statement also establishes a framework for measuring fair value and expands disclosures about fair value measurements. The required disclosures are reflected in Note 16 and 17.

(t) New Accounting Standards Adopted

Effective April 1, 2009, the Company adopted the provisions of SFAS No. 141 Revised, Business Combinations, included in FASB ASC Topic 805. This ASC establishes principles and requirements of how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquire and the goodwill acquired in a business combination. This ASC requires disclosures to enable evaluation of the nature and financial effects of the business combination. The adoption of this ASC did not have a material impact on the results of operations or the financial position of the Company during the year ended March 31, 2010.

Effective April 1, 2009, the Company adopted the provisions of SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, included in ASC Topic 810. This ASC establishes new accounting and reporting standards for noncontrolling interests (previously referred to as minority interests) in consolidated financial statements. This ASC establishes new accounting and reporting for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. This ASC requires disclosure that clearly identifies and distinguishes the interests of the parent and the interest of the noncontrolling owners. Upon adoption of this ASC, noncontrolling interests, which were previously referred to as minority interests and classified between total liabilities and stockholders' equity on the consolidated balance sheets, are now included as a separate component of total equity. Also, consolidated net income (loss) on the consolidated statements of operations now includes the net income (loss) attributable to noncontrolling interests. These financial statement presentation requirements have been adopted retrospectively and prior year amounts have been classified to conform with this ASC.

Effective April 1, 2009, the Company adopted the provisions of FASB FSP No.FAS115-2 and FAS124-2, "Recognition and Presentation of Other-Than-Temporary Impairments", which is now included in ASC 320, "Investments-Debt and Equity Securities", and amends the other-than-temporary impairment model for debt securities. The pronouncement requires an entity to recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the noncredit component in other comprehensive income when the entity does not intend to sell the security and it is more likely than not that the entity will not be required to sell the security prior to recovery. In addition, the pronouncement expands existing disclosures and requires new disclosures about other-than-temporary impairments. The initial adoption of these provision on April 1, 2009 resulted in an increase in the beginning balance of retained earnings of ¥2,224 million, net of tax with an offsetting reduction to accumulated other comprehensive income. See Note 4,

Effective April 1, 2009, the Company adopted SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60", which is now included in ASC 944, "Financial Services-Insurance" that clarifies how financial guarantee insurance (and reinsurance) is accounted for, including the recognition and measurement of premium revenue and claim liabilities. The statement also requires expanded disclosures about financial guarantee insurance contracts. The adoption of the statement did not have a material impact on the Company's consolidated results of operations or financial condition.

(3) Business Developments

On July 1, 2008, MSI transferred all of the holding shares of its subsidiaries, Mitsui Sumitomo Kirameki Life Insurance Company ("MS Kirameki"), Limited and Mitsui Direct General Insurance Company, Limited ("MDGI"), and an affiliate, MS MetLife to MSIGH as dividends in-kind. This transaction was accounted for as a combination under common control by MSIGH. No gains or losses were recognized by this transaction.

On January 23, 2009, MSIGH announced, together with AIOI, NDGI and MSI, that they reached an agreement for a combination and business alliance with the goal of forming a new insurance and financial group, subject to shareholder and regulatory approvals. The business combination of AIOI, NDGI and MSIGH was completed on April 2010, by way of a holding company structure, whereby MSIGH was utilized as a holding company of the newly formed insurance group. To implement the business reorganization, AIOI and NDGI have each conducted a statutory share exchange with the holding company, and became its wholly owned subsidiaries. AIOI and NDGI are scheduled to merge with each other on October 1, 2010. See Note 23 for more details on the business reorganization.

(4) Investments

The amortized cost of fixed maturity securities or cost of equity securities and money trusts and related fair values at March 31, 2009 and 2010 were as follows:

Securities held to maturity:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Yen in millions)		
March 31, 2009:				
Fixed maturity securities:				
Governments and government agencies and authorities other than U.S.	¥363,613	13,385	(902)	376,096
Other municipalities and political subdivisions	1,112	—	—	1,112
Other corporate bonds	110,851	3,792	(7)	114,636
Total securities held to maturity	¥475,576	17,177	(909)	491,844

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Yen in millions)		
March 31, 2010:				
Fixed maturity securities:				
Governments and government agencies and authorities other than U.S.	¥388,433	8,796	(1,133)	396,096
Other corporate bonds	117,874	4,980	(20)	122,834
Total securities held to maturity	¥506,307	13,776	(1,153)	518,930

Securities available for sale:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount/ Fair Value
	(Yen in millions)			
March 31, 2009:				
Fixed maturity securities:				
U.S. government and government agencies and authorities	¥ 96,199	9,831	(1,028)	105,002
U.S. municipalities and political subdivisions	100	—	(13)	87
Other governments and government agencies and authorities	723,315	24,027	(4,492)	742,850
Other municipalities and political subdivisions	591,108	10,541	(14,209)	587,440
Other corporate bonds	1,580,381	15,764	(36,654)	1,559,491
Total fixed maturity securities	2,991,103	60,163	(56,396)	2,994,870
Equity securities	1,113,120	613,690	(23,377)	1,703,433
Total securities available for sale	¥4,104,223	673,853	(79,773)	4,698,303

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount/ Fair Value
	(Yen in millions)			
March 31, 2010:				
Fixed maturity securities:				
U.S. government and government agencies and authorities	¥ 89,349	7,661	(3,483)	93,527
U.S. municipalities and political subdivisions	101	—	(7)	94
Other governments and government agencies and authorities	871,458	20,489	(3,856)	888,091
Other municipalities and political subdivisions	516,015	11,934	(4,886)	523,063
Other corporate bonds	1,480,830	38,101	(11,403)	1,507,528
Total fixed maturity securities	2,957,753	78,185	(23,635)	3,012,303
Equity securities	1,026,790	979,633	(8,677)	1,997,746
Total securities available for sale	¥3,984,543	1,057,818	(32,312)	5,010,049

Trading securities:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Yen in millions)		
March 31, 2009:				
Money trusts included in short-term investments	¥15,227	188	(1,688)	13,727

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Yen in millions)		
March 31, 2010:				
Money trusts included in short-term investments	¥ 9,187	75	(169)	9,093

The changes in net unrealized gains and losses on trading securities have been included in the accompanying consolidated statements of operations as losses of ¥2,060 million, gains of ¥789 and gains of ¥1,406 million for the years ended March 31, 2008, 2009 and 2010, respectively.

The amortized cost and fair values of investments in fixed maturity securities held to maturity and available for sale at March 31, 2010 by contractual maturity were as follows:

Securities held to maturity:	Amortized Cost	Fair Value
	(Yen in millions)	
Due within one year	¥ 246	246
Due after one year through five years	156,098	162,116
Due after five years through ten years	83,571	87,089
Due after ten years	266,392	269,479
	¥506,307	518,930

Securities available for sale:	Amortized Cost	Fair Value
	(Yen in millions)	
Due within one year	¥ 356,001	357,502
Due after one year through five years	1,128,340	1,146,568
Due after five years through ten years	623,238	644,226
Due after ten years	850,174	864,007
	¥2,957,753	3,012,303

Actual maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties.

The methods of determining the fair value of the Company's fixed maturity and equity securities are described in Note 17.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2009 and 2010, were as follows:

Securities held to maturity:

	Less than 12 months		12 months or more		Total	
March 31, 2009:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(Yen in millions)			
Fixed maturities	¥ 11,609	(107)	13,572	(802)	25,181	(909)

	Less than 12 months		12 months or more		Total	
March 31, 2010:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(Yen in millions)			
Fixed maturities	¥ 37,686	(242)	19,038	(911)	56,724	(1,153)

Securities available for sale:

	Less than 12 months		12 months or more		Total	
March 31, 2009:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(Yen in millions)			
Fixed maturities	¥560,524	(30,601)	323,397	(25,795)	883,921	(56,396)
Equity securities	99,417	(18,341)	23,856	(5,036)	123,273	(23,377)
Total securities	¥659,941	(48,942)	347,253	(30,831)	1,007,194	(79,773)

	Less than 12 months		12 months or more		Total	
March 31, 2010:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(Yen in millions)			
Fixed maturities	¥252,182	(3,724)	318,923	(19,911)	571,105	(23,635)
Equity securities	13,259	(1,347)	50,920	(7,330)	64,179	(8,677)
Total securities	¥265,441	(5,071)	369,843	(27,241)	635,284	(32,312)

Unrealized losses of fixed maturities were mainly caused by changes in interest rate. The majority of fixed securities have received high credit ratings, and the Company has the positive ability and intent to hold these securities until a market price recovery.

In evaluating the factors for securities available for sale, the Company considers the length of time and the extent to which fair value has been below cost, the severity of the impairment, the cause of the impairment and the financial condition and near-term prospects of the issuer and activity in the market of the issuer which may indicate adverse credit conditions.

During the year ended March 31, 2010, the Company adopted the new accounting standards related to Other-than-Temporary Impairment ("OTTI") that provide guidance in determining whether impairments in debt securities are other-than-temporary and require additional disclosures relating to OTTI and unrealized losses on investments; the new standards did not change the impairment model for equity securities.

ASC 320 requires that, during the initial period of adoption, the Company records a cumulative effect of change in accounting principle to reclassify the non-credit component of a previously recognized OTTI from retained earnings to other comprehensive income. Based on the Company's review of OTTI losses on securities held at March 31, 2009, the Company reclassified ¥2,224 million (or ¥3,478 million on a pretax basis) from retained earnings to accumulated other comprehensive income (loss) at beginning of the year ended March 31, 2010.

A rollforward of the amount related to credit losses on debt securities recognized in earnings for the year ended March 31, 2010 is presented in the following table:

	(Yen in millions)
Balance at March 31, 2009	¥ 26,252
Additional credit loss on securities not previously impaired	2,591
Additional credit loss on securities that have been previously impaired	295
Reductions for securities sold or matured during the period	(5,688)
Balance at March 31, 2010	¥ 23,450

Gross realized and change in unrealized gains and losses from investments for the years ended March 31, 2008, 2009 and 2010 were as follows:

	Fixed Maturities	Equity Securities	Other Investments	Total Losses
		(Yen in millions)		
2008:				
Net realized gains (losses)	¥ 6,273	10,788	(34,431)	(17,370)
Change in unrealized gains (losses)	(15,839)	(800,325)	436	(815,728)
Combined realized and unrealized losses	¥ (9,566)	(789,537)	(33,995)	(833,098)

	Fixed Maturities	Equity Securities	Other Investments	Total Losses
		(Yen in millions)		
2009:				
Net realized losses	¥(39,219)	(80,359)	(15,307)	(134,885)
Change in unrealized losses	(54,322)	(816,412)	(879)	(871,613)
Combined realized and unrealized losses	¥(93,541)	(896,771)	(16,186)	(1,006,498)

	Fixed Maturities	Equity Securities	Other Investments	Total Gains
		(Yen in millions)		
2010:				
Net realized gains (losses)	¥(10,403)	3,899	11,240	4,736
Change in unrealized gains (losses)	50,051	380,643	(152)	430,542
Combined realized and unrealized gains	¥ 39,648	384,542	11,088	435,278

The net effect on accumulated other comprehensive income of unrealized gains and losses on available-for-sale securities at March 31, 2009 and 2010 was as follows:

	Fixed Maturities	Equity Securities	Other Investments	Total Gains
		(Yen in millions)		
March 31, 2009:				
Unrealized gains (losses), net	¥ 3,767	590,313	(40)	594,040
Deferred income taxes				(418,809)
				¥ 175,231

	Fixed Maturities	Equity Securities	Other Investments	Total Gains
		(Yen in millions)		
March 31, 2010:				
Unrealized gains (losses), net	¥50,342	970,956	(193)	1,021,105
Deferred income taxes				(571,907)
				¥ 449,198

Proceeds and gross realized gains and losses from sales of securities available for sale for the years ended March 31, 2008, 2009 and 2010 were as follows:

	2008	2009	2010
		(Yen in millions)	
Fixed maturity securities:			
Gross realized gains	¥ 10,251	9,175	3,681
Gross realized losses	(2,074)	(14,148)	(12,449)
Net realized gains(losses)	¥ 8,177	(4,973)	(8,768)
Proceeds from fixed maturity securities	¥412,764	475,425	247,594

	2008	2009	2010
		(Yen in millions)	
Equity securities:			
Gross realized gains	¥29,436	72,580	19,586
Gross realized losses	(1,735)	(4,846)	(3,157)
Net realized gains	¥27,701	67,734	16,429
Proceeds from equity securities	¥87,796	181,957	179,709

Bonds carried at ¥81,164 million at March 31, 2009 and ¥76,040 million at March 31, 2010, short-term investments carried at ¥529 million at March 31, 2009 and ¥548 million at March 31, 2010, cash equivalents carried at ¥3,593 million at March 31, 2009 and ¥2,788 million at March 31, 2010 and property and equipment carried at ¥411 million at March 31, 2009 and ¥244 million at March 31, 2010 were deposited with certain foreign government authorities and certain other parties as required by law and/or for other purposes.

The Company engages in securities lending transactions whereby certain securities from its portfolio are loaned to other institutions for short periods and cash collateral is obtained for some transactions. The loaned securities remain as recorded assets of the Company and the amount of the cash collateral are recorded as cash and cash equivalents. The carrying amount of loaned securities recorded as securities available for sale at March 31, 2009 and 2010 were ¥88,481 million and ¥39,791 million, respectively.

Mortgage loans on real estate are primarily mortgage loans on land and commercial buildings.

Policy loans are made to policyholders of long-term comprehensive insurance, long-term family traffic accident insurance and other long-term policies with refund at maturity. The maximum amount of loans is limited to 90% of return premiums on the policies.

Other long-term investments at March 31, 2009 and 2010 included the following:

	2009	2010
	(Yen in millions)	
Mortgage loans on vessels and facilities	¥ 119	37
Collateral and guaranteed loans	396,335	396,271
Unsecured loans	315,117	295,297
Other investments	82	20
	¥711,653	691,625

Mortgage loans on vessels and facilities are generally joint loans in which other financial institutions participate. The Company participates in the hull insurance on these vessels.

Collateral loans are made generally to commercial enterprises and are secured principally by listed stocks and/or bonds of Japanese corporations. A portion of the loans is made jointly with other insurance companies.

Guaranteed loans are made generally to commercial enterprises, and payment is guaranteed principally by banks.

Unsecured loans are made to political subdivisions and independent government agencies and, on a selective basis, to corporate borrowers.

Certain guaranteed loans with the carrying amount of ¥21,709, ¥34,156 million and ¥23,005 million were securitized in the years ended March 31, 2008, 2009 and 2010, respectively. The amount of gains on the securitization were ¥120 million, ¥7 million and ¥3 million for the years ended March 31, 2008, 2009 and 2010, respectively. There were no significant servicing assets and liabilities associated with the securitization at March 31, 2008, 2009 and 2010.

Short-term investments at March 31, 2009 and 2010 included the following:

	2009	2010
	(Yen in millions)	
Money trusts	¥ 13,727	9,093
Invested cash	79,336	58,377
Other	13,789	1,669
	¥106,852	69,139

Call loans are short-term (overnight to three weeks) loans made to money market dealers and banks or securities houses through money market dealers. Call loans to money market dealers are secured by Japanese government bonds. Call loans to banks or securities houses are unsecured. The balance of call loans included in cash and cash equivalents as of March 31, 2009 and 2010 were ¥31,900 million and ¥33,700 million, respectively.

The total recorded investment in impaired loans and the amount of the total valuation allowance at March 31, 2009 and 2010 were as follows:

	2009	2010
	(Yen in millions)	
Recorded investment in impaired loans:		
Mortgage loans on real estate	¥ 1,387	1,251
Mortgage loans on vessels and facilities	3	3
Unsecured loans	2,487	5,009
	¥ 3,877	6,263
Valuation allowance:		
Mortgage loans on real estate	¥ 271	256
Mortgage loans on vessels and facilities	—	1
Unsecured loans	1,579	3,562
	¥ 1,850	3,819

The recorded investment in loans of nonaccrual status was approximately ¥2,623 million and ¥3,868 million as of March 31, 2009 and 2010, respectively. The recorded investment in loans past due 90 days or more and still accruing interest was approximately ¥818 million and ¥856 million as of March 31, 2009 and 2010, respectively.

An analysis of activity in the total allowance for credit losses related to loans during the years ended March 31, 2008, 2009 and 2010 is as follows:

	2008	2009	2010
		(Yen in millions)	
Balance at beginning of year	¥ 1,650	1,098	2,660
Charges (credit) to income	(428)	1,687	2,094
Principal charge-offs	(124)	(125)	(74)
Balance at end of year	¥ 1,098	2,660	4,680

The total allowance for credit losses related to loans at March 31, 2009 and 2010 includes an allowance for doubtful accounts in the amount of ¥810 million and ¥861 million, respectively, relating to loans which were not categorized in the above impaired loans. This allowance for doubtful accounts has been calculated by multiplying actual bad debt ratios computed based on the actual bad debt amounts during the past periods against outstanding balances.

The average recorded investment in impaired loans was approximately ¥4,401 million, ¥4,165 million and ¥5,070 million in the years ended March 31, 2008, 2009 and 2010, respectively. The Company recognized interest income from impaired loans of ¥94 million, ¥145 million and ¥195 million in the years ended March 31, 2008, 2009 and 2010, respectively, on a cash basis.

Other long-term investments include loans of ¥19 million as of March 31, 2009 and ¥22 million as of March 31, 2010 which had been non-income producing for the twelve months preceding each balance sheet date.

The components of net investment income for the years ended March 31, 2008, 2009 and 2010 were as follows:

	2008	2009	2010
		(Yen in millions)	
Interest on fixed maturities	¥ 89,704	75,101	68,736
Dividends from equity securities	69,050	53,196	40,373
Interest on mortgage loans on real estate	328	280	239
Rent from investment real estate	4,926	5,472	6,123
Interest on policy loans	1,352	1,425	1,474
Interest on other long-term investments	13,871	14,560	13,343
Interest on short-term investments	3,078	3,207	1,851
Other	12,480	11,375	6,183
Gross investment income	194,789	164,616	138,322
Less investment expenses	9,524	10,604	10,589
Net investment income	¥185,265	154,012	127,733

In accordance with the Company's internal policy, the Company's portfolio is broadly diversified to ensure that there is no significant concentration of credit risk with any individual counterparties or group of counterparties. The concentrations of credit risk exceeding 10 percent of total shareholders' equity as of March 31, 2009 and 2010 were as follows:

	2009	2010
	(Yen in millions)	
Japanese government	¥1,301,843	1,468,445
Toyota Motor Corporation and its affiliates	295,134	375,949

(5) Property and Equipment

A summary of property and equipment as of March 31, 2009 and 2010 is as follows:

	2009	2010
	(Yen in millions)	
Land	¥ 97,228	94,883
Buildings	299,985	302,016
Furniture and equipment	73,181	73,571
Construction in progress	1,429	4,428
	471,823	474,898
Less accumulated depreciation	(239,776)	(250,018)
	¥ 232,047	224,880

(6) Impairment Losses of Long-Lived Assets

The carrying amount of long-lived assets held for sale as of March 31, 2009 and 2010 were ¥111 million and ¥295 million, respectively. The impairment losses on long-lived assets held for sale, included in other expenses, were ¥487 million, ¥47 million and ¥1,604 million for the years ended March 31, 2008, 2009 and 2010, respectively. Such impairment losses on long-lived assets were recognized in the property and casualty insurance segment.

The impairment loss on long-lived assets to be held and used, which arose from investment real estate, was included in net realized gains (losses) on investments, in the amount of ¥3,572 million, ¥372 million and ¥4,361 million for the years ended March 31, 2008, 2009 and 2010, respectively. The impairment loss on long-lived assets to be held and used, which arose from property and equipment, was included in other expenses in the amount of ¥185 million, ¥396 million and ¥233 million for the years ended March 31, 2008, 2009 and 2010, respectively. Those impairment losses on long-lived assets were recognized in the property and casualty insurance segment.

(7) Goodwill

The change in the carrying amount of goodwill during the years ended March 31, 2008, 2009 and 2010 are as follows:

	2008	2009	2010
		(Yen in millions)	
Balance at beginning of year	¥70,012	69,248	63,254
Acquisition	—	—	2,498
Change in foreign currency exchange rates	(764)	(5,994)	498
Balance at end of year	¥69,248	63,254	66,250

All goodwill recognized on the consolidated balance sheets were assigned to the property and casualty insurance segment.

No impairment loss on goodwill was recorded for the years ended March 31, 2008, 2009 and 2010, respectively.

(8) Liabilities for Losses and Claims

Activities in the liabilities for losses and claims and claim adjustment expenses for the years ended March 31, 2008, 2009 and 2010 are summarized as follows:

	2008	2009	2010
		(Yen in millions)	
Balance at beginning of year	¥1,153,550	1,197,820	1,256,522
Less: reinsurance recoverable	237,719	253,092	304,228
Net balance at beginning of year	915,831	944,728	952,294
Change in estimate of IBNR for Compulsory Automobile Liability Insurance	—	86,524	—
Incurred related to:			
Current year insured events	1,094,832	1,109,730	1,077,420
Prior year insured events	(7,191)	(21,268)	(8,655)
Total incurred	1,087,641	1,088,462	1,068,765
Paid related to:			
Current year insured events	576,463	610,493	613,166
Prior year insured events	483,209	483,212	480,213
Total paid	1,059,672	1,093,705	1,093,379
Foreign currency Translation adjustments	928	(73,715)	6,050
Net balance at end of year	944,728	952,294	933,730
Plus reinsurance recoverable	253,092	304,228	293,347
Balance at end of year	¥1,197,820	1,256,522	1,227,077

Incurred losses presented in the above table include those related to life insurance in the amount of ¥99,014 million, ¥124,710 million and ¥130,880 million for the years ended March 31, 2008, 2009 and 2010, respectively, which are included in policyholder benefits for life insurance contracts in the accompanying consolidated statements of operations.

(9) Investment Deposits by Policyholders

Certain property and casualty insurance policies offered by the Company include a savings feature in addition to the insurance coverage provided under the policy. In addition, certain types of personal injury and fire insurance policies are available with a deposit premium rider. The premium received from the policyholder is split between the insurance coverage and the savings portion of the policy based upon rates approved by the Financial Services Agency of Japan. Policy terms are mainly from 3 to 10 years.

The key terms of this type of policy are fixed at the inception of the policy and remain in effect during the policy period. The policyholder can terminate the savings-type insurance contract before the maturity date with a payment of a commission to the Company that equals the interest earned for approximately six months. The policyholder is informed at policy inception of the maturity value related to the savings portion of the policy. The maturity value of the policy represents the savings portion of the premium paid by the policyholder plus credited interest. The maturity value is paid on the policy maturity date unless a total loss as defined by the policy occurs during the policy term. No amount is paid under the savings portion of the policy if a total loss occurs during the policy term.

It is regarded as a total loss when an aggregate amount of claims paid in connection with accidents covered by the policy occurs within any one insurance year during the policy terms of insurance, regardless of whether claims are caused by one or more accidents, and reaches the insured amount covered by the policy. If a total loss occurs, the policy is immediately terminated. The annual frequency of total loss of major savings-type insurance contracts ranges from 0.03% to 0.26%.

The contractual rate of interest credited to the policy varies by product and is established at the beginning of the policy. The committed interest rate cannot be changed by the Company at any time during the policy term. Committed interest rates ranged from 0.3% to 1.5% for the years ended March 31, 2008 and 2009, ranged from 0.35% to 1.5% for the year ended March 31, 2010.

Premiums paid for the indemnity portion are allocated to income ratably over the terms of the related insurance contract. Premiums paid for the savings portion are credited to investment deposits by policyholders. Interest credited to investment deposits by policyholders is charged to income and presented as investment income credited to investment deposits by policyholders in the accompanying consolidated statements of operations. When a total loss occurs, the remaining balance in investment deposits by policyholders corresponding to the total loss contract is reversed and recorded as premium revenue.

(10) Short-term Debt and Long-term Debt

Short-term debt and long-term debt as of March 31, 2009 and 2010 consist of the following:

	2009	2010
	(Yen in millions)	
0.80% Japanese yen debentures, due 2009	¥ 70,000	—
1.31% Japanese yen debentures, due 2012	30,000	30,000
1.74% Japanese yen debentures, due 2014	65,000	65,000
	165,000	95,000
Less current portion classified as short-term debt	(70,000)	—
Less unamortized discount	(39)	(31)
Total long-term debt	¥ 94,961	94,969

The Company issued ¥30,000 million of 1.31% unsecured debenture in November 2007, and ¥65,000 million of 1.74% unsecured debenture in March 2009 with bullet repayment of maturity due December 20, 2012, and March 20, 2014 respectively.

(11) Reinsurance

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. The Company cedes a portion of the risks it underwrites and pays reinsurance premiums based upon the risks subject to reinsurance contracts. The Company utilizes a variety of reinsurance arrangements, which are classified into two basic types: proportional reinsurance and excess-of-loss reinsurance. Proportional reinsurance is the type of reinsurance where the proportion of claims incurred is proportionate to the share of premiums received. This type of reinsurance is used as a means to limit a loss amount on an individual-risk basis. The excess-of-loss type of reinsurance indemnifies the ceding company against a specified level of losses on underlying insurance policies in excess of a specified agreed amount. Excess-of-loss reinsurance is usually arranged in layers to secure greater capacity by offering various levels of risk exposure with different terms for reinsurers with different preferences. Although a reinsurer is liable to the Company to the extent of the risks assumed, the Company remains liable as the direct insurer to policyholders on all such risks. Failure of reinsurers to honor their obligations could result in losses to the Company. However, considering the Company's applying strict standards when choosing reinsurers in terms of credit risk, no material amount is believed to be uncollectible and no provision has been made for this contingency.

At March 31, 2009 and 2010, there were no significant concentrations with a single reinsurer for reinsurance receivables and prepaid reinsurance premiums.

The effects of reinsurance on the results of operations of property and casualty insurance and life insurance for the years ended March 31, 2008, 2009 and 2010 were as follows:

Property and casualty insurance:

	2008	2009 (Yen in millions)	2010
Premiums written:			
Direct	¥1,625,732	1,537,395	1,492,881
Assumed	264,880	216,372	189,545
Ceded	(352,996)	(305,494)	(287,188)
Net premiums written	¥1,537,616	1,448,273	1,395,238

	2008	2009 (Yen in millions)	2010
Premiums earned:			
Direct	¥1,597,352	1,532,750	1,488,589
Assumed	266,471	282,642	203,212
Ceded	(361,138)	(306,989)	(295,164)
Net premiums earned	¥1,502,685	1,508,403	1,396,637

	2008	2009	2010
		(Yen in millions)	
Losses and claims incurred:			
Direct	¥ 947,824	947,167	860,107
Assumed	181,236	304,207	172,164
Ceded	(222,803)	(291,333)	(176,357)
Net losses and claims incurred	¥ 906,257	960,041	855,914

Life insurance:

	2008	2009	2010
		(Yen in millions)	
Premiums earned:			
Direct	¥193,392	190,748	188,939
Ceded	(661)	(635)	(566)
Net premiums earned	¥192,731	190,113	188,373

	2008	2009	2010
		(Yen in millions)	
Policyholder benefits:			
Direct	¥156,714	154,582	150,476
Ceded	(31)	(526)	(130)
Net policyholder benefits	¥156,683	154,056	150,346

(12) Income Taxes

Total income taxes for the years ended March 31, 2008, 2009 and 2010 were allocated as follows:

	2008	2009	2010
		(Yen in millions)	
Taxes on income	¥ 48,137	(12,036)	17,087
Taxes on other comprehensive income (loss):			
Net unrealized gains (losses) on investments	(296,550)	(316,773)	160,349
Net losses on derivative instruments	(14)	—	—
Pension liability adjustments	(6,572)	(3,742)	911
Total income taxes	¥(254,999)	(332,551)	178,347

The components of earnings (loss) before income taxes and noncontrolling interests and income tax expense (benefit) for the years ended March 31, 2008, 2009 and 2010 were as follows:

	2008	2009	2010
		(Yen in millions)	
Earnings (loss) before income taxes and noncontrolling interests:			
Domestic	¥147,619	(71,268)	42,715
Foreign	6,140	(10,708)	24,701
Total	¥153,759	(81,976)	67,416
Income tax expense (benefit):			
Current:			
Domestic	¥ 16,575	25,447	14,813
Foreign	8,793	4,427	3,672
Total current income tax expense	25,368	29,874	18,485
Deferred:			
Domestic	32,623	(40,820)	(1,788)
Foreign	(9,854)	(1,090)	390
Total deferred income tax expense (benefit)	22,769	(41,910)	(1,398)
Total income tax expense (benefit)	¥ 48,137	(12,036)	17,087

MSIGH and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 36%.

The effective tax rates of the Company for the years ended March 31, 2008, 2009 and 2010 differed from the Japanese statutory income tax rates for the following reasons:

	2008	2009	2010
Japanese statutory income tax rate	36.0%	(36.0)%	36.0%
Tax credit for dividends received	(5.1)	(10.0)	(7.4)
Lower tax rates applicable to income of subsidiaries	(2.7)	(1.5)	(6.3)
Dividends received from subsidiaries	1.2	2.4	4.3
Expenses not deductible for tax purposes	0.7	1.5	1.4
Tax expense for reorganization	—	19.0	—
Effects of valuation allowances on deferred tax assets	0.9	7.3	(0.4)
Other	0.3	2.6	(2.2)
Effective tax rate	31.3%	(14.7)%	25.4%

The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and deferred tax liabilities at March 31, 2009 and 2010 were as follows:

	2009	2010
	(Yen in millions)	
Deferred tax assets:		
Reported and estimated losses and claims	¥ 74,431	74,109
Adjustment expenses	16,465	16,650
Retirement and severance benefits	45,362	43,034
Computer software development costs	12,838	14,228
Impairment of investments	60,636	57,440
Cost adjustments to investments recognized in income	47,219	40,284
Other	22,508	23,673
Total gross deferred tax assets	279,459	269,418
Less valuation allowance	(12,666)	(11,956)
Total net deferred tax assets	266,793	257,462
Deferred tax liabilities:		
Unearned premiums	140,757	133,990
Deferred policy acquisition costs	112,101	118,407
Property and equipment	6,166	6,147
Cost adjustments to investments recognized in income	11,107	9,594
Unrealized appreciation of investments and derivatives	209,007	368,224
Other	18,244	12,337
Total gross deferred tax liabilities	497,382	648,699
Total net deferred tax liabilities	¥230,589	391,237

At March 31, 2009 and 2010, other assets included deferred tax assets in the amount of ¥7,494 million and ¥6,348 million, respectively.

The net change in total valuation allowance for the years ended March 31, 2008, 2009 and 2010 was an increase of ¥1,434 million, ¥5,661 million and a decrease of ¥710 million, respectively. The valuation allowance primarily relates to deferred tax assets associated with net operating loss carryforwards at subsidiaries.

Subsequent recognition of tax benefits related to the valuation allowance for deferred tax assets will be recorded in the consolidated statements of operations.

At March 31, 2010, the Company had operating loss carryforwards for tax purposes of ¥31,985 million, which expire as follows:

	(Yen in millions)
Years ending March 31:	
2011	¥ 1,794
2012	2,012
2013	1,232
2014	1,157
2015	2,371
Later years	3,233
Indefinite	20,186
Total	¥ 31,985

The Company intends to reinvest certain undistributed earnings of foreign subsidiaries for an indefinite period of time. As of March 31, 2010, a deferred tax liability was not recognized for ¥87,719 million of undistributed earnings of these subsidiaries where the Company intends to reinvest indefinitely. Determining the tax liability that would arise if these earnings were remitted is not practicable.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax-planning strategies relating to the future reversal of temporary differences.

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the recorded valuation allowances, at March 31, 2010.

The unrecognized tax benefits as of and for the years ended March 31, 2008, 2009 and 2010 were not material. The Company does not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

The total amounts of penalties and interest expense related to unrecognized tax benefits in the consolidated balance sheets as of March 31, 2008, 2009 and 2010, and in the consolidated statements of operations for the years ended March 31, 2008, 2009 and 2010 were not material.

The Company files tax returns in Japan and certain foreign tax jurisdictions, and they are periodically audited by Japanese and foreign taxing authorities. MSI has been audited by the Japanese tax authorities through the tax year ended March 31, 2009.

(13) Stockholders' Equity

(a) Common Stock

The amounts of statutory capital and surplus of MSIGH at March 31, 2009 and 2010, on a non-consolidated basis, are presented as follows:

	2009	2010
	(Yen in millions)	
Common stock	¥100,000	100,000
Additional paid-in capital	646,402	646,402
Retained earnings	23,318	37,702
Treasury stock	(4,645)	(14,688)
Total statutory equity	¥765,075	769,416

MSI's statutory net income for the years ended March 31, 2008 was ¥38,366 million. MSIGH's statutory net income for the year ended March 31, 2009 and 2010 was ¥34,689 million and ¥37,026, respectively.

The minimum capital requirement of the Insurance Business Law of Japan for a Japanese insurance company is ¥1,000 million on a statutory basis.

The domestic insurance subsidiaries of MSIGH are required to maintain solvency margin ratios of 200% or higher in accordance with the solvency margin regulations stipulated by the Japanese regulatory authorities. The solvency margin regulations are based on factors mainly for underwriting risks, investment risks and large catastrophe risks. The solvency margin must be supported by equity and other resources, including unrealized gains and losses on certain investments and catastrophe reserves based on the financial accounting standards of Japan. At March 31, 2010, the solvency margin ratios of the domestic non-life insurance subsidiaries, MSI and MDGI, were 839.4% and 669.8%, and that of its domestic life insurance subsidiary was 2,129.7%, respectively.

The statutory net income for the years ended March 31, 2008, 2009 and 2010 and shareholders' equity at March 31, 2009 and 2010 of the consolidated insurance subsidiaries were as follows:

	2008	2009	2010
		(Yen in millions)	
Statutory net income :			
Property and casualty	¥ 11,453	20,225	45,507
Life	55	45	38
Statutory shareholders' equity:			
Property and casualty	¥257,372	1,213,122	1,515,281
Life	57,486	56,064	57,738

* MSI is included in the consolidated insurance subsidiaries for 2009 and 2010, while for 2008 it was then a parent company and not included.

On August 12, 2010, the board of directors of MSIGH resolved to repurchase common stocks as follows:

	Number of shares repurchased (Maximum)	Total amount of repurchase (Maximum)	Period of repurchase
	(Shares)	(Yen in millions)	
Common stock	7,000,000	10,000	From: August 13, 2010 To: September 22, 2010

The amounts of undistributed retained earnings of affiliates which were accounted for by the equity method were ¥15,380 million and ¥23,936 million at March 31, 2009 and 2010, respectively.

(b) Retained Earnings

The Japanese Corporate Law requires a company to set aside an amount equal to 10% of retained earnings distributed, such as cash dividends, as a capital surplus or a legal reserve until the aggregate amount of capital surplus and legal reserve reaches 25% of the amount of common stock. Capital surplus and legal reserve is not available for dividends, but legal reserve may be used to reduce a deficit or may be transferred to other retained earnings.

The amount available for dividends is based on MSIGH's non-consolidated financial statements in accordance with the Japanese Corporate Law and was ¥490,225 million as of March 31, 2010. The adjustments included in the accompanying consolidated financial statements to have them conform with U.S. GAAP, but not recorded in the books of account, have no effect on the determination of the amount available for dividends under the Japanese Corporate Law.

Cash dividends charged to unappropriated retained earnings for the years ended March 31, 2008, 2009 and 2010 represent dividends paid out during those years. Provision has neither been made in the accompanying consolidated financial statements for the dividends of ¥27.00 per share totaling ¥11,204 million, subsequently proposed by the Board of Directors and, on June 29, 2010, approved by the shareholders, nor for the related appropriation to the legal reserve.

The reconciliation of the basic and diluted earnings (loss) per share is not reported because there are no diluted shares.

The components of the basic earnings (loss) per share are as follows:

	2008	2009	2010
		(Yen in millions)	
Net income (loss) available to common shareholders of MSIG	¥104,796	(70,240)	49,983

	2008	2009	2010
		(Number of shares in thousands)	
Weighted average common shares outstanding	423,259	421,052	418,961

	2008	2009	2010
		(Yen)	
Earnings (loss) per share – basic	¥247.59	(166.82)	119.30

(c) Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income for the years ended March 31, 2009 and 2010 were as follows:

	2009	2010
	(Yen in millions)	
Foreign currency translation adjustments:		
Balance at beginning of period	¥ 6,330	(55,540)
Current-period change	(61,870)	9,519
Balance at end of period	(55,540)	(46,021)
Unrealized gains on securities, net of tax:		
Balance at beginning of period	729,966	165,048
Cumulative effect of change in accounting principle, net of tax	—	(2,224)
Current-period change	(564,918)	286,884
Balance at end of period	165,048	449,708
Pension liability adjustments, net of tax:		
Balance at beginning of period	(22,629)	(29,548)
Current-period change	(6,919)	2,095
Balance at end of period	(29,548)	(27,453)
Total accumulated other comprehensive income, net of tax:		
Balance at beginning of period	713,667	79,960
Cumulative effect of change in accounting principle, net of tax	—	(2,224)
Current-period change	(633,707)	298,498
Balance at end of period	¥ 79,960	376,234

The tax effect allocated to each component of change in accumulated other comprehensive income and the reclassification adjustments for the years ended March 31, 2009 and 2010 were as follows:

	Before Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
		(Yen in millions)	
2009:			
Foreign currency translation adjustments	¥ (61,870)	—	(61,870)
Unrealized losses on securities:			
Unrealized holding gains arising during period	(661,999)	237,731	(424,268)
Less: reclassification adjustment for gains realized in net income	(219,692)	79,042	(140,650)
Net unrealized losses on securities	(881,691)	316,773	(564,918)
Pension liability adjustments:			
Pension liability adjustments arising during period	(9,262)	3,251	(6,011)
Less: reclassification adjustment for gains realized in net income	(1,399)	491	(908)
Pension liability adjustments	(10,661)	3,742	(6,919)
Net change in accumulated other comprehensive income	¥(954,222)	320,515	(633,707)
2010:			
Foreign currency translation adjustments	¥ 9,519	—	9,519
Unrealized gains on securities:			
Unrealized holding gains arising during period	445,315	(159,787)	285,528
Less: reclassification adjustment for gains realized in net income	1,918	(562)	1,356
Net unrealized gains on securities	447,233	(160,349)	286,884
Pension liability adjustments:			
Pension liability adjustments arising during period	3,162	(958)	2,204
Less: reclassification adjustment for gains realized in net income	(156)	47	(109)
Pension liability adjustments	3,006	(911)	2,095
Net change in accumulated other comprehensive income	¥ 459,758	(161,260)	298,498

(14) Retirement and Severance Benefits

MSI has defined benefit plans and a defined contribution plan. Defined benefit plans consist of an unfunded lump-sum payment benefit plan and funded non-contributory pension plans covering substantially all employees. Under the plans, employees are entitled to lump-sum or annuity payments based on the current rate of pay and length of service at retirement or termination of employment for reasons other than dismissal for cause. Directors and statutory auditors are not covered by the above plans and their benefits are accrued as earned.

The components of net periodic benefit cost for the years ended March 31, 2008, 2009 and 2010 were as follows:

	2008	2009	2010
		(Yen in millions)	
Components of net periodic benefit cost:			
Service cost	¥11,340	11,607	11,466
Interest cost	5,372	5,465	6,104
Expected return on plan assets	(5,002)	(4,667)	(4,153)
Amortization of prior service cost	(2,509)	(2,509)	(2,172)
Recognized actuarial loss	205	1,109	2,016
Net periodic benefit cost	¥ 9,406	11,005	13,261

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets for the years ended March 31, 2008, 2009 and 2010 were as follows:

	2008	2009	2010
		(Yen in millions)	
Change in benefit obligations:			
Benefit obligations at beginning of year	¥ 265,063	271,865	265,213
Service cost	11,340	11,607	11,466
Interest cost	5,372	5,465	6,104
Plan participants' contributions	4	33	37
Actuarial loss (gain)	1,688	(10,681)	3,709
Benefits paid	(11,602)	(13,076)	(12,541)
Benefit obligations at end of year	¥ 271,865	265,213	273,988
Change in plan assets:			
Fair value of plan assets at beginning of year	¥ 166,616	155,578	138,675
Actual return on plan assets	(9,719)	(15,851)	11,381
Employer contributions	3,624	4,359	9,176
Plan participants' contributions	4	33	37
Benefits paid	(4,947)	(5,444)	(5,615)
Fair value of plan assets at end of year	¥ 155,578	138,675	153,654
Funded status	¥(116,287)	(126,538)	(120,334)
Amounts recognized in the balance sheets	¥(116,287)	(126,538)	(120,334)
Pension plans with an accumulated benefit obligation in excess of plan assets:			
Projected benefit obligation	¥ 271,865	265,213	273,988
Accumulated benefit obligation	241,189	236,442	243,672
Fair value of plan assets	155,578	138,675	153,654

The Company uses a measurement date of March 31 for all of its pension and severance plans.

Amounts recognized in accumulated other comprehensive income, pre-tax at March 31, 2009 and 2010 were as follows:

	2009	2010
	(Yen in millions)	
Net actuarial loss	¥49,006	43,827
Net prior service cost	(3,213)	(1,039)

Amounts in accumulated other comprehensive income, pre-tax expected to be recognized as components of net periodic benefit cost over the next fiscal year are as follows:

	2011
	(Yen in millions)
Net actuarial loss	¥ 1,451
Net prior service cost	(406)

The accumulated benefit obligation for the pension plan was ¥236,442 million and ¥243,672 million at March 31, 2009 and 2010, respectively.

Major weighted-average assumptions used to determine benefit obligations at March 31, 2008, 2009 and 2010 were as follows:

	2008	2009	2010
Discount rate	2.00%	2.30%	2.20%
Rate of increase in future compensation	4.10% to 4.60%	4.10% to 4.60%	4.10% to 4.60%

Major weighted-average assumptions used to determine net cost for the years ended March 31, 2008, 2009 and 2010 were as follows:

	2008	2009	2010
Discount rate	2.00%	2.00%	2.30%
Expected long-term return on plan assets	3.00%	3.00%	3.00%
Rate of increase in future compensation	4.10% to 4.60%	4.10% to 4.60%	4.10% to 4.60%

The discount rate is mainly determined by reference to Japanese government bond at the measurement date, March 31, 2008, 2009 and 2010, based on the expected terms of benefit obligations.

The Company determines its expected long-term rate of return based on the expected long-term return of various asset categories in which it invests in consideration of the current expectations for future returns and the historical returns of each plan asset category.

Plan assets by major categories and the fair value hierarchy are as follows:

	Level 1	Level 2	Level 3	Total
		(Yen in millions)		
March 31, 2010:				
Cash and cash equivalents	¥ 4,668	874	—	5,542
Fixed maturities:				
Japanese fixed income securities	3,905	82,736	—	86,641
Government and government agencies and authorities	3,905	—	—	3,905
Municipalities and political subdivisions	—	495	—	495
Corporate	—	1,279	—	1,279
Pooled funds (1)	—	80,962	—	80,962
Foreign fixed income	3,557	11,215	—	14,772
Government and government agencies and authorities	3,557	—	—	3,557
Pooled funds (1)	—	11,215	—	11,215
Subtotal	7,462	93,951	—	101,413
Equity securities:				
Japanese companies	9,211	13,425	—	22,636
Foreign companies	—	16,281	—	16,281
Subtotal	9,211	29,706	—	38,917
Other investment types:				
Hedge funds	—	—	7,354	7,354
Life insurance contracts	—	332	—	332
Other	—	—	96	96
Subtotal	—	332	7,450	7,782
Total plan assets	¥21,341	124,863	7,450	153,654

(1) *Consists primarily of pension investment fund trusts, collectively managed by trust banks.*

The inputs and methodology used in determining the fair value of the plan assets are consistent with those used by the Company to measure its assets as disclosed in Note 17.

The reconciliations of the beginning and ending balances during the period for Level 3 assets are as follows:

	Balance as of April 1, 2009	Actual return on assets	Purchases, sales, and settlements	Transfers in and / or out of Level 3	Balance at end of period
			(Yen in millions)		
March 31, 2010:					
Other investment types:					
Hedge funds	¥ 6,504	850	—	—	7,354
Other	88	8	—	—	96
Total	¥ 6,592	858	—	—	7,450

The Company's pension plan assets are managed in accordance with investment policies approved by the Pension Representative Assembly. The purpose of the investment policies is to ensure the plan's long-term ability to meet all required benefit obligations by prudently investing plan assets and Company contributions.

Investment risk is measured and monitored on an ongoing basis through periodic portfolio reviews and liability studies. Risk management factors include but not limited to, volatility relative to the benefit obligations, diversification and concentration, and the risk/reward profile indigenous to each asset class.

The target allocation percentages of the plan assets as at March 31, 2010 are as follows:

Japanese Fixed Income Securities	60%
Japanese Equities	15%
Foreign Fixed Income Securities	10%
Foreign Equities	10%
Alternative Investments	5%

Allocations may change as a result of changing market conditions and investment opportunities.

The plan assets are diversified so that there is no significant concentrations of risk.

The amounts contributed to defined contribution plans approximated ¥1,475 million, ¥2,459 million and ¥2,425 million for the years ended March 31, 2008, 2009 and 2010, respectively.

The Company forecasts to contribute ¥12,124 million to the defined benefit pension plans in the year ending March 31, 2011.

Expected future benefit payments for the defined benefit pension plan are as follows:

	(Yen in millions)
Years ending March 31:	
2011	¥ 11,616
2012	12,219
2013	12,825
2014	13,075
2015	13,126
2016-2020	69,625

(15) Derivative Financial Instruments

The Company utilizes derivative financial instruments (a) to manage interest rate risk and foreign exchange risk arising from its fixed maturities portfolio and (b) to generate trading revenues and fee income.

All derivatives are recognized on the consolidated balance sheets at fair value as other assets or other liabilities. The fair value amounts of derivatives, by type of contract, as of March 31, 2010 are presented in Note 16.

All gains and losses on the derivatives are recorded in net realized gains (losses) on investments on the consolidated statements of operations. The amounts of the gains and losses on derivatives, by type of contract, for the year ended March 31, 2010 are presented in the table below.

	2010 (Yen in millions)
Foreign exchange contracts	¥ 1,077
Interest rate contracts	(7,871)
Bond and equity index contracts	(572)
Credit derivatives	22,669
Commodity contracts	13
Net gains on derivatives	¥ 15,316

All derivative transactions are controlled in accordance with the Company's risk management rules. Under these rules, the purpose of derivative financial instruments is predetermined in writing, the balance of trading derivatives is limited to the extent permitted by the internal guidelines and derivative instruments entered into for hedging purposes require an advance approval of management. The Company's portfolio is broadly diversified to ensure that there is no significant concentration of credit risk with any individual counterparty or group of counterparties. The Company's policies prescribe monitoring of creditworthiness and exposure on a counterparty-by-counterparty basis. Back-office functions, such as settlements or monitoring, are designed independently from the function responsible for dealings.

No derivative instruments contain credit-risk-related contingent features, such as provisions that would require the Company to post additional collateral or allow the counterparties to terminate the derivative contract in the event of a downgrade of the credit rating of the Company.

Derivatives used for interest rate risk and foreign exchange risk management

The Company uses interest rate swaps, currency swaps and foreign exchange forward contracts to hedge the exposure to variability in expected future cash flows arising from fixed maturity securities available for sale. The Company discontinued hedge accounting in the year ended March 31, 2008. Ceasing hedge accounting did not have a material effect on the Company's reported financial position or cash flows.

Derivatives trading revenues

The Company uses a variety of derivative instruments, such as interest rate futures, forwards and options, interest rate and currency swaps, bond futures and options, foreign exchange forwards and options and credit derivatives, and non-derivative instruments, such as weather derivatives, to generate trading revenues and fee income.

Credit derivatives

Under the majority of the credit derivative contracts, the Company underwrites single-name credit default swaps and other credit-risk related portfolio products, which require the Company as a seller of protection to make a payment to a buyer upon the occurrence of credit events. Typical credit events include bankruptcy, failure to pay and restructuring.

Most contracts which the Company enters into have a five-year term, with other provisions in accordance with definition in the 2003 ISDA Credit Derivative Definition. There are no contracts involving provision of collateral, and thus no situations in which collateral must be provided. For most written credit derivatives, the nominal amount represents the maximum potential amount payable by the Company. The Company controls the underwriting to be diversified across industry sectors, and as a result, there is no concentration in any one particular industry.

The components of written credit derivatives by underlying asset type as of March 31, 2009 and 2010 were as follows:

	2009		2010	
	Nominal Amount	Estimated Fair Value	Nominal Amount	Estimated Fair Value
	(Yen in millions)			
Corporate CDSs [1]	¥158,618	(7,671)	123,443	(266)
ABS-CDO [2]	1,150	(65)	769	54
CDO [3]	388,473	(24,324)	367,792	(7,186)
Total outstanding written credit derivatives	¥548,241	(32,060)	492,004	(7,398)

(1) Corporate CDS: single-name credit default swaps

(2) ABS-CDO: credit-risk related portfolio products in which referenced assets include structured finance.

(3) CDO: credit-risk related portfolio products in which referenced corporate obligations, not including structured finance.

The components of written credit derivatives by par amount of corporate CDSs as of March 31, 2009 and 2010 were as follows:

	2009		2010	
	Nominal Amount	Estimated Fair Value	Nominal Amount	Estimated Fair Value
	(Yen in millions)			
Less than ¥3.0 billion	¥155,618	(7,546)	120,443	(254)
Between ¥3.0 billion to ¥5.0 billion	3,000	(125)	3,000	(12)
Total outstanding written credit derivatives	¥158,618	(7,671)	123,443	(266)

The components of written credit derivatives by vintage as of March 31, 2009 were as follows:

	Nominal Amount	Estimated Fair Value
	(Yen in millions)	
2001	¥ 1,150	(65)
2002	—	—
2003	982	(3)
2004	42,576	(938)
2005	156,028	(3,555)
2006	72,076	(7,282)
2007	245,429	(20,184)
2008	30,000	(33)
Total outstanding written credit derivatives	¥548,241	(32,060)

The components of written credit derivatives by vintage as of March 31, 2010 were as follows:

	Nominal Amount	Estimated Fair Value
	(Yen in millions)	
2001	¥ 769	54
2002	—	—
2003	—	—
2004	1,861	(47)
2005	151,355	(62)
2006	69,182	(3,258)
2007	237,907	(4,091)
2008	30,000	20
2009	930	(14)
Total outstanding written credit derivatives	¥492,004	(7,398)

The components of written credit derivatives by credit rating as of March 31, 2009 and 2010 were as follows:

	2009		2010	
	Nominal Amount	Estimated Fair Value	Nominal Amount	Estimated Fair Value
	(Yen in millions)			
AAA	¥357,993	(10,156)	340,066	(762)
AA	108,402	(6,646)	69,901	(720)
A	63,147	(4,963)	65,220	(874)
BBB	13,788	(5,384)	7,513	(967)
BB and the lower	4,911	(4,911)	9,304	(4,075)
Total outstanding written credit derivatives	¥548,241	(32,060)	492,004	(7,398)

Subordinated discounts for all CDO deals (weighted average of guarantee amounts) were 18% and 17% as of March 31, 2009 and 2010, respectively.

(16) Fair Value of Financial Instruments

The estimated fair values of the financial instruments at March 31, 2009 and 2010 were as follows:

	2009		2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Yen in millions)			
Financial assets:				
Fixed maturities	¥ 3,470,446	3,486,714	3,518,610	3,531,233
Equity securities	1,703,433	1,703,433	1,997,746	1,997,746
Mortgage loans on real estate	9,224	9,052	7,260	7,305
Policy loans	43,254	43,254	44,339	44,339
Other long-term investments	711,653	698,739	691,625	695,775
Short-term investments	106,852	106,852	69,139	69,139
Cash and cash equivalents	455,444	455,444	381,939	381,939
Indebtedness from affiliates	2,857	2,747	3,128	3,088
Accrued investment income	20,228	20,228	16,857	16,857
Premiums receivable and agents' balances	144,005	144,005	152,030	152,030
Other assets:				
Weather derivatives	236	236	564	564
Derivative assets:				
Foreign exchange contracts	1,957	1,957	882	882
Interest rate contracts	19,670	19,670	11,238	11,238
Bond and equity index contracts	39	39	—	—
Credit derivatives	—	—	144	144
Commodity contracts	4,184	4,184	1,326	1,326
Financial liabilities:				
Investment deposits by policyholders	¥(2,043,991)	(2,282,047)	(1,956,376)	(2,181,453)
Indebtedness to affiliates	(1,616)	(1,616)	(4,686)	(4,686)
Short-term debt	(70,000)	(70,000)	—	—
Long-term debt	(94,961)	(94,643)	(94,969)	(98,159)
Other liabilities:				
Weather derivatives	(195)	(195)	(126)	(126)
Derivative liabilities:				
Foreign exchange contracts	(4,330)	(4,330)	(2,600)	(2,600)
Interest rate contracts	(4,889)	(4,889)	(7,197)	(7,197)
Bond and equity index contracts	(63)	(63)	—	—
Credit derivatives	(32,060)	(32,060)	(7,542)	(7,542)
Commodity contracts	(4,184)	(4,184)	(1,326)	(1,326)

The fair values of the financial instruments shown in the above table as of March 31, 2010 represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances.

The methodologies and assumptions used to estimate the fair values of financial instruments are as follows:

The carrying amounts of cash and cash equivalents, policy loans, accrued investment income, premiums receivable and agents' balances and short-term debt approximate their fair values due to the short-term maturities of these instruments.

The methodologies to estimate fair values of fixed maturity securities, equity securities, short-term investments, and derivative financial instruments are described in Note 17.

(a) *Investments in Mortgage Loans and Other Long-term Investments*

The fair values of loans and other long-term investments with fixed interest rates are estimated by discounting future cash flows using estimates of market rates for securities with similar characteristics.

The carrying amounts of investments with floating interest rates approximate their fair values. The fair value of consumer loans, which are included in other long-term investments, in the amount of ¥376,325 million and ¥379,550 million at March 31, 2009 and 2010, respectively, approximates the carrying amount. The floating and fixed rates on consumer loans in the years ended March 31, 2008, 2009 and 2010 range from approximately 1.0% to 9.0%, and the remaining loan periods are from approximately six months to 35 years.

(b) *Indebtedness from Affiliates*

The fair values of loans to affiliates with fixed interest rates are estimated by discounting future cash flows using the long-term prime rate at the end of the year.

(c) *Investment Deposits by Policyholders*

The fair values of investment deposits by policyholders are estimated by discounting future cash flows using the interest rates currently being offered for similar contracts.

(d) *Indebtedness to affiliates and Long-term Debt*

The fair values of these financial instruments are estimated using quoted market prices for these or similar characteristic instruments.

(17) Fair Value Hierarchy

The Company adopted SFAS No. 157, which is now included in ASC 820, "Fair Value Measurements and Disclosure", on April 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1

Quoted prices for identical instruments in active markets; fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. This category generally includes equity securities that are traded in active exchange markets.

Level 2

Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active and model derived valuations in which all significant inputs and significant value drivers are observable in active markets. This category generally includes most government, government agency, and corporate bonds.

Level 3

Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Fair value is based on significant unobservable inputs for the asset or liability.

In accordance with ASC 820, the Company has established a methodological framework in order to measure fair value of financial instruments on a recurring basis. The fair value of financial instruments, including exchange traded securities and derivatives is based on quoted market prices, including market indices, broker or dealer quotations or an estimation by management of the amounts expected to be realized upon settlement under current market conditions. For financial instruments which have quoted market prices in active markets, the Company uses quoted market prices in the determination of fair value. Certain financial instruments, such as cash and over-the-counter ("OTC") contracts, have bid and ask prices that are observable in the market. These are measured at the point within the bid-ask range which best represents the Company's estimate of fair value. Where quoted market prices or broker or dealer quotations are not available, the Company uses prices for similar instruments or valuation pricing models in the determination of fair value.

As for security pricing, publicly available prices are first sought from third party pricing services, the remaining unpriced securities are submitted to independent brokers for prices where applicable. Typical inputs used by the brokers include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flows.

A categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Management judgment is required to determine whether a market is active or inactive in determining the fair value hierarchy. Key criteria used to determine whether a market is active or inactive include the number of transactions, the frequency pricing is updated by other market participants, the variability of prices quotations amongst other market participants, and the amount of publicly available information.

Summary of significant valuation techniques for financial assets and financial liabilities measured at fair value on a recurring basis is as follows:

Level 1

- Fixed maturity securities: Japanese government bonds, U.S. treasuries and bonds issued by governments of several European nations are categorized in Level 1. Since their valuations are based on quoted prices that are readily and regularly available in active markets, valuation adjustments are not applied. Accordingly, these are categorized in Level 1 of the fair value hierarchy.
- Equity securities: Comprise actively traded, exchange-listed Japanese and other equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access. Accordingly, these are categorized in Level 1 of the fair value hierarchy.
- Short-term investments: Comprise actively traded money trusts that have net asset values determined by daily quoted prices of respective entrusted assets that the Company can access. Accordingly, these are categorized in Level 1 of the fair value hierarchy.
- Derivatives: Comprise actively traded, exchange-listed financial derivatives. Listed derivatives that are actively traded are valued based on quoted prices from the exchange and whereby are categorized in Level 1 of the fair value hierarchy.

Level 2

- Fixed maturity securities: Comprise government and municipal bonds traded in markets that are not active, corporate bonds valued based on inputs including quoted prices for identical or similar assets in markets that are not active, and privately placed securities valued based on market-observable inputs.
- Equity securities: Comprise equity securities valued based on inputs including quoted prices for identical or similar assets in markets that are not active.
- Derivatives: Comprise OTC financial derivatives, valued based on market-observable inputs obtained from third party pricing services. Also, listed derivatives that are not actively traded are valued using the same approaches as those applied to OTC derivatives, which are generally categorized in Level 2 of the fair value hierarchy.

Level 3

The Company values its assets and liabilities classified as Level 3 using judgment and valuation models or other pricing techniques that require a variety of inputs including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs, some of which may be unobservable.

- Fixed maturity securities: Comprise corporate bonds, municipal bonds and residential mortgage backed securities “RMBS” valued using broker quotes, to which primary inputs are unobservable in the market.

  Prices from third party pricing services are often unavailable for securities that are rarely traded or traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations which utilize inputs that may be difficult to corroborate with observable market based data.

  The Company performs an analysis of the prices and credit spreads received from third parties to ensure that the prices represent a reasonable estimate of the fair value. This process involves quantitative and qualitative analysis and is overseen by investment and accounting professionals. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly.

  Due to a general lack of transparency in the process that the brokers use to develop prices, most valuations that are based on brokers’ prices are classified as Level 3.

- Equity securities: Comprise non-traded equity securities and privately placed non-traded investment trusts.

  The valuation of privately placed investment trusts requires significant management judgment due to the absence of quoted market prices, the inherent lack of liquidity and the long-term nature of such assets. As such, private equity investments are valued initially based upon cost. Regularly, valuations are reviewed utilizing available data including significant management estimates to determine if the carrying value of these investments should be adjusted. Therefore, privately placed investment trusts are included in Level 3 of the valuation hierarchy.

- Derivatives: Derivative products, typically the newest and most complex products or products that have become illiquid, require more judgment in the implementation of the valuation technique applied due to the complexity of the valuation assumptions and the reduced observability of inputs. Derivatives in Level 3 mainly comprise credit derivatives valued using the discounted cash flow model which is widely accepted by the financial services industry and do not necessitate significant judgment. Primary inputs to the model include interest rates, foreign exchange and credit spreads. Interest rates and foreign exchange are observable in the active market, therefore they are not adjusted. Credit spreads data, which appropriately reflect factors such as default rates and recovery rates, are obtained from widely known financial information service companies. For credit derivatives for which credit spreads cannot be observed in an active trading market (such as ABS-CDOs), the Company uses one quote obtained from brokers involved in valuing these instruments. Prior to use of the broker quotes, the Company examines whether third parties supplying derivatives have determined the market price based on either the standard price, the discounted price, or the pricing model. Of these, many traders use either the discount price or the pricing model in computing market value, and the Company analyzes price movements of prices for making valuation judgments and determinations. The Company understands that the traders’ pricing models incorporate observable inputs such as market interest rates where appropriate but their practices may vary. The Company did not make adjustments to the prices of derivatives obtained from financial institutions.

(a) Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2009 and 2010 were as follows:

	Level 1	Level 2	Level 3	Total
		(Yen in millions)		
March 31, 2009:				
Assets				
Securities available for sale:				
Fixed maturities	¥ 847,866	1,964,457	170,596	2,982,919
Equity securities	1,294,795	109,006	298,453	1,702,254
Short term-investments	6,865	6,808	—	13,673
Other assets:				
Derivatives	39	21,627	4,420	26,086
Liabilities				
Other liabilities:				
Derivatives	¥ 63	9,219	36,439	45,721

	Level 1	Level 2	Level 3	Total
		(Yen in millions)		
March 31, 2010:				
Assets				
Securities available for sale:				
Fixed maturities	¥ 991,766	1,882,367	135,160	3,009,293
Equity securities	1,636,310	76,896	283,365	1,996,571
Short term-investments	7,279	1,746	—	9,025
Other assets:				
Derivatives	—	12,120	2,034	14,154
Liabilities				
Other liabilities:				
Derivatives	¥ —	9,797	8,994	18,791

The reconciliation of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period from April 1, 2008 to March 31, 2009, and from April 1, 2009 to March 31, 2010 were as follows:

	Balance as of April 1, 2008	Net realized and unrealized losses included in income (1)	Change in accumulated other comprehensive loss, gross of tax	Purchases, sales, and settlements	Transfers in and / or out of Level 3	Balance at end of period	Changes in unrealized gains (losses) held at end of period (2)
				(Yen in millions)			
March 31, 2009:							
Securities available for sale							
Fixed maturities	¥228,483	(3,352)	(7,744)	(46,791)	—	170,596	(1,635)
Equity securities	287,550	(16,404)	(28,036)	55,343	—	298,453	(16,404)
Derivatives (net)	(39,627)	(9,266)	—	16,874	—	(32,019)	(6,956)

(1) Included in *Investment income, net of investment expenses* and *Net realized gains (losses) on investments* in the accompanying consolidated statement of operations.

(2) Included in *Net realized gains (losses) on investments* in the accompanying consolidated statement of operations.

	Balance as of April 1, 2009	Net realized and unrealized gains (losses) included in income (1)	Change in accumulated other comprehensive income, gross of tax	Purchases, sales, and settlements	Transfers in and / or out of Level 3	Balance at end of period	Changes in unrealized gains (losses) held at end of period (2)
				(Yen in millions)			
March 31, 2010:							
Securities available for sale							
Fixed maturities	¥170,596	(320)	5,550	(37,059)	(3,607)	135,160	(415)
Equity securities	298,453	(3,735)	12,254	(30,364)	6,757	283,365	(3,364)
Derivatives (net)	(32,019)	23,117	—	1,942	—	(6,960)	21,887

(1) Included in *Investment income, net of investment expenses* and *Net realized gains (losses) on investments* in the accompanying consolidated statement of operations.

(2) Included in *Net realized gains (losses) on investments* in the accompanying consolidated statement of operations.

The major Level 3 assets and liabilities were as follows:

Fixed maturities classified as Level 3 primarily consist of corporate bonds and RMBS, of which the fair values were ¥52,507 million and ¥73,352 million, respectively, at March 31, 2010. These assets are valued using broker quotes, to which primary inputs would be unobservable in the market. Due to a general lack of transparency in the process that the brokers use to develop prices, these brokers' prices are classified as Level 3.

Equity securities classified as Level 3 primarily consist of non-traded equity securities and privately placed investment trusts, of which the fair values are ¥172,858 million and ¥71,952 million, respectively, at March 31, 2010.

The Level 3 liabilities primarily consist of credit derivatives, of which the fair value (net) was ¥7,541 million at March 31, 2010.

(b) Assets Measured at Fair Value on a Non-Recurring Basis

Certain assets written-down to fair value in connection with recognizing other-than-temporary impairments are valued based on unobservable inputs and, as such, included in the fair value hierarchy in Level 3. The Company's assets measured at fair value on a non-recurring basis as of March 31, 2009 and 2010 were as follows:

	2009	2010
	(Yen in millions)	
Mortgage loans on real estate	¥ 1,116	995
Investment real estate	186	2,745
Other long-term investments	911	1,449
Property and equipment	244	263

(18) Variable Interest Entities

The Company has entered into transactions with various types of VIEs which are described as follows:

The Company holds the subordinated notes issued by VIEs formed for the purpose of guaranteeing the obligation of the Company under the reinsurance agreements (reinsurance guarantee VIEs). These VIEs hold U.S. government securities to collateralize the guarantee. The Company consolidates reinsurance guarantee VIEs as it absorbs a majority of the VIEs' expected losses and receives a majority of the VIEs' expected residual returns.

The Company engages in certain structured transactions, mainly securitization of independent third parties' assets through a VIE. The Company provides guarantee insurance for the VIE which is involved in the asset-backed securities business where it helps meet customers' financing needs by providing access to the commercial paper markets (commercial paper conduit VIE). The Company guarantees the redemption of commercial paper issued by the VIE. In addition, the Company holds commercial paper issued by the VIE which found difficulty in issuing commercial paper due to the market disruption. The Company consolidates this commercial paper conduit VIE as it absorbs a majority of the VIE's expected losses.

The assets and liabilities for the VIEs that are consolidated by the Company (net of intercompany balances that have been eliminated in consolidation) at March 31, 2010 were as follows:

Consolidated VIEs

	Assets	Liabilities
	(Yen in millions)	
March 31, 2010:		
Reinsurance guarantee VIEs	¥ 2,791	106
Commercial paper conduit VIE	1,673	1
Total	¥ 4,464	107

For Reinsurance guarantee VIEs, assets are primarily included in Securities available for sale: Fixed maturities, at fair value, and liabilities are included in Other liabilities. For Commercial paper conduit VIE, on the other hand, assets are primarily included in Short-term investments, and liabilities are included in Other liabilities.

A consolidated subsidiary of the Company holds significant variable interests in the VIEs which were structured by other parties for the purpose of project financing (project financing VIEs). As a means of ensuring timely repayment of the loan, the consolidated subsidiary provides limited credit enhancement for the VIEs through the guarantee insurance contracts. The consolidated subsidiary does not retain a first-risk-of-loss position and does not absorb a majority of these VIEs' expected losses and the VIEs were accordingly not consolidated in the accompanying consolidated financial statements.

The carrying amount of the liabilities in the Company's consolidated balance sheet that relate to those VIEs and maximum exposure to loss for those VIEs at March 31, 2010 were as follows:

	On-balance Liabilities	Maximum Exposure to Loss
	(Yen in millions)	
March 31, 2010:		
Project financing VIEs	¥ 1,616	34,998

For project financing VIEs, the maximum exposure to loss represents a total insured amount of the guarantee insurance contracts, whereas the on-balance liabilities represent Unearned premiums calculated in accordance with ASC 944-20, "Financial Services–Insurance, Insurance Activities" (formerly SFAS No. 60).

(19) Commitments and Contingencies

The Company is involved in various legal proceedings in the normal course of business including litigation regarding insurance claims. In the opinion of management, the aggregate liability, if any, with respect to these matters will not materially adversely affect the Company's consolidated financial position, results of operations or cash flows.

At March 31, 2009 and 2010, commitments outstanding for the purchase of property and equipment amounted to approximately ¥39,680 million and ¥35,514 million, respectively. At March 31, 2009 and 2010, commitments outstanding for the purchase of investment real estate amounted to approximately ¥2,547 and ¥2,546 million, respectively.

At March 31, 2010, the Company had a ¥3,419 million investment in a limited partnership with overseas partners. A condition of the support agreement is that additional investment shall be made by the limited partners, based on the pro rata share in the partnership, should there be a shortage of funds in the partnership. Considering the latest financial information of the partnership available to the Company as of March 31, 2010, its most recent balance sheet date, management believes the likelihood of an additional capital requirement is remote. In addition to the above commitment, the Company had a contract that would have provided a financial guarantee to the limited partnership; however, the amount of potential payment based on the contract was zero as of March 31, 2010. The obligation of the Company under the guarantee was fully collateralized with securities, and no net exposure existed as of March 31, 2010.

The Company had loan commitment agreements amounting to ¥3,164 million and ¥1,857 million as of March 31, 2009 and 2010, respectively. The Company's policy to provide loan commitment agreements is basically the same as that of guarantee contracts.

The Company occupies certain offices and other facilities under lease arrangements. The following is a schedule by years of future minimum rental payments required under non-cancelable operating leases that have initial or remaining lease terms in excess of one year as of March 31, 2010:

	(Yen in millions)
Years ending March 31:	
2011	¥ 2,798
2012	1,874
2013	1,284
2014	764
2015	655
Later years	2,314
Total future minimum rental payments	¥ 9,689

Rental expenses for the years ended March 31, 2008, 2009 and 2010 were ¥15,422 million, ¥16,288 million and ¥16,148 million, respectively.

The Company leases assets related to investment property to the third parties under operating leases. The following is a schedule by years of future minimum lease receivables under non-cancelable operating leasing that have initial or remaining lease terms in excess of one year as of March 31, 2010:

		(Yen in millions)
Years ending March 31:		
2011	¥	1,395
2012		1,156
2013		570
2014		294
2015		257
Later years		1,867
Total future minimum lease receivables	¥	5,539

(20) Reconciliation of Net Income (Loss) to Net Cash Provided by Operating Activities

	2008	2009	2010
		(Yen in millions)	
Net income (loss)	¥105,622	(69,940)	50,329
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Valuation allowance for credit losses	(1,967)	1,798	3,257
Impairment losses of long-lived assets	4,244	817	6,198
Realized losses(gains) from sales or revaluation of investments	(24,616)	117,897	9,492
Amortization of fixed maturity securities	2,456	116	3,615
Depreciation	19,879	27,413	29,001
Provision for retirement and severance benefits	2,332	(155)	(2,952)
Deferred income taxes	22,769	(41,910)	(1,398)
Decrease (increase) in assets:			
Net insurance related assets	(32,631)	(26,300)	(11,124)
Deferred policy acquisition costs	2,457	27,261	(19,394)
Accrued investment income	(940)	3,188	3,354
Derivative assets	(10,028)	(9,348)	12,250
Other assets	2,793	705	(8,580)
Increase (decrease) in liabilities:			
Losses and claims	37,243	93,444	(30,498)
Unearned premiums	35,276	(55,961)	(1,216)
Future policy benefits	63,921	41,845	44,736
Income taxes	(13,782)	(17,521)	16,027
Derivative liabilities	43,318	(10,337)	(26,861)
Other liabilities	4,831	17,476	(37,067)
Interest credited to policyholders' contract deposits	48,498	44,573	47,304
Other, net	(3,668)	12,419	8,199
Net cash provided by operating activities	¥308,007	157,480	94,672

(21) Supplementary Cash Flow Information

	2008	2009	2010
		(Yen in millions)	
Cash paid during the year for:			
Interest	¥ 947	1,653	2,331
Income taxes	44,476	39,277	24,519
Noncash transaction:			
Capital lease obligations incurred	924	703	1,059

(22) Segment Information

The Company identifies operating segments in accordance with the nature of the products and services. The property and casualty insurance segment offers automobile, fire, personal accident, liability and other forms of property and casualty insurance products. The Company's financial services business, including financial guarantees and derivatives are also operated within the property and casualty insurance segment. Life insurance operations are conducted by the Company's wholly owned subsidiary, MS Kirameki, which offers a wide range of traditional life insurance products such as term-life, whole-life and annuity insurance, and a joint venture company, MS MetLife, which offers variable annuity plans that combine the appeal of fund management, insurance, and annuity products, and fixed annuities denominated in foreign currencies.

The chief operating decision maker of the Company assesses segment profit and loss based on net income and segment assets based on total assets of the segment, all determined in accordance with Japanese GAAP. Accordingly, the operating segment information is based on internal financial information presented to the chief operating decision maker of the Company on a Japanese GAAP basis with certain limited presentation differences from that utilized in the Company's external Japanese GAAP financial reporting. Additionally, the format and information presented in the internal management reporting are not consistent with the consolidated financial statements prepared on a U.S. GAAP basis.

Financial information with respect to the operating segments and reconciling items to the Company's external Japanese GAAP financial statements as of and for the years ended March 31, 2008, 2009 and 2010 is as follows:

	Property and Casualty Insurance	Life Insurance	Total Operating Segments (Yen in millions)	Adjustments and Eliminations	Consolidated
2008:					
Net premiums written	¥1,541,032	—	1,541,032	—	1,541,032
Net claims paid	879,725	—	879,725	—	879,725
Life insurance premiums	—	156,528	156,528	—	156,528
Life insurance claims	—	31,703	31,703	—	31,703
Commission and collection expenses	234,640	14,740	249,380	(395)	248,985
Operating expenses and general and administrative expenses (1)	271,198	21,560	292,758	(2,416)	290,342
Interest and dividends received, net (2)	114,403	16,232	130,635	(20)	130,615
Ordinary profit (loss) (3)	66,591	(5,724)	60,867	—	60,867
Income taxes	15,159	241	15,400	—	15,400
Net income (loss)	46,706	(6,177)	40,529	(501)	40,028
Total assets (4)	7,388,669	1,009,780	8,398,449	(731)	8,397,718
Significant non-cash items (5)	19,128	—	19,128	—	19,128
Total expenditure for additions to long-lived assets	44,693	381	45,074	—	45,074

(1) includes depreciation and amortization of ¥19,237 million in P&C insurance and ¥204 million in life insurance.

(2) includes interest expense of ¥1,073 million in P&C insurance and ¥10 million in life insurance.

(3) includes equity in earnings (losses) of equity method investees of ¥959 million in P&C insurance and ¥(6,232) million in life insurance.

(4) includes investment in equity method investees of ¥4,971 million in P&C insurance and ¥7,508 million in life insurance.

(5) primarily comprised of impairment losses on investments and long-lived assets.

	Property and Casualty Insurance	Life Insurance	Total operating segments	Adjustments and Eliminations	Consolidated
			(Yen in millions)		
2009:					
Net premiums written	¥1,445,651	—	1,445,651	—	1,445,651
Net claims paid	892,711	—	892,711	—	892,711
Life insurance premiums	—	133,368	133,368	—	133,368
Life insurance claims	—	36,438	36,438	—	36,438
Commission and collection expenses	231,359	14,841	246,200	(504)	245,696
Operating expenses and general and administrative expenses (1)	281,903	23,040	304,943	(2,593)	302,350
Interest and dividends received, net (2)	98,256	18,396	116,652	(187)	116,465
Ordinary loss (3)	(8,574)	(3,914)	(12,488)	(557)	(13,045)
Income taxes	1,583	277	1,860	4	1,864
Net income (loss)	13,540	(4,418)	9,122	(930)	8,192
Total assets (4)	6,328,170	1,090,883	7,419,053	21,657	7,440,710
Significant non-cash items (5)	119,167	—	119,167	—	119,167
Total expenditure for additions to long-lived assets	21,837	379	22,216	—	22,216

(1) includes depreciation and amortization of ¥21,893 million in P&C insurance and ¥264 million in life insurance.

(2) includes interest expense of ¥1,631 million in P&C insurance and ¥3 million in life insurance.

(3) includes equity in earnings (losses) of equity method investees of ¥220 million in P&C insurance and ¥(4,463) million in life insurance.

(4) includes investment in equity method investees of ¥4,685 million in P&C insurance and ¥13,248 million in life insurance.

(5) primarily comprised of impairment losses on investments and long-lived assets.

	Property and Casualty Insurance	Life Insurance	Total operating segments	Adjustments and Eliminations	Consolidated
			(Yen in millions)		
2010:					
Net premiums written	¥1,394,165	—	1,394,165	—	1,394,165
Net claims paid	914,692	—	914,692	—	914,692
Life insurance premiums	—	135,165	135,165	—	135,165
Life insurance claims	—	41,717	41,717	—	41,717
Commission and collection expenses	228,591	15,124	243,715	(578)	243,137
Operating expenses and general and administrative expenses (1)	270,787	25,127	295,914	(953)	294,961
Interest and dividends received, net (2)	70,228	19,821	90,049	(229)	89,820
Ordinary profit (3)	48,009	5,024	53,033	(338)	52,695
Income taxes	11,874	284	12,158	1	12,159
Net income	33,930	4,499	38,429	(789)	37,640
Total assets (4)	6,343,386	1,168,528	7,511,914	7,711	7,519,625
Significant non-cash items (5)	9,497	—	9,497	—	9,497
Total expenditure for additions to long-lived assets	24,144	2,728	26,872	173	27,045

(1) includes depreciation and amortization of ¥22,337 million in P&C insurance and ¥557million in life insurance.

(2) includes interest expense of ¥2,245million in P&C insurance and ¥14million in life insurance.

(3) includes equity in earnings of equity method investees of ¥417million in P&C insurance and ¥4,461 million in life insurance.

(4) includes investment in equity method investees of ¥9,661million in P&C insurance and ¥17,696million in life insurance.

(5) primarily comprised of impairment losses on investments and long-lived assets.

Reconciling items under the caption “Adjustments and Eliminations” primarily consist of elimination of intersegment administration costs charged and adjustments for unallocated corporate assets.

Information on major lines of Property and Casualty insurance on the U.S. GAAP basis is as follows:

	Net Premiums Written	Net Premiums Earned
	(Yen in millions)	
2008:		
Voluntary automobile	¥ 624,949	621,036
Compulsory automobile liability	191,256	193,572
Fire and allied lines	225,259	209,396
Personal accident	138,896	132,171
Cargo and transit	98,846	97,696
Hull	21,867	21,508
Other	236,543	227,306
Total	¥1,537,616	1,502,685

	Net Premiums Written	Net Premiums Earned
	(Yen in millions)	
2009:		
Voluntary automobile	¥ 608,614	614,199
Compulsory automobile liability	148,502	217,935
Fire and allied lines	220,188	208,331
Personal accident	136,596	131,995
Cargo and transit	88,828	92,313
Hull	21,329	20,650
Other	224,216	222,980
Total	¥1,448,273	1,508,403

	Net Premiums Written	Net Premiums Earned
	(Yen in millions)	
2010:		
Voluntary automobile	¥ 610,957	608,071
Compulsory automobile liability	134,932	144,116
Fire and allied lines	218,355	212,674
Personal accident	135,762	131,932
Cargo and transit	69,333	69,965
Hull	21,755	21,586
Other	204,144	208,293
Total	¥1,395,238	1,396,637

For the years ended March 31, 2008, 2009 and 2010, all the premium revenues were from external customers and no revenue was derived from transactions with a single external customer exceeding 10% of the Company's revenues.

For the years ended March 31, 2008, 2009 and 2010 net property and casualty premiums written in the amount of ¥1,289,911 million, ¥1,218,796 million, and ¥1,196,607 million, respectively, were from external customers in Japan, and those in the amount of ¥247,705 million, ¥229,477 million, and ¥198,630 million, respectively, were from external customers in foreign countries. Life insurance premiums were from external customers in Japan for the years ended March 31, 2008, 2009 and 2010. There were no countries other than Japan to which more than 10% of the Company's consolidated revenues were attributed for the periods presented.

At March 31, 2008, 2009 and 2010, long-lived assets located in Japan amounted to ¥267,291 million, ¥258,973 million and ¥247,625 million, respectively, and those located in countries other than Japan amounted to ¥21,382 million, ¥14,067 million and ¥13,953 million, respectively.

Reconciliation of segment information to the U.S. GAAP consolidated financial statements

As described above, the bases for measuring and reporting segment net income (loss) and segment total assets is determined in accordance with Japanese GAAP, which are different from the amounts reported in the Company's consolidated financial statements presented in accordance with U.S. GAAP.

Following is a reconciliation of the Company's total segment premiums and total segment net income to the Company's consolidated premiums earned and consolidated net income (loss), respectively, for the years ended March 31, 2008, 2009, and 2010:

	2008	2009	2010
		(Yen in millions)	
Property and casualty insurance net premiums written	¥1,541,032	1,445,651	1,394,165
Life insurance premiums	156,528	133,368	135,165
Segment total premiums	1,697,560	1,579,019	1,529,330
Reconciling items:			
Increase (decrease) in unearned premiums in Japanese GAAP	40,410	(5,607)	3,975
Adjustment for difference in the measurement basis between Japanese GAAP and U.S. GAAP for unearned premiums	(75,341)	65,737	(5,374)
Reclassification of investment contracts or universal-life contracts of life insurance	(28,809)	(29,581)	(34,584)
Return premium for cancellation of life contracts	65,012	86,326	87,792
Other adjustments	(3,416)	2,622	3,871
Consolidated premiums earned	¥1,695,416	1,698,516	1,585,010
Consolidated premiums earned consists of:			
Property and casualty insurance premiums	¥1,502,685	1,508,403	1,396,637
Life insurance premiums	192,731	190,113	188,373
Premiums earned (U.S.GAAP)	¥1,695,416	1,698,516	1,585,010

	2008	2009	2010
		(Yen in millions)	
Total segment net income	¥ 40,529	9,122	38,429
Reconciling items:			
Catastrophic loss reserve	25,160	(9,813)	15,688
Other underwriting reserves	47,923	(6,761)	(5,831)
Reserve for price fluctuation	3,254	(25,722)	62
Policy acquisition costs	(4,559)	(29,337)	19,913
Revaluation of investments in securities and related investment income (loss)	(1,315)	(52,040)	8,906
Derivative transactions	(7,824)	(7,038)	(8,571)
Retirement and severance benefits	1,403	3,322	4,373
Gains (losses) from equity method investments	22,858	12,902	(13,084)
Deferred income taxes	(32,737)	13,900	(4,219)
Other	10,104	21,225	(5,683)
Consolidated net income (loss)	¥104,796	(70,240)	49,983

Reconciling items consist of certain accounting differences between Japanese GAAP and U.S. GAAP and the adjustments and eliminations from total amounts of operating segments to the consolidated financial statements prepared on a Japanese GAAP.

The accounting differences primarily consist of differences in insurance reserving methodologies and differences in the assessment of other than temporary impairment of investments in securities.

Following is a reconciliation of the Company's total segment assets to consolidated total assets at March 31, 2009 and 2010:

	2009	2010
	(Yen in millions)	
Segment total assets	¥7,419,053	7,511,914
Reconciling items:		
Japanese GAAP adjustment and elimination	21,657	7,711
Revaluation of investment in securities	30,887	24,329
Deferred policy acquisition costs	325,539	345,731
Prepaid reinsurance premiums on a gross basis	203,477	195,626
Reinsurance recoverable on losses on a gross basis	304,228	293,347
Deferred tax assets	(134,337)	(64)
The difference in consolidation scope	20,442	22,681
Other	43,909	43,461
Consolidated total assets	¥8,234,855	8,444,736

Reconciling items consist of certain accounting differences between Japanese GAAP and U.S. GAAP and the adjustments and eliminations from total amounts of operating segments to the consolidated financial statements prepared on a Japanese GAAP.

The accounting differences primarily consist of the recognition of deferred acquisition costs under U.S. GAAP which are charged to income as incurred under Japanese GAAP and adjustments to present reinsurance related accounts on a gross basis under U.S. GAAP.

(23) Subsequent Events

Establishment of MS&AD Insurance Group

On April 1, 2010, the Company acquired AIOI and NDGI through a statutory share exchange and was renamed MS&AD Insurance Group Holdings, Inc. in order to form a new insurance and financial services group, MS&AD Insurance Group. Under the share exchange, each shareholder of AIOI and NDGI registered as of the moment immediately preceding the share exchange received 0.190 and 0.191 shares of the Company's common stock for each share of AIOI's and NDGI's common stock that such shareholder holds. As a result of the share exchange, the Company issued 139,479,256 and 72,491,759 common stocks to shareholders of AIOI and NDGI, respectively, and acquired 100% of voting equity interests of AIOI and NDGI. The purpose of the business combination is to achieve sustainable growth and to enhance enterprise value through the creation of a globally operating and world-leading insurance and financial services group by rapidly and significantly improving the quality and expanding the quality of operational bases and corporate resources.

The share exchange is being accounted for under the acquisition method in accordance with ASC 805, "Business Combinations" (formerly SFAS No. 141R). Under the acquisition method, the consideration transferred was preliminary allocated to the assets acquired and liabilities assumed based on the estimated fair values at the acquisition date. The allocation of the consideration transferred will be finalized upon completion of the analysis of the fair values of assets and liabilities of AIOI and NDGI.

Consideration transferred is summarized as follows:

	AIOI	NDGI
Number of shares of common stock outstanding as of April 1, 2010 (in thousands)	734,101	379,538
Share exchange ratio	0.190	0.191
The Company's common stock issued (in thousands)	139,479	72,492
Purchase price per share of the Company's common stock	¥ 2,595	¥ 2,595
Consideration transferred (in millions)	¥361,949	¥188,116

The unaudited preliminary allocation of the consideration transferred to the assets acquired and liabilities assumed is as follows:

	(Yen in millions) April 1, 2010	
	AIOI	NDGI
Fair value of total consideration transferred	¥ 361,949	¥ 188,116
Fair values of identifiable assets acquired		
Investments — other than investments in affiliates	¥2,349,910	¥ 895,336
Cash and cash equivalents	29,006	48,571
Investments in and indebtedness from affiliates	38,329	2,676
Accrued investment income	7,295	3,632
Premiums receivable and agents' balances	37,528	19,086
Reinsurance recoverable on paid losses	48,273	14,378
Property and equipment, net of accumulated depreciation	96,232	75,777
Other assets	553,265	178,382
Total assets acquired	¥3,159,838	¥ 1,237,838

	(Yen in millions)	
	April 1, 2010	
	AIOI	NDGI
Fair values of identifiable liabilities assumed		
Policy liabilities and accruals	¥2,398,174	¥ 867,851
Other liabilities	153,412	54,027
Total liabilities assumed	¥2,551,586	¥ 921,878
Noncontrolling interests	2,130	17
Fair value of net assets acquired	606,122	315,943
Preliminary gain from a bargain purchase	¥ 244,173	¥ 127,827

As indicated in the preliminary purchase price allocation above, the Company expects to recognize a gain from a bargain purchase in the year ended March 31, 2011 as the sum of the fair value of the net assets acquired and the fair values of the noncontrolling interests is expected to exceed the fair value of the purchase consideration.

The following unaudited pro forma consolidated income statement information assumes these business combinations had been completed on April 1, 2008 or 2009:

	2009	2010
	(Yen in millions)	
Pro forma total revenue	¥2,686,103	¥2,996,890
Pro forma net income (loss)	(211,458)	106,874

The expected gain from a bargain purchase has been excluded from the unaudited pro forma income statement information as it is considered to be directly attributed to the share exchange. The unaudited pro forma income statement information does not include any anticipated financial benefits from such items as cost savings and revenue synergies arising from the share exchange nor does the unaudited pro forma income statement information include the portion of restructuring and integration costs to be incurred by the Company.

The unaudited pro forma income statement information is not intended to reflect the results of operations that would have resulted had the share exchange been effected on the dates indicated or the results that may be obtained by the Consolidated company in the future.

Merger of MS Kirameki and Aioi Life Insurance

It has decided at the meeting of MSIGH's Board of Directors held on May 20, 2010, to approve merger of its life insurance subsidiaries, MS Kirameki and Aioi Life Insurance Co., Ltd. (hereinafter, the "merged company".)

Purpose of the merger

The merged company is intended to enhance the Company's operational bases in domestic life insurance business, a growing business area in the five business domains under the Group's medium-term management plan "MS&AD New Frontier 2013," and thus accelerate growth of the group.

Effective date of the merger

October 1, 2011

(The merger is contemplated to be conditional on obtaining permissions and other approvals from relevant authorities.)

MSI sets to enter Life Insurance Business in Malaysia as well as Expand its Current Non-Life Insurance Business

MSI has reached a basic agreement to form a strategic alliance involving the non-life and life insurance business with Hong Leong Financial Group (hereafter "HLFG"), a well established local conglomerate. This agreement followed approval that MSI has received from the regulatory authorities in Malaysia.

Purpose of the alliance

To proactively invest in non-life and life insurance business overseas is one of MSI's driving strategies towards achieving sustainable growth. The alliance with HLFG will allow MSI to simultaneously achieve expansion of its current non-life business and entering the life insurance market, in Malaysia which is one of the most strategically important countries in Asia.

MSI intends to take this opportunity to further accelerate its ongoing effort in establishing a stable business base in the Asian market.

Overview of the Alliance

- Non-Life Insurance Business

  The non-life insurance business portfolio of Hong Leong Assurance Berhad (hereafter "HLA"), a subsidiary of HLFG, will be merged with that of MSIG Insurance (Malaysia) Bhd. (hereafter "MSIGM"), a subsidiary of MSI. As a result, shareholders' equity of the enlarged MSIGM will be 70%* owned by MSI and 30% owned by HLFG, creating the second largest non life insurance company in Malaysia by premium income.

* MSI's share includes approximately 5% of shares held by minority shareholders.

- Life Insurance Business

  MSI will purchase 30% of outstanding shares in HLA for the price of RM 940 million, approximately ¥25.4 billion, thereby entering the life insurance market in Malaysia holding a stake in a well established life insurance company ranking No.6 by premium income in the market. MSI will second officers and employees, transferring technical know-how on life insurance with more innovative products and underwriting support with the objective of supporting HLA to become a top rank life insurer in Malaysia at an early stage.

  Conversion Rate: 1 Malaysian Ringgit= ¥27 in this letter including its appendix

- Specific actions/ Objectives of the Alliance

(i) Expanding Insurance Sales through Bancassurance

MSI will expand MSI’s sales force of both the non-life and life insurance business through bancassurance at HLFG’s bank subsidiary.

(ii) MSI will supply distinguished non-life and life insurance products through the synergy effect of MSI and HLFG which will bring together the respective brand strengths, business bases and insurance business know-how, simultaneously MSI aims to further enhance the corporate value of the Company.

Effective date of the Alliance

It is planed to launch the alliance in this autumn.

MITSUI SUMITOMO INSURANCE GROUP HOLDINGS, INC.
AND SUBSIDIARIES
Summary of Investments — Other than Investments in Related Parties
March 31, 2010 and 2009

Type of investment	Cost	Value	Amount at which shown in the balance sheet
		(Yen in millions)	
March 31, 2010:			
Securities held to maturity:			
Fixed maturities:			
Bonds and notes:			
Government and government Agencies and authorities:			
United States	¥ —	¥ —	¥ —
Other	388,433	396,096	388,433
	388,433	396,096	388,433
All other corporate bonds	117,874	122,834	117,874
Total fixed maturities	506,307	518,930	506,307
Securities available for sale:			
Fixed maturities:			
Bonds and notes:			
Government and government Agencies and authorities:			
United States	89,349	93,527	93,527
Other	871,458	888,091	888,091
	960,807	981,618	981,618
States, municipalities and Political subdivisions:			
United States	101	94	94
Other	516,015	523,063	523,063
	516,116	523,157	523,157
Public utilities	135,349	141,759	141,759
All other corporate bonds	1,345,481	1,365,769	1,365,769
Total fixed maturities	2,957,753	3,012,303	3,012,303
Equity securities:			
Common stocks:			
Public utilities	10,234	27,490	27,490
Banks, trust and insurance companies	93,764	135,089	135,089
Industrial, miscellaneous and all Other	830,386	1,740,872	1,740,872
	934,384	1,903,451	1,903,451
Nonredeemable preferred stocks	92,406	94,295	94,295
Total equity securities	1,026,790	1,997,746	1,997,746
Total securities	4,490,850	¥5,528,979	5,516,356
Mortgage loans on real estate	7,260		7,260
Real estate — investment properties	36,698		36,698
Policy loans	44,339		44,339
Other long-term investments	691,625		691,625
Short-term investments	69,139		69,139
Total investments	¥5,339,911		¥ 6,365,417

MITSUI SUMITOMO INSURANCE GROUP HOLDINGS, INC.
AND SUBSIDIARIES
Summary of Investments — Other than Investments in Related Parties
March 31, 2010 and 2009

Type of investment	Cost	Value	Amount at which shown in the balance sheet
		(Yen in millions)	
March 31, 2009:			
Securities held to maturity:			
Fixed maturities:			
Bonds and notes:			
Government and government Agencies and authorities:			
United States	¥ —	¥ —	¥ —
Other	363,613	376,096	363,613
	363,613	376,096	363,613
States, municipalities and Political subdivisions:			
Other	1,112	1,112	1,112
	1,112	1,112	1,112
All other corporate bonds	110,851	114,636	110,851
Total fixed maturities	475,576	491,844	475,576
Securities available for sale:			
Fixed maturities:			
Bonds and notes:			
Government and government Agencies and authorities:			
United States	96,199	105,002	105,002
Other	723,315	742,850	742,850
	819,514	847,852	847,852
States, municipalities and Political subdivisions:			
United States	100	87	87
Other	591,108	587,440	587,440
	591,208	587,527	587,527
Public utilities	142,700	147,551	147,551
All other corporate bonds	1,437,681	1,411,940	1,411,940
Total fixed maturities	2,991,103	2,994,870	2,994,870
Equity securities:			
Common stocks:			
Public utilities	10,870	29,795	29,795
Banks, trust and insurance companies	103,484	143,718	143,718
Industrial, miscellaneous and all Other	896,548	1,427,541	1,427,541
	1,010,902	1,601,054	1,601,054
Nonredeemable preferred stocks	102,218	102,379	102,379
Total equity securities	1,113,120	1,703,433	1,703,433
Total securities	4,579,799	¥5,190,147	5,173,879
Mortgage loans on real estate	9,224		9,224
Real estate — investment properties	40,992		40,992
Policy loans	43,254		43,254
Other long-term investments	711,653		711,653
Short-term investments	106,852		106,852
Total investments	¥5,491,774		¥ 6,085,854

MITSUI SUMITOMO INSURANCE GROUP HOLDINGS, INC.
AND SUBSIDIARIES
Supplementary Insurance Information
Years ended March 31, 2010, 2009 and 2008

Line of Business	Total losses and claims	Unearned premiums	Net premiums earned	Losses and claims incurred and provided for	Net premiums written
			(Yen in millions)		
Property and casualty:					
Year ended March 31, 2010:					
Voluntary automobile	¥ 307,171	¥ 224,687	¥ 608,071	¥ 395,221	¥ 610,957
Compulsory automobile liability	371,889	198,750	144,116	125,319	134,932
Fire and allied lines	113,544	573,380	212,674	90,141	218,355
Personal accident	62,384	107,602	131,932	78,387	135,762
Cargo and transit	31,975	27,917	69,965	30,341	69,333
Hull	34,011	12,848	21,586	15,934	21,755
Other	294,461	236,340	208,293	120,571	204,144
Total	¥1,215,435	¥1,381,524	¥1,396,637	¥ 855,914	¥1,395,238
Year ended March 31, 2009:					
Voluntary automobile	¥ 306,809	¥ 219,629	¥ 614,199	¥ 382,642	¥ 608,614
Compulsory automobile liability	396,302	218,289	217,935	218,219	148,502
Fire and allied lines	103,634	559,285	208,331	94,168	220,188
Personal accident	60,630	103,977	131,995	77,302	136,596
Cargo and transit	35,302	28,674	92,313	35,008	88,828
Hull	35,660	12,937	20,650	15,996	21,329
Other	307,209	242,499	222,980	136,706	224,216
Total	¥1,245,546	¥1,385,290	¥1,508,403	¥ 960,041	¥1,448,273
Year ended March 31, 2008:					
Voluntary automobile	¥ 325,606	¥ 237,252	¥ 621,036	¥ 405,656	¥ 624,949
Compulsory automobile liability	211,553	313,405	193,572	133,688	191,256
Fire and allied lines	134,890	535,143	209,396	114,095	225,259
Personal accident	56,466	100,502	132,171	73,921	138,896
Cargo and transit	43,669	39,094	97,696	35,753	98,846
Hull	33,795	14,152	21,508	15,933	21,867
Other	381,615	250,408	227,306	127,211	236,543
Total	¥1,187,594	¥1,489,956	¥1,502,685	¥ 906,257	¥1,537,616

MITSUI SUMITOMO INSURANCE GROUP HOLDINGS, INC.
AND SUBSIDIARIES
Supplementary Insurance Information
Years ended March 31, 2010, 2009 and 2008

	Total losses and claims	Liability for future policy benefits	Premium income	Policyholder benefits for life insurance contracts
	(Yen in millions)			
Life:				
Year ended:				
March 31, 2010	¥11,642	¥1,022,413	¥188,373	¥150,346
March 31, 2009	10,976	970,217	190,113	154,056
March 31, 2008	10,226	911,165	192,731	156,683

**MITSUI SUMITOMO INSURANCE GROUP HOLDINGS, INC.
AND SUBSIDIARIES
Reinsurance
Years ended March 31, 2010, 2009 and 2008**

	Gross amount	Ceded to other companies	Assumed from other companies	Net Amount	Percentage of amount assumed to net
			(Yen in millions)		
Property and casualty insurance premiums:					
Year ended:					
March 31, 2010	¥1,488,589	¥295,164	¥203,212	¥1,396,637	14.6%
March 31, 2009	1,532,750	306,989	282,642	1,508,403	18.7%
March 31, 2008	1,597,352	361,138	266,471	1,502,685	17.7%
Life insurance premiums:					
Year ended:					
March 31, 2010	¥ 188,939	¥ 566	¥ —	¥ 188,373	—
March 31, 2009	190,748	635	—	190,113	—
March 31, 2008	193,392	661	—	192,731	—

MITSUI SUMITOMO INSURANCE GROUP HOLDINGS, INC.
AND SUBSIDIARIES
Valuation and Qualifying Accounts
Years ended March 31, 2010 and 2009

Description	Balance at beginning of year	Additions: Charged to costs and expenses	Additions: Charged to other accounts	Deductions	Balance at end of year
	(Yen in millions)				
Year ended March 31, 2010:					
Applied against asset accounts:					
Accumulated depreciation — real estate investments	¥ 48,570	¥ 2,422	¥ —	¥ —	¥ 50,992
Valuation allowance — loans:					
Specific allowance	1,850	2,043	—	(74)	3,819
General reserve	810	51	—	—	861
Allowance for doubtful accounts	3,250	653	—	—	3,903
Accumulated depreciation — property and equipment	239,776	26,579	—	(16,337)	250,018
Year ended March 31, 2009:					
Applied against asset accounts:					
Accumulated depreciation — real estate investments	¥ 50,327	¥ 2,310	¥ —	¥ (4,067)	¥ 48,570
Valuation allowance — loans:					
Specific allowance	652	1,323	—	(125)	1,850
General reserve	446	364	—	—	810
Allowance for doubtful accounts	3,469	(219)	—	—	3,250
Accumulated depreciation — property and equipment	233,451	25,103	—	(18,778)	239,776