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OVERVIEW OF INTERNATIONAL ACTIVITIES

An analysis of overseas non-life insurance markets in fiscal 2000 shows that the U.S. market was adversely affected by signs of an economic slowdown, accompanied by indications that premiums were starting to rise. In Europe, financial sector restructuring coincided with a sharp rise in loss ratios due to storms at the end of 1999 in France and Denmark and record flooding in Britain. Premiums rose, especially in the retail sector. While the Asian economies continued to recover from the Asian currency crisis, non-life insurers still faced an extremely competitive environment.

Japanese affiliated businesses overseas were affected by overall premium increases in the order of 10–20% due to local market trends in Europe and North America. In Asia, a renewed influx of Japanese affiliated companies resulted in similar competitive trends in the local markets.

Our biggest subsidiary, Chiyoda Europe (now Aioi Europe), recorded major losses in its results for fiscal 1999 and fiscal 2000. This reflects the occurrence of natural disasters throughout the world over the past few years. This led in late September 2000 to a decision to suspend all reinsurance writing, and to focus on direct writing.

Dai-Tokyo Royal (now DTRIC Insurance) of Hawaii was able to achieve growth in both revenues and profit. This reflects our consistent prudence of underwriting philosophy.

Business with Japanese-affiliated companies was affected by increasing competition and the globalization of the insurance policy. Premium income from property business with major existing customers stagnated, but efforts to develop new customers resulted in revenue growth.

THE FUTURE OF INTERNATIONAL OPERATIONS AND REINSURANCE

On April 1, 2001, Dai-Tokyo Fire & Marine Insurance and Chiyoda Fire & Marine Insurance made a fresh start in a new century by merging to form Aioi Insurance. The merger has created a stronger financial base and an expanded overseas network. These resources, together with the combined expertise of Dai-Tokyo and Chiyoda, will allow Aioi Insurance to upgrade its service quality by offering a wide range of services tailored precisely to customer needs. In the area of reinsurance operations, the expanded financial base will give Aioi Insurance increased capacity to operate in the world's reinsurance markets.

Aioi Insurance aims to strengthen all aspects of its international business operations, including its income and cost management systems, and to rebuild its business base in areas with profit potential as quickly as possible. It will also promote further efficiency improvements for Japanese affiliated business. Another priority is the provision of enhanced services, including

the integration of domestic and overseas services, for Toyota Motor Corporation and other major customers.

Toyota Motor Corporation is expanding its financial activities in Japan and overseas. As the non-life insurer in the Toyota Group, Aioi Insurance sees this expansion as an opportunity for future income growth. Its plans call for the joint development of vehicle related finance and insurance operations in countries where Toyota Motor has established finance companies.

In the reinsurance field, Aioi Insurance aims to upgrade its reinsurance programs introducing innovative ideas to adapt to the diversification and expansion of its anticipated underwriting risks as a result of merger. In order to achieve this, it will ask for the cooperation of overseas reinsurers and reinsurance brokers, and realize appropriate risk spreading. Another goal will be reciprocal risk spreading, through reinsurance exchanges with major overseas reinsurers.

Aioi Insurance is currently involved in reinsurance deals with approximately 40 overseas specialist reinsurance firms and about 120 leading insurance companies, all of which have good financial fundamentals.