

# FINANCIAL SECTION AND CORPORATE INFORMATION

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# FIVE-YEAR FINANCIAL SUMMARY

Aioi Insurance Company, Limited and consolidated subsidiaries  
Years ended March 31

Consolidated	Millions of Yen					Thousands of U.S. Dollars (Note)
	2006	2005	2004	2003	2002	2006
Net premiums written .....	¥ 847,008	¥ 838,740	¥ 843,552	¥ 845,669	¥ 788,275	\$ 7,210,424
Net income (loss) .....	20,791	19,701	29,359	13,927	(88,247)	176,994
Total shareholders' equity.....	624,103	445,147	435,597	295,670	378,644	5,312,872
Total assets .....	3,008,838	2,797,920	2,791,994	2,651,212	2,792,102	25,613,675

	Yen					U.S. Dollars (Note)
Net asset value per share .....	¥ 849.84	¥ 609.31	¥ 596.01	¥ 396.34	¥ 501.52	\$ 7.23
Net income (loss) per share .....	28.37	26.96	39.67	18.60	(116.87)	0.24

Note: U.S. dollar amounts are converted from yen, for convenience only, at the prevailing rate of ¥117.47 to U.S.\$1 on March 31, 2006.

Non-Consolidated	Millions of Yen					Thousands of U.S. Dollars (Note)
	2006	2005	2004	2003	2002	2006
Net premiums written .....	¥ 834,284	¥ 827,807	¥ 836,596	¥ 836,841	¥ 777,361	\$ 7,102,103
Net income (loss) .....	19,750	16,132	27,322	10,304	(83,413)	168,132
Total shareholders' equity.....	630,663	452,040	446,820	308,888	394,390	5,368,721
Total assets .....	2,761,116	2,569,113	2,597,891	2,496,328	2,663,459	23,504,862
Loss ratio .....	62.71%	64.58%	60.80%	60.06%	66.95%	
Expense ratio.....	33.07%	33.15%	33.45%	35.29%	38.94%	

	Yen					U.S. Dollars (Note)
Net asset value per share .....	¥ 858.77	¥ 618.75	¥ 611.37	¥ 414.06	¥ 522.38	\$ 7.31
Net income (loss) per share .....	26.95	22.07	36.91	13.76	(110.47)	0.22
Cash dividends per share .....	10.00	8.00	8.00	7.00	7.00	0.08

Note: U.S. dollar amounts are converted from yen, for convenience only, at the prevailing rate of ¥117.47 to U.S.\$1 on March 31, 2006.

## OPERATING ENVIRONMENT

The Japanese economy continued steady recovery in the year ended March 31, 2006 due to growing plant and equipment investment driven by domestic and foreign demand expansion, and corporate earnings kept a high level. Furthermore, the improvement of wage and employment conditions gave a steady rise to individual consumptions.

## SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements show that the total operating income increased from ¥1,073.9 billion to ¥1,089.2 billion.

The income before income taxes and minority interests increased from ¥27.2 billion to ¥30.2 billion, and the net income increased from ¥19.7 billion to ¥20.7 billion.

Brief analyses of underwriting income and expenses, investment, and operating and general administrative expenses are given below.

### 1. Analysis of Underwriting Income and Expenses

#### Underwriting Income

Underwriting income increased by 2.6%, to ¥1,025.1 billion. Net premiums written increased by 1.0%, to ¥847.0 billion. The following outlines the breakdown by the class of business.

Class of Business	Years ended March 31,		% Change
	2006	2005	
Fire and Allied Lines.....	¥ 95,853	¥ 89,384	7.2
Marine .....	5,668	5,302	6.9
Personal Accident .....	49,372	49,314	0.1
Voluntary Automobile.....	476,290	470,679	1.2
Compulsory Automobile Liability .....	151,083	154,454	(2.2)
Other.....	68,740	69,605	(1.2)
<b>Total</b>	<b>¥847,008</b>	<b>¥838,740</b>	<b>1.0</b>

Note: Any figures are amounts after the offset of intersegment transactions.

#### Underwriting Expenses

Underwriting expenses increased by 1.5%, to ¥880.8 billion. Net claims paid decreased by 2.1%, to ¥498.7 billion. The following outlines the breakdown by the class of business.

Class of Business	Years ended March 31,		% Change
	2006	2005	
Fire and Allied Lines.....	¥ 42,263	¥ 57,737	(26.8)
Marine .....	3,176	2,940	8.0
Personal Accident .....	17,060	16,987	0.4
Voluntary Automobile.....	272,152	270,807	0.5
Compulsory Automobile Liability .....	97,473	85,243	14.3
Other.....	66,616	75,678	(12.0)
<b>Total</b>	<b>¥498,742</b>	<b>¥509,393</b>	<b>(2.1)</b>

Note: Any figures are amounts after the offset of intersegment transactions.

Commissions and brokerage increased by 2.1%, to ¥149.6 billion. Maturity refunds and dividends to policyholders for long-term insurance dropped by 13.6%, to ¥133.4 billion.

## 2. Analysis of Investment

### Investment Income

Investment income decreased by 6.0%, to ¥51.4 billion. Interest and dividend income increased by 8.9%, to ¥48.3 billion due mainly to the increase in dividends from investment trusts. Gain on sales of investments in securities amounted to ¥21.0 billion as we promoted the sales of securities in line with rising domestic stock prices.

### Investment Expenses

Investment expenses increased by 35.4%, to ¥16.6 billion due to the increase of loss on sales of investments in securities, which totaled ¥14.2 billion.

## 3. Analysis of Operating and General Administrative Expenses

Operating and general administrative expenses were amounted ¥152.8 billion, approximately same as previous year. Primary factors behind this were a reduction in personnel costs achieved through a review of pay structure and lower business expenses through enhanced efficiency of general expenses.

As a result, net income for the fiscal year increased by 5.5%, to ¥20.7 billion.

## SUMMARY OF FINANCIAL CONDITION

### 1. Total Assets and Shareholders' Equity

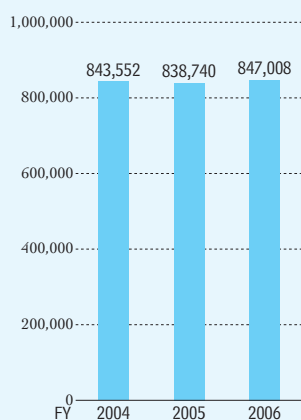
Total assets at the end of the fiscal year were up ¥210.9 billion to ¥3,008.8 billion, and shareholders' equity amounted to ¥624.1 billion, up ¥178.9 billion. The main reason of these was an increase of ¥164.3 billion in unrealized gain on available-for-sale securities, which stood at ¥299.7 billion. As a result, the shareholders' equity ratio at year-end was 20.7%, an improvement of 4.8 percentage points.

### 2. Solvency Margin Ratio

The solvency margin ratio for Aioi Insurance improved from 951.9%, to 1,058.7%, and that of Aioi Life Insurance was to be 1,733.9%, based on computations specified by the Japanese Insurance Business Law. Both marks far exceed the 200%, which are deemed to be sufficient to cover insurance payouts and other expenditures.

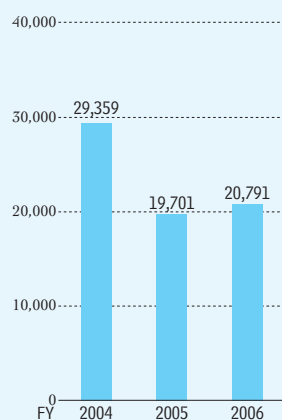
#### Net Premiums Written (Consolidated)

(Millions of Yen)



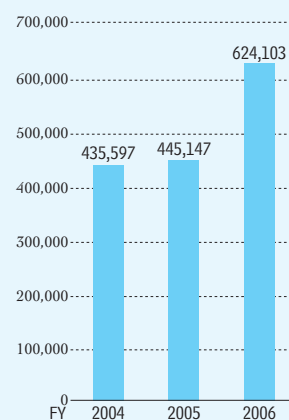
#### Net Income (Consolidated)

(Millions of Yen)



#### Total Shareholders' Equity (Consolidated)

(Millions of Yen)



## RESULTS BY BUSINESS SEGMENT

### 1. Non-Life Insurance

In non-life insurance, Aioi Insurance's core business segment, a more stable operating environment led to an improvement in investment income and expenses. This was countered, however, by negative market growth and intensifying competition brought by liberalization and deregulation being underway, which has forced companies to develop innovative products and improve operational efficiency amid a climate of falling premiums.

Under these conditions, we steadily expanded sales of risk-segmented automobile insurance "*Top Run*," combined with quick accident solution and compensation for relief and incidental services. In addition, we released "*the Lexus owners automobile insurance plan*" that packaged special riders for high-class car owners from August, 2005. We also strove to bolster our line-up of products tailored to specific customer needs.

We steadily expanded sales of our platform products "*Comprehensive Home Insurance*" (Fire and allied lines), "*Comprehensive Business Insurance*" (Fire and allied line), "*Comprehensive Constructors Insurance*" (Liability) and "*Comprehensive Transporters Insurance*" (Liability) which were developed to strengthen compound sales to automobile insurance customers. In April 2005, we developed new comprehensive health insurance product "*Live Lead*," and accelerated our platform products sales.

In reference to customer services, we offered various services, including supports for car accident / breakdown and home troubles to individual customers and solutions for cost reduction / business succession / employee benefit program to enterprise customers, over our unique information network, "*Aioi Club*." Furthermore, by setting up "*Local Aioi Club*" in 8 areas in Japan, we still try to establish useful regional services information networks.

Aimed to strengthen financial service functions toward small companies and retired officers, we launched Defined Contribution Pension Plan (Japanese 401k) business in cooperation with Nomura Group from July 2005. We provided three types of pension plan insurance products, offered high quality services such as pension plan consulting, investment introduction and other information services.

In business overseas, we focused our efforts on F & I business, financial and insurance services for Toyota users with Toyota Financial Services Corporation, through Aioi Motor and General Insurance Company of Europe Limited and expanded our business actively.

The non-life insurance business segment posted an 1.0% increase in net premiums written, to ¥847.0 billion.

## 2. Life Insurance

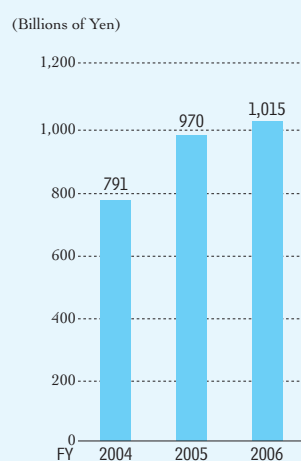
In life insurance segment, Aioi Life Insurance Company, Limited continued to provide products corresponding to the various needs of the customers. In addition to “Income Indemnity Insurance Just One” that covers income indemnity and medical care needs with rational premiums, Aioi Life provided “Super Shushin Premium” and “Karuna,” new whole-life insurances with variable interest rate and rational premiums in exchange for high surrender penalty, in 2005.

We also broadened our system for customer services to improve customers’ convenience. In addition to “Policy Alteration Direct Service” that accepts direct telephone calls for policy alteration from customers, we started “Policy Alteration Web Service” that enables our life insurance policyholders to apply for changes of their registered address or other items on policy at any time on our homepage.

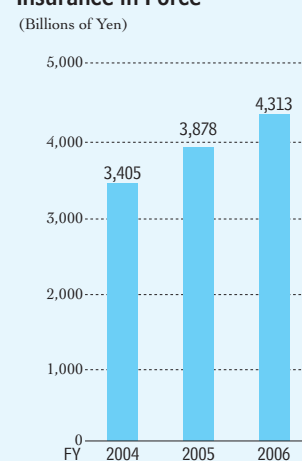
As a result, the new policy amount for individuals increased by 4.7%, to ¥1,015.6 billion and the amount of life insurance in force for individuals at the end of this fiscal year reached ¥4.3 trillion.

The life insurance business segment posted a 12.6% increase in life insurance premiums, to ¥57.7 billion.

### New Policy Amount



### Total Amount of Life Insurance in Force



## CASH FLOWS

Net cash provided by operating activities increased ¥60.3 billion compared with the previous fiscal year, to ¥94.6 billion, due to the increase in both non-life and life insurance premium income, and the decrease in claims paid for typhoons and other natural disasters. Net cash used in investing activities amounted to ¥226.5 billion, as we increased investments in securities, which outweighed proceeds from the sales of investments in securities. Net cash used in financing activities decreased ¥1.2 billion, to ¥4.7 billion, due to the increase in sales of treasury stock.

As a result, cash and cash equivalents at the end of the year were down ¥136.0 billion compared with the end of the previous fiscal year, to ¥52.5 billion.

# CONSOLIDATED BALANCE SHEETS

Aioi Insurance Company, Limited and consolidated subsidiaries  
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
<b>ASSETS</b>			
Cash and cash equivalents .....	¥ 52,521	¥ 188,553	\$ 447,109
Money held in trust (Note 3) .....	6,716	7,124	57,176
Investments in securities (Notes 4 and 5) .....	2,204,110	1,757,159	18,763,181
Loans (Note 6) .....	354,657	348,869	3,019,133
Property and equipment—net (Note 7) .....	153,092	157,510	1,303,248
Premiums receivable from policyholders and agents .....	43,363	43,716	369,146
Reinsurance receivable and recoverable on paid losses .....	65,105	70,080	554,229
Deferred tax assets (Note 11) .....	478	95,543	4,069
Customers' liabilities for acceptances and guarantees .....	3,000	2,500	25,538
Other assets (Note 4) .....	129,922	133,140	1,106,006
Allowance for doubtful accounts .....	(4,130)	(6,277)	(35,163)
<b>TOTAL</b>	<b>¥3,008,838</b>	<b>¥2,797,920</b>	<b>\$25,613,675</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES:</b>			
Underwriting funds:			
Outstanding claims .....	¥ 345,716	¥ 376,719	\$ 2,943,021
Underwriting reserves .....	1,890,182	1,836,903	16,090,764
Reinsurance payable and due to other insurance companies .....	57,729	59,387	491,441
Income taxes payable (Note 11) .....	4,531	2,085	38,574
Liability for employees' retirement benefits (Note 9) .....	19,779	19,163	168,375
Reserve for price fluctuation .....	4,961	3,704	42,239
Deferred tax liabilities (Note 11) .....	3,297	—	28,074
Acceptances and guarantees .....	3,000	2,500	25,538
Other liabilities (Note 5) .....	55,484	52,255	472,332
<b>Total liabilities</b>	<b>2,384,683</b>	<b>2,352,718</b>	<b>20,300,361</b>
<b>MINORITY INTERESTS</b>	<b>51</b>	<b>54</b>	<b>441</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>			
(Note 13) .....	—	—	—
<b>SHAREHOLDERS' EQUITY (Notes 10 and 19):</b>			
Common stock — authorized, 2,000,000 thousand shares; issued, 756,201 thousand shares in 2006 and 2005 .....	¥ 100,005	¥ 100,005	\$ 851,323
Capital surplus .....	44,081	44,084	375,260
Retained earnings .....	187,665	172,874	1,597,564
Unrealized gain on available-for-sale securities .....	299,728	135,420	2,551,533
Foreign currency translation adjustments .....	330	1,746	2,817
Treasury stock — at cost, 21,827 thousand shares in 2006 and 25,631 thousand shares in 2005 .....	(7,709)	(8,982)	(65,628)
<b>Total shareholders' equity</b>	<b>624,103</b>	<b>445,147</b>	<b>5,312,872</b>
<b>TOTAL</b>	<b>¥3,008,838</b>	<b>¥2,797,920</b>	<b>\$25,613,675</b>

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF INCOME

Aioi Insurance Company, Limited and consolidated subsidiaries  
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
<b>OPERATING INCOME:</b>			
<b>Underwriting income:</b>			
Net premiums written .....	¥ 847,008	¥ 838,740	\$7,210,424
Premiums for maturity of refundable portion of long-term insurance .....	73,237	84,710	623,453
Investment income on premiums for maturity of refundable portion of long-term and other insurance.....	20,719	20,794	176,382
Life insurance premiums .....	57,700	51,262	491,193
Reversal of outstanding claims .....	17,025	1,341	144,931
Other underwriting income .....	9,422	2,747	80,215
<b>Total underwriting income</b>	<b>1,025,113</b>	<b>999,597</b>	<b>8,726,600</b>
<b>Investment income:</b>			
Interest and dividend income.....	48,372	44,427	411,786
Gain on money held in trust .....	59	235	505
Gain on trading securities .....	1,937	1,180	16,493
Gain on sales of investments in securities (Note 4) .....	21,082	29,417	179,470
Gain from securities redemption .....	21	11	179
Other investment income .....	704	258	5,999
Transfer of investment income on premiums for maturity of refundable portion of long-term and other insurance.....	(20,719)	(20,794)	(176,382)
<b>Total investment income</b>	<b>51,458</b>	<b>54,735</b>	<b>438,053</b>
<b>Other income</b> (Note 15)	<b>12,700</b>	<b>19,570</b>	<b>108,118</b>
<b>Total operating income</b>	<b>1,089,272</b>	<b>1,073,903</b>	<b>9,272,772</b>
<b>OPERATING EXPENSES:</b>			
<b>Underwriting expenses:</b>			
Net claims paid .....	498,742	509,393	4,245,699
Loss adjustment expenses .....	35,834	36,278	305,051
Commissions and brokerage .....	149,685	146,567	1,274,240
Maturity refunds and dividends to policyholders for long-term insurance .....	133,480	154,441	1,136,297
Life insurance claims and other payments .....	9,263	8,901	78,857
Provision for underwriting reserves .....	53,257	11,357	453,368
Other underwriting expenses .....	614	610	5,231
<b>Total underwriting expenses</b>	<b>880,877</b>	<b>867,550</b>	<b>7,498,747</b>
<b>Investment expenses:</b>			
Loss on money held in trust .....	430	145	3,663
Loss on sales of investments in securities (Note 4) .....	14,292	9,399	121,673
Loss on devaluation of investments in securities (Note 4) .....	998	1,381	8,503
Loss on derivatives .....	795	989	6,769
Other investment expenses .....	114	370	971
<b>Total investment expenses</b>	<b>16,631</b>	<b>12,285</b>	<b>141,580</b>
<b>Operating and general administrative expenses</b>	<b>152,836</b>	<b>152,695</b>	<b>1,301,065</b>
<b>Other expenses</b> (Note 16)	<b>8,671</b>	<b>14,140</b>	<b>73,819</b>
<b>Total operating expenses</b>	<b>1,059,017</b>	<b>1,046,672</b>	<b>9,015,212</b>
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	<b>30,255</b>	<b>27,230</b>	<b>257,559</b>
<b>INCOME TAXES</b> (Note 11):			
Current .....	3,891	513	33,126
Deferred.....	5,576	7,009	47,471
<b>Total income taxes</b>	<b>9,467</b>	<b>7,523</b>	<b>80,597</b>
<b>MINORITY INTERESTS IN NET INCOME</b>	<b>(3)</b>	<b>5</b>	<b>(32)</b>
<b>NET INCOME</b>	<b>¥ 20,791</b>	<b>¥ 19,701</b>	<b>\$ 176,994</b>
		Yen	U.S. Dollars (Note 1)
<b>PER SHARE OF COMMON STOCK</b> (Notes 2.p and 17):			
Basic net income .....	¥28.37	¥26.96	\$0.24
Diluted net income .....	28.33	26.90	0.24
Cash dividends applicable to the year .....	10.00	8.00	0.08

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Aioi Insurance Company, Limited and consolidated subsidiaries  
Years ended March 31, 2006 and 2005

	Thousands	Millions of Yen					
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
<b>BALANCE, APRIL 1, 2004.....</b>	730,772	¥100,005	¥44,082	¥159,067	¥ 140,340	¥ 986	¥(8,883)
Net income .....	—	—	—	19,701	—	—	—
Cash dividends .....	—	—	—	(5,846)	—	—	—
Directors' bonuses .....	—	—	—	(48)	—	—	—
Purchase of treasury stock .....	(218)	—	—	—	—	—	(104)
Sales of treasury stock .....	15	—	1	—	—	—	5
Net decrease in unrealized gain on available-for-sale securities .....	—	—	—	—	(4,919)	—	—
Net increase in foreign currency translation adjustments .....	—	—	—	—	—	760	—
<b>BALANCE, MARCH 31, 2005 .....</b>	730,569	100,005	44,084	172,874	135,420	1,746	(8,982)
Net income .....	—	—	—	20,791	—	—	—
Cash dividends .....	—	—	—	(5,844)	—	—	—
Purchase of treasury stock .....	(194)	—	—	—	—	—	(131)
Sales of treasury stock .....	3,999	—	(2)	(155)	—	—	1,404
Net increase in unrealized gain on available-for-sale securities .....	—	—	—	—	164,308	—	—
Net decrease in foreign currency translation adjustments .....	—	—	—	—	—	(1,415)	—
<b>BALANCE, MARCH 31, 2006</b>	<b>734,373</b>	<b>¥100,005</b>	<b>¥44,081</b>	<b>¥187,665</b>	<b>¥299,728</b>	<b>¥ 330</b>	<b>¥(7,709)</b>

	Thousands of U.S. Dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock	
<b>BALANCE, MARCH 31, 2005.....</b>	\$851,323	\$375,279	\$1,471,651	\$1,152,805	\$ 14,867	\$(76,468)	
Net income .....	—	—	176,994	—	—	—	
Cash dividends .....	—	—	(49,753)	—	—	—	
Purchase of treasury stock .....	—	—	—	—	—	(1,119)	
Sales of treasury stock .....	—	(18)	(1,327)	—	—	11,959	
Net increase in unrealized gain on available-for-sale securities .....	—	—	—	1,398,727	—	—	
Net decrease in foreign currency translation adjustments .....	—	—	—	—	(12,049)	—	
<b>BALANCE, MARCH 31, 2006</b>	<b>\$851,323</b>	<b>\$375,260</b>	<b>\$1,597,564</b>	<b>\$2,551,533</b>	<b>\$ 2,817</b>	<b>\$(65,628)</b>	

See notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Aioi Insurance Company, Limited and consolidated subsidiaries  
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests .....	¥ 30,255	¥ 27,230	\$ 257,559
Adjustments for:			
Depreciation .....	11,463	11,863	97,590
Impairment losses .....	1,619	8,531	13,790
Reversal of outstanding claims .....	(17,025)	(1,341)	(144,931)
Provision for underwriting reserves .....	53,257	11,357	453,367
Reversal of allowance for doubtful accounts .....	(1,257)	(7,269)	(10,707)
Increase in liability for employees' retirement benefits .....	615	590	5,241
Increase in reserve for price fluctuation .....	1,257	1,203	10,706
Interest and dividend income .....	(48,372)	(44,427)	(411,786)
Net gain on investments in securities .....	(8,364)	(19,826)	(71,205)
Interest expenses .....	4	27	37
Foreign exchange losses (gains) .....	(105)	124	(900)
Net loss on property and equipment .....	1,606	549	13,671
Others—net .....	16,475	(2,516)	140,249
Interest and dividends received .....	53,739	50,417	457,476
Interest paid .....	(4)	(27)	(37)
Income taxes paid .....	(541)	(2,194)	(4,611)
Total adjustments	64,367	7,062	547,950
<b>Net cash provided by operating activities</b>	<b>94,623</b>	<b>34,292</b>	<b>805,509</b>
<b>INVESTING ACTIVITIES:</b>			
Net decrease in bank deposits .....	341	625	2,909
Purchase of debts .....	(8,003)	(10,711)	(68,134)
Proceeds from sales or redemptions of debts purchased .....	4,481	4,188	38,148
Purchase of money held in trust .....	(2,045)	(6,995)	(17,408)
Proceeds from decrease in money held in trust .....	2,005	6,866	17,071
Purchase of investments in securities .....	(1,223,255)	(732,031)	(10,413,344)
Proceeds from sales or maturities of investments in securities .....	1,010,501	661,596	8,602,209
Loans made .....	(95,773)	(84,943)	(815,301)
Collection of loans .....	89,589	92,479	762,661
Purchase of property and equipment .....	(8,382)	(10,683)	(71,362)
Proceeds from sales of property and equipment .....	394	5,518	3,357
Proceeds from sale of consolidated subsidiary's shares .....	4,925	—	41,926
Others—net .....	(1,331)	(5,182)	(11,331)
<b>Net cash used in investing activities</b>	<b>(226,552)</b>	<b>(79,275)</b>	<b>(1,928,600)</b>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from sales of treasury stock .....	1,246	—	10,612
Purchase of treasury stock .....	(131)	(97)	(1,119)
Cash dividends .....	(5,844)	(5,846)	(49,753)
Others—net .....	(8)	(37)	(70)
<b>Net cash used in financing activities</b>	<b>(4,737)</b>	<b>(5,981)</b>	<b>(40,331)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	635	1,422	5,411
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(136,031)</b>	<b>(49,541)</b>	<b>(1,158,010)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>			
	188,553	238,094	1,605,119
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>¥ 52,521</b>	<b>¥ 188,553</b>	<b>\$ 447,109</b>

See notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Aioi Insurance Company, Limited and consolidated subsidiaries  
Years ended March 31, 2006 and 2005

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Aioi Insurance Company, Limited (“the Company”) and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Securities and Exchange Law of Japan, the Insurance Business Law and related regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. Figures stated in yen and U.S. dollars have been rounded down to millions of yen and thousands of U.S. dollars, respectively. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and are stated at the rate of ¥117.47 to U.S.\$1, the approximate exchange rate at March 31, 2006. The translations should not be construed as representations that the Japanese yen amounts could be converted to U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Consolidation

The consolidated financial statements as of March 31, 2006 include the accounts of the Company and its five significant (five in 2005) subsidiaries (together, “the Group”). In the year ended March 31, 2006, Aioi Life Insurance of Europe AG was included in consolidation as a result of establishment, and Aioi Insurance Company of Europe Limited was excluded from consolidation with the sale of its shares.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and shares of those companies over which the Company and its consolidated subsidiaries have the ability to exercise significant influence are accounted for by the equity method. Investments in affiliated companies are accounted for by the equity method.

The financial statements of the unconsolidated subsidiaries would not have a material effect on the accompanying consolidated financial statements. Investments in the remaining unconsolidated subsidiaries and affiliated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Four of the subsidiaries are consolidated on the basis of the fiscal year ending December 31, which differs from that of the Company; however, significant effects arising from transactions occurring in the period from January 1 to March 31 have been adjusted for consolidation purposes.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

### b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and call loans. Money held in trust, as well as time deposits and debts purchased with original maturities exceeding three months, have been excluded from cash equivalents.

### c. Foreign Currency Translation

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of income to the extent that they are not hedged by forward exchange contracts.

The balance sheet accounts of the consolidated subsidiaries located outside Japan are translated into Japanese yen at the exchange rate as of the balance sheet date except for shareholders’ equity, which is translated at the historical rate. Differences arising from such translation were shown as “Foreign currency translation adjustments” in a separate component of shareholders’ equity.

Income and expense accounts of consolidated subsidiaries located outside Japan are translated into yen at the exchange rate as of the balance sheet date.

#### **d. Investments in Securities**

All applicable securities are classified and accounted for, depending on management's intent, as follows: (1) Trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in the statements of income for the period. Cost of the securities is determined by the moving-average method; (2) Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost; (3) Available-for-sale securities, which are not classified as either trading or held-to-maturity, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. Cost of the securities is determined by the moving-average method. Unlisted securities that do not have quoted market prices in active markets are reported at moving-average cost or amortized cost.

Listed securities in the money held in trust are stated at fair value.

Aioi Life Insurance Company, Limited, a consolidated subsidiary, owns debt securities earmarked for underwriting reserves, which correspond to the terms and conditions for special accounting treatment for investments in securities prescribed in the Industry Audit Committee Report No. 21 "Temporary Treatment of Accounting and Auditing Concerning Securities Earmarked for Policy Reserve in the Insurance Industry," issued by the Japanese Institute of Certified Public Accountants. In accordance with the report, securities for which the durations are matched with those of underwriting reserves in the specific range stipulated in the report are stated at amortized cost using the moving-average method.

#### **e. Derivatives**

The Company and its domestic consolidated subsidiary use the following derivative financial instruments to manage their exposures to fluctuating foreign currency exchange rates, interest rates, stock prices and bond prices. The derivatives utilized by the Company and its domestic consolidated subsidiary include foreign exchange forward contracts, currency swaps, currency option contracts, interest rate swaps, stock index futures, stock index options, bond futures contracts, bond option contracts, credit derivatives and weather derivatives.

As to derivatives activities, the standards require that: (a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statements of income, and (b) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between changes in the value of the hedging instruments and changes in the value of the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

#### **f. Property and Equipment**

Property and equipment are carried at cost less accumulated depreciation. Significant renewals and additions are capitalized; maintenance and repairs, and minor renewals and improvements are charged to expense as incurred.

The Company and its domestic consolidated subsidiary compute depreciation of property and equipment using the declining-balance method except that the straight-line method is applied to buildings acquired on or after April 1, 1998.

#### **g. Impairment of Fixed Assets**

In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004. The Group reviews its fixed assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

## **h. Policy Acquisition Costs**

Policy acquisition costs are charged to expense as incurred.

## **i. Underwriting Funds**

Underwriting funds are established for outstanding claims and underwriting reserves, and are calculated pursuant to the Insurance Business Law, by each line of insurance and type of policy.

### *Outstanding claims*

Provision is made for claims reported prior to the close of the accounting period based on the estimated ultimate cost of settling such claims. In addition to the above, provision is made for incurred but not reported claims ("IBNR") based on the past experience.

### *Underwriting reserves*

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

#### (1) Premium reserve:

- Property and casualty insurance

##### *Insurance other than Compulsory Automobile Liability Insurance and Earthquake Insurance*

Greater of the unearned premiums or the underwriting balance at the end of the year for policies written during the year, by lines of insurance and types of policy.

##### *Compulsory Automobile Liability Insurance*

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

##### *Earthquake Insurance*

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

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

- Life insurance

Future policy benefits for life insurance contracts are mainly calculated pursuant to the five-year zillmerized reserve method.

#### (2) Deposits by policyholders:

The Company maintains reserves for the deposit portion of premiums and investment income on such portion, which are refundable to policyholders under long-term insurance.

## **j. Reinsurance**

Reinsurance covers, which are the estimated portion of original insurance claims to be compensated by reinsurers under reinsurance contracts, were reduced from gross insurance liabilities shown as outstanding claims in the accompanying consolidated balance sheets.

The amounts of net premiums written and net claims paid reported in the consolidated statements of income are calculated by offsetting premiums and claims under direct insurance contracts by those ceded to reinsurers under reinsurance contracts.

## **k. Income Taxes**

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

## **l. Allowance for Doubtful Accounts**

The allowance for doubtful accounts included in the financial statements of the Company and its domestic consolidated subsidiary is determined based on management's judgment and assessment of future losses using the self-assessment system. This method reflects past history of credit losses, possible credit losses, business and economic conditions, in addition to the character, quality and performance of debtors' business activities, and other pertinent indicators.

The amount of the allowance for doubtful accounts is then calculated in accordance with the rules of self-assessment of assets and the rules for provision for or write-offs of doubtful accounts.

For loans to counterparties who are in legal or perfunctory bankruptcy and are not allowed to participate in the bank clearing process, and for loans to counterparties who are

substantially in bankruptcy, provision is made at amounts equal to the loan balance less the estimated amounts recoverable through disposal of collateral or discharges of guarantees.

For loans to borrowers who are likely to be in future bankruptcy, a provision equal to the anticipated uncollectible amount is estimated by management based on their knowledge of borrower's solvency. In determining the anticipated uncollectible amount, management considers the recoverable amount of the balance of loans in question through disposal of collateral or discharges of guarantees.

For debts other than the loans described above, provision is calculated by multiplying the balance of debts at the closing date by the actual bad debt ratio computed based on bad debts incurred in the past.

All debts of the Company and its domestic consolidated subsidiary are subject to the self-assessment conducted by departments handling the debts in question. The result of that self-assessment is required to be reviewed by the inspection department independent of each department conducting the self-assessment.

The allowance for doubtful accounts included in the financial statements for the remaining consolidated subsidiaries is determined based on management's judgments of the uncollectible amount of each receivable.

#### **m. Employees' Retirement Benefits and Pension Plan**

The Company has a contributory funded pension plan, a non-contributory funded pension plan and a termination allowance plan covering substantially all of its employees. The domestic consolidated subsidiary also has a termination allowance plan.

In accordance with the accounting standard for employees' retirement benefits, the Company and its domestic consolidated subsidiary account for the liability for retirement benefits based on the present value of the projected benefit obligations and the fair value of plan assets at the balance sheet date.

Changes in the projected benefit obligation, recognized in the preceding year, arising from modified actuarial assumptions are amortized to expense by the straight-line method over the average remaining service life of the employees (12 years).

The Company changed the period of amortizing from 15 years to 12 years due to the reduction of the average remaining service life of the employees from the year ended March 31, 2005. The effect of this change was to decrease income before income taxes and minority interests for the year ended March 31, 2005 by ¥364 million.

#### **n. Reserve for Price Fluctuation**

In conformity with the Insurance Business Law, insurance companies are required to establish a provision for losses resulting from fluctuations in market values of securities, bank deposits and loans denominated in foreign currencies.

The amount of the reserve for price fluctuation and the maximum balances are calculated using percentages set forth in the Insurance Business Law for each type of assets.

#### **o. Leases**

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed. See Note 12.

#### **p. Per Share Information**

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

Diluted net income per share reflects the potential dilution that could occur if warrants were exercised. Diluted net income per share of common stock assumes full exercise of the outstanding warrants at the beginning of the year (or at the time of issuance).

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

#### **q. New Accounting Pronouncements**

##### ***Business Combination and Business Separation***

In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No.10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

- (a) the consideration for the business combination consists solely of common shares with voting rights,
- (b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
- (c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

##### ***Stock options***

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on or after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

##### ***Bonuses to directors and corporate auditors***

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders' meeting. The ASBJ issued ASBJ Practical Issues Task Force No.13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

## 3. MONEY HELD IN TRUST

All securities held as money held in trust are classified as trading securities. Aggregate cost at March 31, 2006 and 2005 and gains recognized in the consolidated statements of income were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Aggregate cost .....	¥6,716	¥7,124	\$57,176
Gains recognized .....	—	113	—

## 4. INVESTMENTS IN SECURITIES

Investments in securities at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Government and municipal bonds .....	¥ 664,078	¥ 477,199	\$ 5,653,173
Corporate bonds .....	325,571	335,681	2,771,529
Equity securities .....	677,242	481,274	5,765,239
Foreign securities .....	427,257	374,886	3,637,164
Other securities .....	109,960	88,117	936,075
Total .....	¥2,204,110	¥1,757,159	\$18,763,181

Information regarding each category of the securities classified as trading and available-for-sale at March 31, 2006 and 2005 was as follows:

	Cost	Millions of Yen		Fair value
		Unrealized gains	Unrealized losses	
<b>March 31, 2006</b>				
<b>Securities classified as:</b>				
Trading .....				¥ 49,907
Available-for-sale:				
Bonds .....	¥ 760,133	¥ 12,745	¥(4,582)	¥ 768,296
Equity securities .....	247,919	409,214	(260)	656,873
Foreign securities .....	360,326	32,235	(1,366)	391,194
Other securities* .....	78,626	21,376	(372)	99,630
Total available-for-sale .....	¥1,447,004	¥475,571	¥(6,581)	¥1,915,994

	Cost	Millions of Yen		Fair value
		Unrealized gains	Unrealized losses	
<b>March 31, 2005</b>				
<b>Securities classified as:</b>				
Trading .....				¥ 66,322
Available-for-sale:				
Bonds .....	¥ 618,192	¥ 12,253	¥ (4,050)	¥ 626,395
Equity securities .....	257,157	207,599	(708)	464,049
Foreign securities .....	329,925	9,609	(17,049)	322,485
Other securities* .....	69,906	4,463	(224)	74,145
Total available-for-sale .....	¥1,275,182	¥233,926	¥(22,032)	¥1,487,076

	Cost	Thousands of U.S. Dollars		Fair value
		Unrealized gains	Unrealized losses	
<b>March 31, 2006</b>				
<b>Securities classified as:</b>				
Trading .....				\$ 424,850
Available-for-sale:				
Bonds .....	\$ 6,470,871	\$ 108,500	\$(39,007)	\$ 6,540,364
Equity securities .....	2,110,490	3,483,562	(2,214)	5,591,838
Foreign securities .....	3,067,387	274,413	(11,636)	3,330,164
Other securities* .....	669,330	181,974	(3,170)	848,135
Total available-for-sale .....	\$12,318,079	\$4,048,452	\$(56,029)	\$16,310,502

\* Other securities include debts purchased classified as other assets at March 31, 2006 and 2005.

Debt securities earmarked for underwriting reserves at March 31, 2006 and 2005 were as follows:

March 31, 2006	Millions of Yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Bonds .....	¥220,010	¥4,283	¥(3,843)	¥220,450
Foreign securities .....	1,639	23	(24)	1,638
Total	¥221,649	¥4,306	¥(3,868)	¥222,088
March 31, 2005				
Bonds .....	¥184,057	¥8,506	¥(1,991)	¥190,571
Foreign securities .....	799	57	—	857
Total	¥184,856	¥8,564	¥(1,991)	¥191,428

March 31, 2006	Thousands of U.S. Dollars			
	Cost	Unrealized gains	Unrealized losses	Fair value
Bonds .....	\$1,872,908	\$36,464	\$(32,719)	\$1,876,652
Foreign securities .....	13,954	199	(207)	13,945
Total	\$1,886,862	\$36,664	\$(32,927)	\$1,890,598

Available-for-sale securities and held-to-maturity securities whose fair value was not readily determinable at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale:			
Bonds .....	¥ —	¥ 200	\$ —
Equity securities .....	18,577	15,633	158,145
Foreign securities .....	5,000	7,000	42,564
Other securities* .....	6,262	5,544	53,311
Total available-for-sale	¥29,839	¥28,377	\$254,020
Held-to-maturity—Bonds	¥ 1,342	¥ 2,228	\$ 11,430

\* Other securities include debts purchased classified as other assets at March 31, 2006 and 2005.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥669,235 million (\$5,697,072 thousand) and ¥417,960 million, respectively. Gross realized gains and losses on these sales, computed using the moving average cost basis, were ¥21,082 million (\$179,470 thousand) and ¥14,292 million (\$121,673 thousand), respectively, for the year ended March 31, 2006 and ¥29,417 million and ¥9,399 million, respectively, for the year ended March 31, 2005.

Carrying amounts of debt securities with contractual maturities classified as available-for-sale, held-to-maturity and debt securities earmarked for underwriting reserves at March 31, 2006 were as follows:

March 31, 2006	Millions of Yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Government bonds .....	¥ 78,893	¥163,669	¥143,950	¥272,467
Municipal bonds .....	1,269	3,757	70	—
Corporate bonds .....	29,104	177,180	65,054	54,231
Foreign securities .....	17,131	72,983	104,326	38,290
Other securities* .....	69	10,497	13,947	12,078
Total	¥126,467	¥428,088	¥327,348	¥377,067

March 31, 2006	Thousands of U.S. Dollars			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Government bonds.....	\$ 671,603	\$1,393,286	\$1,225,420	\$2,319,462
Municipal bonds .....	10,809	31,989	601	—
Corporate bonds.....	247,760	1,508,308	553,794	461,666
Foreign securities .....	145,832	621,292	888,108	325,955
Other securities* .....	590	89,364	118,735	102,821
Total	\$1,076,597	\$3,644,240	\$2,786,660	\$3,209,906

\* Other securities include debts purchased classified as other assets at March 31, 2006.

Investments in unconsolidated subsidiaries and affiliated companies were ¥5,575 million (\$47,460 thousand) and ¥4,897 million at March 31, 2006 and 2005, respectively.

The Company recognized ¥998 million (\$8,503 thousand) and ¥1,381 million losses on devaluation of available-for-sale securities, respectively, for the years ended March 31, 2006 and 2005. Losses on devaluation of available-for-sale securities for the years ended March 31, 2006 and 2005 were recognized in the statements of income when their fair value declined by more than 30%.

## 5. COLLATERAL

The carrying amounts of investments in securities pledged as collateral were ¥67,713 million (\$576,429 thousand) at March 31, 2006. This includes collateral for loans payable of ¥71 million (\$609 thousand) classified as other liabilities, collateral for letters of credit issued and collateral pledged in lieu of guarantee deposits for future transactions.

The carrying amounts of investments in securities pledged as collateral were ¥48,239 million at March 31, 2005.

## 6. LOANS

Loans which are in default, delinquent, past due and under mitigating conditions are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Defaulted loans .....	¥ 32	¥ 167	\$ 272
Delinquent loans (non-performing loans) .....	10,494	11,551	89,340
Past due loans (over three months) .....	170	404	1,450
Loans under mitigating conditions .....	265	331	2,259
<b>Total</b>	<b>¥10,962</b>	<b>¥12,455</b>	<b>\$93,323</b>

Defaulted loans represent loans for which the Company estimates that the prospect of recovery or repayment of principal or interest is unlikely and therefore, has ceased to accrue interest.

Delinquent loans represent loans for which the Company estimates there are very few prospects for recovery or repayment of principal or interest and therefore, has ceased to accrue interest. For delinquent loans, management does not intend to mitigate conditions to support the recovery of the counterparties as mentioned in the definition of loans under mitigating conditions below.

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

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

## 7. PROPERTY AND EQUIPMENT

Accumulated depreciation on property and equipment totaled ¥163,737 million (\$1,393,868 thousand) and ¥169,204 million at March 31, 2006 and 2005, respectively. Property and equipment were stated at cost less deferred gains of ¥7,632 million (\$64,972 thousand) and ¥7,633 million on sale and replacement of assets under certain conditions in accordance with the Japanese tax law for the years ended March 31, 2006 and 2005, respectively.

## 8. IMPAIRMENT OF FIXED ASSETS

### a. Method of Grouping

Assets used for insurance business operations are classified as a single group. Lease assets and idle property, for which future cash flows of each separately can be estimated, are classified as other groups individually.

### b. Details of Impairment Losses

Details of the groups, for which impairment losses were recognized, the total amount and the asset type of the impairment loss for the year ended March 31, 2005 are as follows:

Purpose of use	Location	Millions of Yen		
		Land	Buildings	Total
Lease	25 assets in Niigata city, etc.	¥4,799	¥3,265	¥8,065
Idle	17 assets in Kujukuri town, etc.	286	180	466
<b>Total</b>		<b>¥5,085</b>	<b>¥3,445</b>	<b>¥8,531</b>

### c. Recognition of Impairment

With regard to a portion of the lease use asset group and the idle asset group, because there was a severe fall in the market price of these assets, impairment losses were recognized.

### d. Recoverable Amount

To calculate the recoverable amount in respect of the lease use assets, either the net sale value or use value is applied while in respect of idle assets the net sale value is applied.

In respect of the net sale value, the value appraised is based upon accepted real estate appraisal standards. With respect to the use value calculation, a discount rate between 6.0%–15.0% is applied.

## 9. EMPLOYEES' RETIREMENT BENEFITS AND PENSION PLAN

Under the pension plan of the Company, employees terminating their employment are entitled to pension payments and lump-sum payments based on their average pay during their employment, length of service and certain other factors. Under the pension plan of the domestic consolidated subsidiary, employees terminating their employment are entitled to a lump-sum payment based on their average pay during their employment, length of service and certain other factors.

The Company has two types of pension plans for employees; a non-contributory and a contributory funded defined benefit pension plan. The contributory funded defined benefit pension plan, which is established under the Japanese Defined Benefit Corporate Pension Plan Law, covers substantially all employees other than directors and auditors. According to the enactment of the Japanese Defined Benefit Corporate Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government by another subsequent application. The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labour and Welfare on March 14, 2003.

The Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labour and Welfare on November 30, 2004. The actual transfer of the pension obligations and related assets to the government is to take place subsequently after the government approval.

Based upon the above approval in November 2004, there was no effect on the statements of income for the years ended March 31, 2006 and 2005.

The liability for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation .....	¥(141,865)	¥(137,839)	\$(1,207,672)
Fair value of plan assets .....	166,683	115,341	1,418,947
Unrecognized actuarial loss (gain) .....	(38,914)	8,617	(331,275)
Prepaid pension cost .....	(5,682)	(5,283)	(48,374)
Net liability for employees' retirement benefits	¥ (19,779)	¥ (19,163)	\$ (168,375)

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost .....	¥ 4,704	¥ 4,676	\$ 40,049
Interest cost .....	2,671	2,627	22,739
Expected return on plan assets .....	(1,258)	(1,177)	(10,717)
Amortization of unrecognized actuarial loss .....	1,271	1,428	10,824
Net periodic benefit costs	¥ 7,388	¥ 7,554	\$ 62,896

Assumptions used for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Discount rate .....	2.00%	2.00%
Expected rate of return on plan assets .....	2.00%	2.00%
Amortization period of unrecognized actuarial gain/loss .....	12 years	12 years
Amortization period of prior service cost .....	1 year	1 year

10. SHAREHOLDERS'  
EQUITY

Through May 1, 2006, Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Insurance Business Law provides that an amount of 20% or more of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until the total of aggregate amount of legal reserve and additional paid-in capital equals that of the common stock. The Company's legal reserve amount, which is included in retained earnings, totaled ¥29,558 million (\$251,621 thousand) and ¥28,358 million as of March 31, 2006 and 2005, respectively.

The Code allows Japanese companies to purchase treasury stock and sale of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥130,557 million (\$1,111,409 thousand) as of March 31, 2006, based on the amount recorded in the Company's general books of account.

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

The stock option plan, which was approved at the general shareholders' meeting held on June 27, 2003, provided for granting options to directors and key employees to purchase up to 4,350,000 shares of the Company's common stock in the period from July 1, 2005 to June 30, 2007. The options would be granted at an exercise price of ¥311,000 per 1,000 shares of the Company's common stock at the date of option grant. The Company planned to issue acquired treasury stock upon exercise of the stock options. The number of shares and the exercise price were subject to adjustment in case of stock splits or reverse stock splits.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

## (a) Dividends

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

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

Semi-annual interim dividends may also be paid once a year upon resolution by the Board of Directors if the Articles of Incorporation of the Company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is

defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

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

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

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

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

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

## 11. INCOME TAXES

The Company and its domestic consolidated subsidiary are subject to corporate income tax and inhabitant tax which, in the aggregate, resulted in a normal statutory tax rate of 36.09% for the years ended March 31, 2006 and 2005. The tax effects of temporary differences between the book basis and tax basis of assets and liabilities which create deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
<b>Deferred tax assets:</b>			
Underwriting reserves.....	¥ 100,296	¥ 93,247	\$ 853,804
Outstanding claims.....	20,431	24,702	173,929
Devaluation of securities.....	13,002	12,993	110,690
Depreciation .....	10,025	10,117	85,347
Assets contributed to employees' retirement benefit trusts .....	9,702	9,466	82,594
Other .....	21,569	29,967	183,615
Sub total .....	175,028	180,495	1,489,982
Valuation allowance .....	(6,938)	(6,811)	(59,069)
Total .....	168,089	173,684	1,430,912
<b>Deferred tax liabilities:</b>			
Unrealized gain on available-for-sale securities.....	(169,261)	(76,474)	(1,440,889)
Other .....	(1,647)	(1,666)	(14,028)
Total .....	(170,909)	(78,141)	(1,454,917)
<b>Net deferred tax assets (liabilities)</b>	¥ (2,819)	¥ 95,543	\$ (24,004)

Reconciliation between the statutory tax rates and the effective income tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2006 and 2005 was as follows:

	2006	2005
Statutory tax rate .....	36.09%	36.09%
Tax credit for dividends received .....	(5.00)	(5.54)
Expenses not deductible for income tax purposes.....	2.86	3.28
Tax credit for IT investment.....	(2.79)	—
Per capita inhabitant tax .....	1.25	1.39
Devaluation loss on shares of subsidiary .....	—	(22.36)
Change in valuation allowance .....	—	15.63
Other — net.....	(1.12)	(0.86)
Effective income tax rate	31.29%	27.63%

## 12. LEASE TRANSACTIONS

### a. Finance Leases

Information regarding finance leases other than those which deem to transfer ownership of the leased property to the lessee, of the Group, is as follows:

On an “as if capitalized” basis, pro forma information of leased property of the Group such as acquisition cost, accumulated depreciation, accumulated impairment loss, lease payment obligations, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Acquisition cost .....	¥384	¥249	\$3,269
Accumulated depreciation .....	115	151	983
Accumulated impairment loss.....	—	—	—
Net leased property	¥268	¥ 98	\$2,285

The imputed interest expense portion is included in the above acquisition cost.

Obligations under finance leases and total payments for finance leases as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due in 1 year or less.....	¥ 77	¥57	\$ 661
Due after 1 year.....	190	41	1,624
Total	¥268	¥98	\$2,285
Total payments for finance leases	¥ 84	¥95	\$ 715

The amounts of obligations under finance leases include the imputed interest expense portion.

Depreciation expense, which is not reflected in the accompanying consolidated financial statements, computed by the straight-line method was equal to the above total payment for finance leases.

### b. Operating Leases

Obligations under operating leases as of March 31, 2006 and 2005, and total payments for the years were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due in 1 year or less .....	¥124	¥152	\$1,057
Due after 1 year .....	164	288	1,396
Total	¥288	¥441	\$2,454

13. COMMITMENTS AND  
CONTINGENT  
LIABILITIES

**Contracts of Loan Commitment Limits**

Contracts of loan commitment limits are contracts by which the Company lends to customers up to the prescribed limits in response to customers' loan applications as long as there is no breach of any condition in the contracts. The unutilized amount within the prescribed limits relating to these contracts totaled ¥9,663 million (\$82,264 thousand) and ¥8,656 million at March 31, 2006 and 2005, respectively.

14. DERIVATIVES

**a. Utilization**

The Company and its domestic consolidated subsidiary utilize various derivative financial instruments ("derivatives") in their investing activities to mitigate the risk of fluctuating foreign currency exchange rates, interest rates, stock prices and bond prices. The derivatives utilized by the Company and its domestic consolidated subsidiary include foreign exchange forward contracts, currency swaps, currency option contracts, interest rate swaps, stock index futures, stock index options, bond futures contracts, bond option contracts, credit derivatives and weather derivatives.

The Company and its domestic consolidated subsidiary enter into these contracts with major financial institutions in order to minimize credit loss in the event of nonperformance by counterparties to the contracts. Exposure to market risk is managed through position limits, approvals and monitoring procedures.

Daily risk control of the Company consists of confirmation procedures and analyses conducted by the administrative and supervisory sections, respectively. The confirmation procedures require a collaboration of operational reports prepared by the executive section with transaction reports sent directly from financial institutions to the administrative section. The risk management section, which is independent from the executive section, then performs analysis of the positions and the possible risk incurred in the transactions by using the Value at Risk method. As a periodic measure for internal risk control, the risk management committee meets regularly to evaluate the transactions and to review procedures performed in that period by the aforementioned sections. The current status of derivative activities is also reported regularly by the supervisory section to the Board of Directors.

Aioi Life Insurance Company, Limited utilizes derivatives in compliance with internal regulations for authorization procedures and risk management policy of derivative transactions. The risk of derivatives are managed together with other investment assets, and the current status of derivative activities is reported regularly to management.

**b. Fair Value Information**

The Company and its domestic consolidated subsidiary had the following derivatives contracts outstanding at March 31, 2006 and 2005.

(1) Currency-related transactions

	Millions of Yen						Thousands of U.S. Dollars		
	2006			2005			2006		
	Contract amount	Fair value	Unrealized gains (losses)	Contract amount	Fair value	Unrealized gains (losses)	Contract amount	Fair value	Unrealized gains (losses)
Foreign exchange contracts—forward									
Selling U.S.\$ .....	¥10,486	¥10,445	¥ 41	¥14,562	¥15,008	¥ (445)	\$ 89,271	\$ 88,919	\$ 351
Selling Euro .....	—	—	—	3,727	3,743	(16)	—	—	—
Buying U.S.\$.....	66,571	67,408	837	62,856	65,275	2,418	566,706	573,838	7,131
Buying Euro .....	998	998	(0)	1,379	1,386	7	8,498	8,498	(0)
Total			¥879			¥1,964			\$7,483

Note: Fair values of foreign exchange transactions are based on the forward exchange rate as of the year-end date.

## (2) Interest rate-related transactions

	Millions of Yen						Thousands of U.S. Dollars		
	2006			2005			2006		
	Contract amount	Fair value	Unrealized gains	Contract amount	Fair value	Unrealized gains	Contract amount	Fair value	Unrealized gains
Interest rate swaps—									
Fixed rate receipts,									
floating rate									
payment .....	¥4,500	¥14	¥14	¥9,500	¥268	¥268	\$38,307	\$125	\$125
Total			¥14			¥268			\$125

Note: Fair values are based on the indicated figure from financial institutions.

## (3) Other transactions

	Millions of Yen						Thousands of U.S. Dollars		
	2006			2005			2006		
	Contract amount	Fair value	Unrealized gains	Contract amount	Fair value	Unrealized losses	Contract amount	Fair value	Unrealized gains
Credit derivatives—									
Selling .....	¥156,006	¥249	¥249	¥44,000	¥(26)	¥(26)	\$1,328,050	\$2,124	\$2,124
Total			¥249			¥(26)			\$2,124

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

## 15. OTHER INCOME

Other income for the year ended March 31, 2006 included ¥193 million (\$1,643 thousand) of gains on sales of properties, ¥11,022 million (\$93,833 thousand) of a payment received in the action against Fortress Re, a reinsurance agent, and ¥682 million (\$5,813 thousand) of a reversal of allowance for doubtful accounts.

Other income for the year ended March 31, 2005 included ¥2,062 million of gains on sales of properties, ¥10,366 million of a settlement of claim against Fortress Re, and ¥5,068 million of a reversal of allowance for doubtful accounts.

## 16. OTHER EXPENSES

Other expenses for the year ended March 31, 2006 included ¥1,796 million (\$15,294 thousand) of losses on sales of properties, ¥1,619 million (\$13,790 thousand) of impairment losses and ¥1,961 million (\$16,700 thousand) of subsidiary-related loss.

Other expenses for the year ended March 31, 2005 included ¥2,612 million of losses on sales of properties and ¥8,531 million of impairment loss.

## 17. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2006 and 2005 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net income	Weighted-average shares	EPS	
<b>Year ended March 31, 2006</b>				
Basic EPS—Net income available				
to common shareholders.....	¥20,791	732,697	¥28.37	\$0.24
Effect of dilutive securities—Warrants .....	—	1,022		
Diluted EPS—Net income for computation .....	¥20,791	733,720	¥28.33	\$0.24
	Millions of Yen	Thousands of Shares	Yen	
<b>Year ended March 31, 2005</b>				
Basic EPS—Net income available				
to common shareholders.....	¥19,701	730,688	¥26.96	
Effect of dilutive securities—Warrants .....	—	1,515		
Diluted EPS—Net income for computation .....	¥19,701	732,203	¥26.90	

18. SUPPLEMENTARY CASH  
FLOW INFORMATION

The following is a summary of the assets and liabilities of Aioi Insurance Company of Europe Limited at the time it was excluded from the scope of consolidation.

<b>Year ended March 31, 2006</b>	Millions of Yen	Thousands of U.S. Dollars
Investments in securities .....	¥23,829	\$202,858
Total assets .....	34,235	291,442
Underwriting funds .....	14,900	126,848
Total liabilities.....	20,492	174,444

19. SUBSEQUENT EVENTS

At the general shareholders' meeting held on June 28, 2006, the following appropriation of retained earnings was resolved:

**Appropriations of Retained Earnings**

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥10 (\$0.08) per share	¥ 7,343	\$ 62,515

20. SEGMENT  
INFORMATION

Segment information is not disclosed as the Group does not operate significant businesses other than the insurance business, and foreign operations and overseas sales were immaterial for the years ended March 31, 2006 and 2005.



Deloitte Touche Tohmatsu  
MS Shibaura Building  
4-13-23, Shibaura  
Minato-ku, Tokyo 108-8530  
Japan  
Tel: +81 (3) 3457 7321  
Fax: +81 (3) 3457 1694  
www.deloitte.com/jp

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Aioi Insurance Company, Limited:

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

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

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

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

June 28, 2006

# OVERSEAS NETWORK

As of July 1, 2006



## REPRESENTATIVE OFFICES

### London

1st Floor, 50 Mark Lane, London,  
EC3R 7QR, United Kingdom  
Tel. 20-7481-9157 Fax. 20-7481-9158

### Brussels

Belgicastraat 13, 1930 Zaventem,  
Belgium  
Tel. 2-511-5567 Fax. 2-513-4847

### Paris

36 Bd de la République,  
92423 Vaucresson Cedex, France  
Tel. 1-4795-7920 Fax. 1-4795-7959

### Moscow

Regus Business Centre, app. 755  
3 Smolenskaya Square, Moscow  
121099, Russia  
Tel. 495-782-1913 Fax. 495-782-1912

### New York

60 East 42nd Street, Suite 843,  
New York, NY 10165, U.S.A.  
Tel. 212-916-3939 Fax. 212-682-9079

### Chicago

475N Martingale Road Suite 330,  
Schaumburg, IL 60173, U.S.A.  
Tel. 847-619-4928 Fax. 847-619-6272

### Kentucky

7300 Turfway Road, Suite 240,  
Florence, Kentucky 41042, U.S.A.  
Tel. 859-282-8787 Fax. 859-647-4333

### Los Angeles

21515 Hawthorne Blvd., #420,  
Torrance, California 90503, U.S.A.  
Tel. 310-540-6890 Fax. 310-540-9030

### Honolulu

1600 Kapiolani Boulevard, Suite 1520,  
Honolulu, Hawaii 96814, U.S.A.  
Tel. 808-951-1724 Fax. 808-949-6696

### Sydney <Australia Branch>

Level 12, 309 Kent Street, Sydney  
N.S.W. 2000, Australia  
Tel. 2-9248-1780 Fax. 2-9248-1788

### Melbourne

Level 1, 409 St. Kilda Road,  
Melbourne, Victoria 3004, Australia  
Tel. 3-9869-0101 Fax. 3-9867-3640

### Beijing

Room No. 410, China World Tower 1,  
No. 1 Jian Guo Men Wai Avenue,  
Beijing, P.R.C.  
Tel. 10-6505-8960 Fax. 10-6505-8962

### Tianjin

Room No. 1609, Tianjin International  
Building, 75 Nanjing Road, Tianjin,  
P.R.C.  
Tel. 22-2332-0060 Fax. 22-2332-0061

### Shanghai

Room No. 2605, Maxdo Centre, No. 8  
Xing Yi Road, Shanghai, P.R.C.  
Tel. 21-5208-1785 Fax. 21-5208-1786

### Guangzhou

Room No. 01B, 66th Floor, Tower  
CMC Plaza, 233 Tianhe Road North,  
Guangzhou, P.R.C.  
Tel. 20-3877-3961 Fax. 20-3877-0166

### Taipei

Room 2212, 22nd Floor, 333 Keelung  
Road, Sec. 1, Taipei 10548, Taiwan,  
Republic of China  
Tel. 2-2757-6300 Fax. 2-2757-6095

### Hong Kong

c/o Asia Insurance Co., Ltd., 16th  
Floor, World-Wide House, 19 Des  
Voeux Road, Central, Hong Kong  
Tel. 852-2867-7070  
Fax. 852-2868-1413

### Bangkok

22nd Floor, Bangkok  
Insurance/YWCA Building, 25 South  
Sathorn Road, Tungmahamek,  
Sathorn, Bangkok 10120, Thailand  
Tel. 2-677-3930 Fax. 2-677-3937

### Singapore

2 Finlayson Green #08-07, Asia  
Insurance Building, Singapore 049247,  
Republic of Singapore  
Tel. 6224-6759 Fax. 6224-7296

### Jakarta

4th Floor, North Tower, Menara  
Jamsostek, Jalan Jenderal,  
Gatot Subroto No. 38, Jakarta 12710,  
Indonesia  
Tel. 21-5296-1541 Fax. 21-5296-1563

### Kuala Lumpur

Bangunan Oriental Capital,  
36 Jalan Ampang, 50450  
Kuala Lumpur, Malaysia  
Tel. 3-2070-2668 Fax. 3-2031-7187



- Representative Office
- Subsidiaries and Affiliates
- Underwriting Agency
- ◆ Aioi Overseas "Anshin" Dial Center

## UNDERWRITING AGENCIES

### UNITED STATES

**Takagi & Associates, Inc.**  
 Flame Tree Plaza, Suite 200, 540 Pale  
 San Vitores Road, Tumon, Guam,  
 U.S.A.

### COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

**Takagi & Associates, Inc.**  
**(Saipan Branch)**  
 PPP 602, Box 10000, 2nd Floor, Bank  
 of Hawaii Bldg., Mariana Heights  
 Park, Puerto Rico, Saipan MP96950  
 C.N.M.I.

## SUBSIDIARIES AND AFFILIATES

### UNITED KINGDOM

**Aioi Motor and General Insurance  
 Company of Europe Ltd.**  
 1st Floor, 50 Mark Lane, London  
 EC3R 7QR, United Kingdom

**Aioi Insurance Management Ltd.**  
 1st Floor, 50 Mark Lane, London  
 EC3R 7QR, United Kingdom

**Toyota Insurance Management Ltd.**  
 1st Floor, 50 Mark Lane, London  
 EC3R 7QR, United Kingdom

### BELGIUM

**Aioi Motor and General Insurance  
 Company of Europe Ltd.**  
**<Belgian Branch>**  
 Belgicastraat 13, 1930 Zaventem,  
 Belgium

### FRANCE

**Aioi Motor and General Insurance  
 Company of Europe Ltd.**  
**<Paris Branch>**  
 36 Bd de la République  
 92423 Vaucresson Cedex, France

### GERMANY

**Aioi Motor and General Insurance  
 Company of Europe Ltd.**  
**<German Branch>**  
 Leopoldstrasse 208, 80804 Munich,  
 Germany

**Toyota Insurance Management Ltd.**  
**<German Branch>**  
 Toyota-Allee 5, 50415 Köln, Germany

**Aioi Life Insurance of Europe AG**  
 Toyota-Allee 5, 50833 Köln, Germany

### NETHERLANDS

**Aioi Motor and General Insurance  
 Company of Europe Ltd.**  
**<Netherlands Branch>**  
 c/o WA Hienfeld BV, Drentestraat 5,  
 1083 HK, Amsterdam, Netherlands

### NORWAY

**Aioi Motor and General Insurance  
 Company of Europe Ltd.**  
**<Norwegian Branch>**  
 c/o Tennant Forsikring AS, P.O. Box  
 418, Sentrum, 0103 Oslo, Norway

### UNITED STATES

**Aioi Insurance Company of America**  
 60 East 42nd Street, New York, NY  
 10165, U.S.A.

**DTRIC Insurance Company Ltd.**  
 1600 Kapiolani Blvd., Suite 1520,  
 Honolulu, Hawaii 96814-3801, U.S.A.

**Paladin Reinsurance Corporation**  
 1166 Avenue of the Americas, 12th  
 Floor, New York, NY 10036, U.S.A.

### THAILAND

**Aioi Bangkok Insurance Company Ltd.**  
 22nd Floor, Bangkok  
 Insurance/YWCA Building, 25 South  
 Sathorn Road, Tungmahamek,  
 Sathorn, Bangkok 10120, Thailand

**Bangkok Chayoratn Co., Ltd.**  
**(brokerage firm)**  
 10th Floor, Bangkok Insurance/  
 YWCA Building, 25 South Sathorn  
 Road, Tungmahamek, Sathorn,  
 Bangkok 10120, Thailand

### SINGAPORE

**Aioi Management Services Singapore  
 Pte, Ltd.**  
 2 Finlayson Green #08-07, Asia  
 Insurance Building, Singapore 049247,  
 Republic of Singapore

### INDONESIA

**PT. Asuransi Aioi Indonesia**  
 4th Floor, North Tower, Menara  
 Jamsostek, Jalan Jenderal, Gatot  
 Subroto No. 38, Jakarta 12710,  
 Indonesia

### CHINA

**Guangzhou Guang Ai Insurance  
 Brokers Co., Ltd.**  
 15th Floor, Zhongyin Building,  
 No. 338 Qinghe Road, Panyu,  
 Guangzhou, China

### NEW ZEALAND

**Aioi Management New Zealand Ltd.**  
 602 Great South Road, Greenlane,  
 Auckland 1130, New Zealand

# SUBSIDIARIES AND AFFILIATES

## DOMESTIC COMPANIES

As of July 2006

Company	Capital (¥ million)	Ownership of Parent Company (%)	Ownership of Subsidiaries (%)	Establishment	Business Line
Aioi Life Insurance Co., Ltd. •	25,000	100.0	—	1996	Life insurance
Aioi Claim Research Co., Ltd.	25	100.0	—	1975	Claim research
Aioi Business Services Co., Ltd.	47	100.0	—	1982	Administration of non-life insurance and data entry
Aioi Insurance Total Services Co., Ltd.	23	99.6	0.4	1983	Administration of real estate and facilities, warehousing, forwarding, management of printed matters, and temporary staffing
Aioi Insurance Systems Co., Ltd.	60	100.0	—	1995	Development and maintenance of software
Fureai Do-Life Services Co., Ltd.	221.5	100.0	—	2000	Nursing care related services
Aioi Research Institute Co., Ltd.	200	100.0	—	2005	Research of insurance business concerning products, sales supports and services, etc.
Aioi Support Box Co., Ltd.	30	70.0	30.0	1999	Management consultation and training support services for insurance agencies
Toyota Asset Management Co., Ltd.	600	50.0	—	1990	Investment management
Aioi Insurance Finance Co., Ltd.	86.5	38.3	7.5	1985	Finance and loans
Aioi Risk Consulting Co., Ltd.	17.5	10.0	38.6	1987	Risk consultation and research services
Aioi Insurance Auto Technical Research Center Co., Ltd.	10	10.0	25.0	1994	Automobile repair technical research, training, and advisory services
Advance Insurance Planning Co., Ltd.	100	33.4	—	2006	Planning of non-life insurance company
SBI Nonlife Insurance Planning Co., Ltd.	100	33.4	—	2006	Planning of non-life insurance company

## OVERSEAS COMPANIES

Aioi Motor and General Insurance Company of Europe Ltd. (U.K.) •	£44.3 million	100	—	2004	Non-life insurance
Aioi Life Insurance of Europe AG (Germany) •	Euro5 million	—	100	2005	Life insurance
Aioi Insurance Management Ltd. (U.K.) •	£10,000	—	100	1988	Non-life insurance general agency
Toyota Insurance Management Ltd. (U.K.) •	£500,000	—	75	1999	Insurance agency
DTRIC Insurance Co., Ltd. (U.S.A.)	US\$2.5 million	74.77	—	1978	Non-life insurance
Aioi Insurance Company of America (U.S.A.)	US\$5 million	100	—	1994	Non-life insurance
PT. Asuransi Aioi Indonesia (Indonesia)	Rupiah15 billion	80	—	1996	Non-life insurance
Aioi Bangkok Insurance Co., Ltd. (Thailand)	THB15 million	19	—	1951	Non-life insurance
Aioi Management Services Singapore Pte, Ltd. (Singapore)	S\$200,000	100	—	1998	Risk management
Bangkok Chayoratr Co., Ltd. (Thailand)	THB2 million	39	—	1973	Non-life insurance broker
Paladin Reinsurance Corporation (U.S.A.)	US\$500,000	20	—	1980	Non-life reinsurance
Aioi Management New Zealand Ltd. (New Zealand)	NZ\$600,000	100	—	2005	Non-life insurance general agency
Guangzhou Guang Ai Insurance Brokers Co., Ltd.	Yuan30 million	24.9	—	2006	Non-life insurance broker

• Consolidated subsidiaries

## MILESTONES

1918	Tokyo Movable Property Fire Insurance Company established
1920	Toshin Fire Insurance Co., Ltd. (sister company), established
1944	Merger of Tokyo Movable Property Fire Insurance and Toshin Fire Insurance; name changed to Dai-Tokyo Fire Insurance Co., Ltd.
1949	Name changed to The Dai-Tokyo Fire & Marine Insurance Co., Ltd.
1959	Policy of active involvement in automobile insurance adopted
1968	50th anniversary, approval gained for long-term comprehensive insurance (Echo Insurance)
1983	24-hour claim reception service introduced
1989	The Dai-Tokyo Fire & Marine Insurance Shinjuku Building completed
1996	Head office relocated to Dai-Tokyo Fire & Marine Insurance Shinjuku Building; start of life insurance operations by newly established subsidiary (The Dai-Tokyo Shiawase Life Insurance Co., Ltd.)

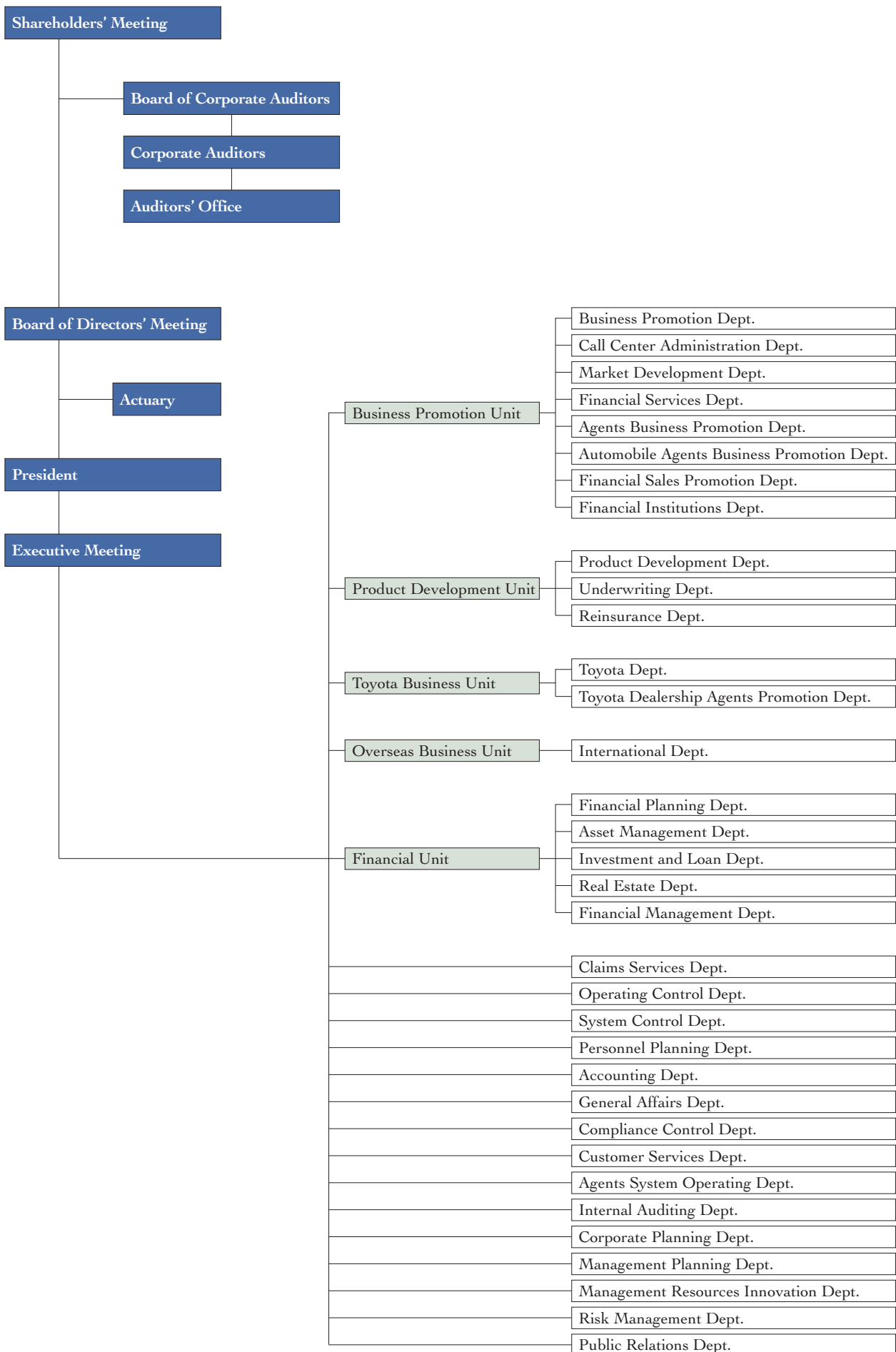
1897	Otaru Cargo Insurance Co., Ltd., established
1913	Chiyoda Fire Insurance Co., Ltd., established
1919	Approval gained for involvement in general fire insurance, marine insurance, transportation insurance, and related reinsurance activities, enabling Otaru Cargo Insurance to become a general insurance company
1922	Name changed to Fukoku Fire & Marine Insurance Co., Ltd.
1942	Chitose Fire & Marine Reinsurance Co., Ltd., absorbed by Chiyoda Fire Insurance; Chiyoda Fire Insurance renamed Chiyoda Fire & Marine Insurance Co., Ltd.
1944	Merger of Fukoku Fire & Marine Insurance with Okura Fire & Marine Insurance Co., Ltd.
1945	Equal merger of Okura Fire & Marine Insurance and Chiyoda Fire & Marine Insurance to form Okura Chiyoda Fire & Marine Insurance Co., Ltd.
1946	Name changed to The Chiyoda Fire & Marine Insurance Co., Ltd.
1959	Tie-up with Chukyo business circles, including Toyota Motor Corporation and Tokai Bank, Limited
1996	Start of life insurance operations by newly established subsidiary (The Chiyoda Kasai Ebisu Life Insurance Co., Ltd.)

## The Path to Merger

March 1, 2000	Merger of The Chiyoda Fire & Marine Insurance Co., Ltd., and The Dai-Tokyo Fire & Marine Insurance Co., Ltd., announced at the Imperial Hotel, Hibiya, Tokyo
September 8, 2000	Merger agreement signed; details of new company announced Name: Aioi Insurance Company, Limited Head Office: Ebisu, Tokyo
April 1, 2001	Aioi Insurance Company, Limited, established

# ORGANIZATION

As of July 1, 2006



# BOARD OF DIRECTORS AND AUDITORS

As of June 28, 2006

## CHAIRMEN, DIRECTORS

Ryuji Araki  
Akira Seshimo<sup>•</sup>

## PRESIDENT, DIRECTOR

Tadashi Kodama<sup>•</sup>

## VICE PRESIDENTS, DIRECTORS

Yasuhiko Kubota<sup>•</sup>  
Hiromasa Kaneko<sup>•</sup>  
Masao Adachi<sup>•</sup>

## SENIOR MANAGING DIRECTORS

Hisahito Suzuki<sup>•</sup>  
Shigeru Sudo  
Masahiko Oji

<sup>•</sup>Representative Director

## MANAGING DIRECTORS

Kaoru Matsuda  
Masayoshi Nakamura  
Takayoshi Umemura

## DIRECTOR

Mitsuo Kinoshita

## CORPORATE AUDITORS

Masashi Horie  
Naotatsu Momoi

## AUDITORS

Shozo Hashimoto  
Hideo Ogasawara  
Yoshio Ishizaka

## SENIOR EXECUTIVE OFFICERS

Toshihiko Nakagawa  
Masami Sasaki  
Shusuke Kobayashi  
Tsukasa Yorifuji  
Hiroaki Nagasue  
Yasukazu Nagasaki  
Takashi Suenaga

## EXECUTIVE OFFICERS

Hiroshi Aizawa  
Takao Shida  
Tsutomu Matsumoto  
Shigeki Kitazume  
Kenji Toda  
Kenichi Ito  
Katsumi Inuta  
Hirokazu Mizogami  
Itaru Akihisa  
Hideo Murakami  
Takashi Matsumoto  
Hiroshi Kunie  
Kazuhiro Kimura  
Matsuhiko Sone  
Yoshiaki Hayakawa  
Shuji Nakahara  
Jun Kawamura

# CORPORATE DATA (Non-Consolidated)

As of March 31, 2006

<b>COMPANY NAME:</b> .....	Aioi Insurance Company, Limited
<b>DATE OF ESTABLISHMENT:</b> .....	June 30, 1918
<b>BUSINESS LINE:</b> .....	Non-life insurance business
<b>HEAD OFFICE:</b> .....	28-1, Ebisu 1-chome, Shibuya-ku, Tokyo, Japan 150-8488
<b>CAPITAL:</b> .....	¥100.0 billion
<b>TOTAL ASSETS:</b> .....	¥2,761.1 billion
<b>STOCK LISTINGS:</b> .....	Tokyo, Nagoya, Osaka
<b>NUMBER OF SHARES ISSUED:</b> .....	756,201,411
<b>NUMBER OF SHAREHOLDERS:</b> .....	25,527
<b>RATINGS:</b> .....	A (Standard and Poor's) A (A.M.BEST) A (R&I Rating & Investment Information, Inc.)
(As of August 1, 2006)	
<b>NET PREMIUMS WRITTEN:</b> .....	¥834.2 billion
<b>SALES BRANCH OFFICES:</b> .....	109
<b>SALES OFFICES:</b> .....	532
<b>CLAIM SERVICE OFFICES:</b> .....	207
<b>AGENTS:</b> .....	44,559
<b>EMPLOYEES:</b> .....	8,684

**Aioi Insurance Company, Limited**  
1-28-1, Ebisu, Shibuya-ku, Tokyo 150-8488, Japan



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