



ANNUAL REPORT 2008

Aioi Insurance Co., Ltd.

CONTENTS

1	CORPORATE PHILOSOPHY / MISSION
2	FINANCIAL HIGHLIGHTS
3	MESSAGE FROM THE PRESIDENT
11	MANAGEMENT SYSTEM
27	FINANCIAL SECTION
67	OTHER INFORMATION

PROFILE

Aioi Insurance Company, Limited (hereinafter “Aioi Insurance”) was formed in April 2001 from the merger of two long-established non-life insurance companies, The Dai-Tokyo Fire & Marine Insurance Co., Ltd. and The Chiyoda Fire & Marine Insurance Co., Ltd. Our company name, which means “living and growing together” in Japanese, reflects our desire to grow together with our customers, agents and shareholders. With net premiums written of ¥871 billion (\$8,699 million) on a consolidated basis and total assets of ¥2,987 billion (\$29,815 million), Aioi Insurance is one of Japan's major non-life insurance companies. Through our domestic subsidiaries and affiliates, we also offer life and personal insurance, operate nursing care facilities and provide various insurance support services.

Aioi Insurance boasts a comprehensive nationwide network of 489 sales offices under 107 sales branch offices, 201 claim service centers and offices, and 39,875 agents. This domestic network helps the Company develop products and services tailored to evolving consumer demands.

Our overseas network provides diversified insurance services and consists of subsidiaries and branches in key cities in Asia, Australia, North America, and Europe and offices of allied local insurers around the world.

We also operate overseas offices in 20 major cities worldwide to assist policyholders who travel, live or work abroad.

CAUTIONARY NOTE: FORWARD-LOOKING STATEMENTS

Forward-looking statements contained in this annual report with respect to Aioi Insurance's plans, forecasts, strategies and beliefs that are not historical facts are based on information available to management at the time of publication. Readers are cautioned to refrain from making investment decisions based solely on these statements, as actual performance may differ materially from forecasts due to events and circumstances that include, but are not limited to, the following: economic conditions in Aioi Insurance's operating environment; fluctuations in exchange rates; and the level of demand for insurance products and services.

CORPORATE PHILOSOPHY

We aim to be a company that grounds its operations with the spirit of “empathy, joint creation and coexistence” and contributes to social stability, economic development and living standards as a comprehensive service company that provides security and offers protection against risk.

We aim to be a company that listens to what individual customers say, swiftly responds to changes of the times and continues to create new value in order to achieve continued growth.

We aim to enhance corporate value and increase public confidence by practicing solid and sound management.

We aim to be a company that is innovative and full of creativity and dynamism by creating a culture that nurtures the personal characteristics and talent of individual employees.

MISSION

Always There for the Customer

Aioi Insurance responds accurately and rapidly to market needs by leveraging its close links with customers. By using regional networks firmly rooted in local communities, we are aiming to become a company that creates new value.

Number One on the Road

By offering unique insurance products and pioneering services through highly convenient user channels, we are working to win the overwhelming support of drivers and to establish Aioi Insurance as the leading brand in the automobile insurance market.

Peace of Mind, Health and Prosperous Lifestyles

As society ages and birth rates decline, health, medical care and investment needs are growing. In response, Aioi Insurance is actively developing a range of unique products and services as it seeks to play a role in creating a prosperous society.

Sustained Growth Founded on High Efficiency and Enhanced Corporate Value

Aioi Insurance is working to enhance competitiveness and corporate value based on high operational efficiency that supports powerful earnings capabilities and stable growth. This is an integral part of our efforts to become a company trusted by customers, shareholders, sales agents and society as a whole.

Committed to the Spirit of Dynamism and Challenge to Become an Industry Pioneer

Aiming to open new industry frontiers, Aioi Insurance places a high priority on employees who can anticipate change, think independently and are proactive.

FINANCIAL HIGHLIGHTS

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

CONSOLIDATED FINANCIAL HIGHLIGHTS	Millions of Yen		Thousands of U.S. Dollars (Note)
	2008	2007	2008
Net premiums written	¥ 871,589	¥ 868,907	\$ 8,699,363
Interest and dividend income	89,297	57,503	891,283
Net income	(3,172)	16,187	(31,660)
Total equity	422,392	620,731	4,215,918
Total assets	¥2,987,234	¥3,082,676	\$29,815,690

Note: U.S. dollar amounts are converted from yen, for convenience only, at the prevailing rate of ¥100.19 to U.S.\$1 on March 31, 2008.

NON-CONSOLIDATED FINANCIAL HIGHLIGHTS	Millions of Yen		Thousands of U.S. Dollars (Note)
	2008	2007	2008
Net premiums written	¥ 851,849	¥ 851,238	\$8,502,335
Interest and dividend income	81,864	51,228	817,094
Net income	7,171	18,874	71,583
Total equity	441,106	628,680	4,402,700
Total assets	¥2,638,595	¥2,784,898	\$26,335,921

Note: U.S. dollar amounts are converted from yen, for convenience only, at the prevailing rate of ¥100.19 to U.S.\$1 on March 31, 2008.

	%	
	2008	2007
Loss ratio	62.23	62.44
Expense ratio	33.27	32.66

MESSAGE FROM THE PRESIDENT

- 4 MESSAGE FROM THE PRESIDENT
- 6 AIOI INSURANCE'S STRENGTHS
- 8 MEDIUM-TERM MANAGEMENT PLAN

MESSAGE FROM THE PRESIDENT

Aioi Insurance is committed to building a corporate culture strongly focused on the “customer first principle” and a business foundation capable of supporting continuous growth.



We wish to thank all of our stakeholders for their continuing support. Since its formation, Aioi Insurance’s business activities have been guided by the principles of “co-awareness, co-creativity and co-existence.” As a company offering an integrated lineup of services, capable of shouldering risk and providing security, we aim to contribute to social stability, economic prosperity and the enrichment of lifestyles. To achieve this, we consistently listen to the views of our customers to realize our goal of becoming the insurance company with which consumers feel most comfortable and familiar. Furthermore, we strive to respond quickly to change and are always seeking to create new value. Through sound and prudent management, we are working to enhance corporate value and earn the respect and trust of society at large.

Regrettably, despite these efforts the Company—and the non-life insurance industry in general—has experienced ongoing problems in the area of insurance claims payment as well as problems involving the application of incorrect insurance premiums. We wish to offer our sincerest apologies to our customers, shareholders and other stakeholders for the inconvenience and worry caused by these issues.

At present, the entire non-life insurance industry is undertaking an all-out effort to restore consumer trust in it, and Aioi Insurance has embarked on a two-year medium-term

management plan—commenced in fiscal 2007—called “Aioi Quality for the Customer.” This plan calls for the implementation of reforms that aim to create a truly customer-oriented company, and comprises three core principles:

- Through our “Peace of Mind and Checking Campaign,” we aim to rebuild our insurance sales system based on appropriate procedures whereby all policies are sold only after the customer’s intentions are ascertained and the policy content and premiums are reconfirmed.
- To completely eliminate the occurrence of inadvertent non-payment of insurance claims, we are strengthening systems relating to the management of claims payment. We will strive to build a non-life insurance service based on the highest-quality standards to gain the gratitude of customers through new programs such as the “Peace of Mind Call,” which follows up claims to ensure case resolution and provide customers with updates on the progress of their claim.
- Working on the basis that customers’ opinions are highly valued, we have formulated a quality policy, quality improvement theme and quality goals. Through the “Companywide Quality Improvement Program”—a repeated cycle of verification and improvement—we are building a corporate culture that values self-driven, continuous improvement in business practices.

The commitment of each and every Aioi Insurance employee is the key to successful implementation of our improvement strategy and service quality enhancement goals. Hence, we believe that human resource development is the most crucial task to be undertaken by senior management. We aim to nurture a highly motivated workforce who seek challenges and take pride in their work. We want our workforce to retain a sense of humility but also be ambitious in their approach. To build a company that provides rewarding career opportunities to a diverse range of people, including women, we are promoting skill development among employees. As part of our efforts to realize employment conditions that are attractive to employees, in September 2007 we revised our human resource system and established such programs as the Women's Career Promotion Office and the Aioi Kids' Club, an internal company child day-care program. These programs aim to assist women in realizing their full potential as employees.

To build a business foundation capable of supporting continuous growth, in our core domestic non-life insurance business, we are focusing on reinforcing local sales structures and our retail capabilities. Above all, our products must be designed from the perspective of meeting customer needs while also being innovative and easily understandable. In developing services, we place the highest priority on customer convenience.

Together with the measures outlined above, we are also targeting greater Group profitability through a strategy of business diversification. A key element of this is our life insurance business, through Aioi Life Insurance Co., Ltd., where we increased capitalization and fully allocated standard liability reserves. These moves are aimed at bolstering Aioi Life's financial base while expanding the scope of its operations. In overseas operations, Aioi Motor and General Insurance Company of Europe Ltd. provides finance and insurance (F&I) services in conjunction with the global strategy of Toyota Motor Corporation. Under this alliance, we offer automobile insurance policies to Toyota customers in certain overseas markets as a product linked to

Toyota's automobile financing operations. We intend to gradually expand the number of countries where these services are offered.

Looking to the future, we believe that customer protection and increasing convenience for the customer convenience will become even more crucial management issues, and insurance companies will be expected to demonstrate a high degree of discipline and responsibility as well as self-correcting capabilities. In addition to the business quality improvements measures outlined above and our efforts to build a business foundation capable of supporting continuous growth, we are committed to strengthening our compliance and risk-management systems. Furthermore, as a good corporate citizen, Aioi Insurance is working to bolster its management practices in the area of corporate social responsibility. This includes improving disclosure, reinforcing investor relations activities and actively promoting programs that contribute to local communities and deal with environmental issues. These measures are part of our transformation to a customer-oriented company and our drive to be more easily accessible to the communities we serve as we aim to become an insurance company providing a superior level of customer satisfaction. All directors and employees of the Aioi Insurance Group are working together to realize this corporate vision.

Thank you for your ongoing understanding and support in these matters.

August 2008

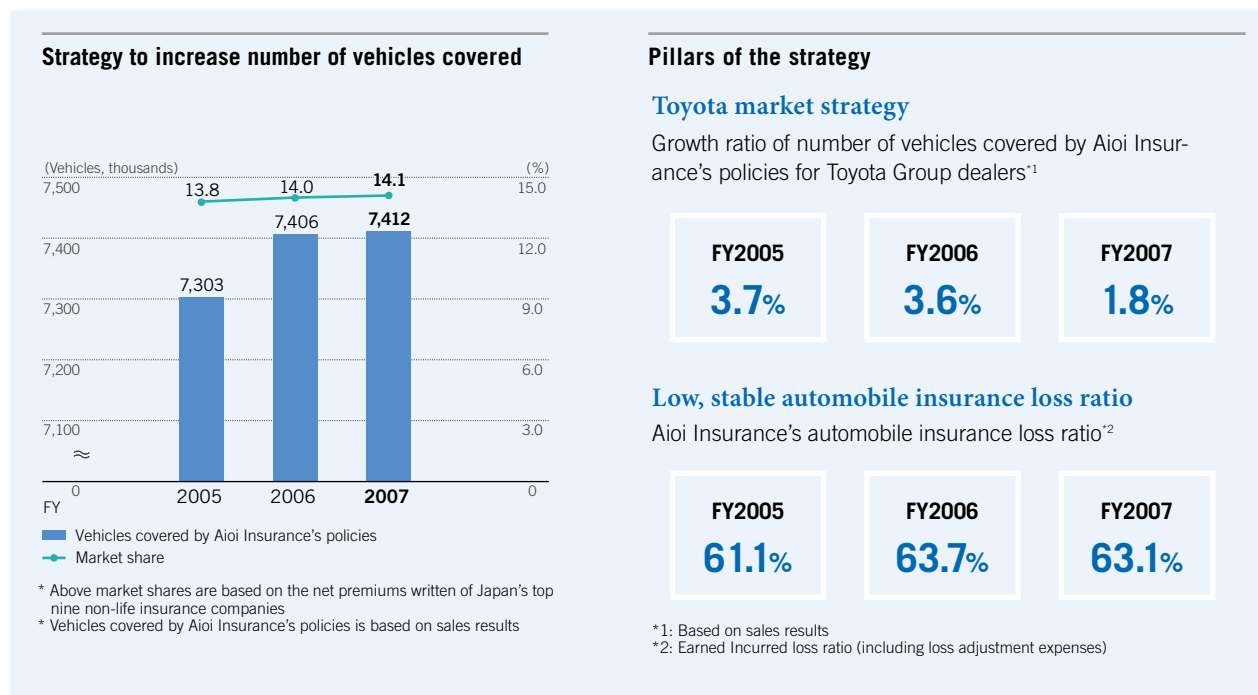


Tadashi Kodama
Representative Director and President

AIOI INSURANCE'S STRENGTHS

(1) AUTOMOBILE INSURANCE IN JAPAN

- Steadily increasing market share as well as number of vehicles covered by Aioi Insurance's policies amid tough business conditions caused by stagnation of new automobile sales



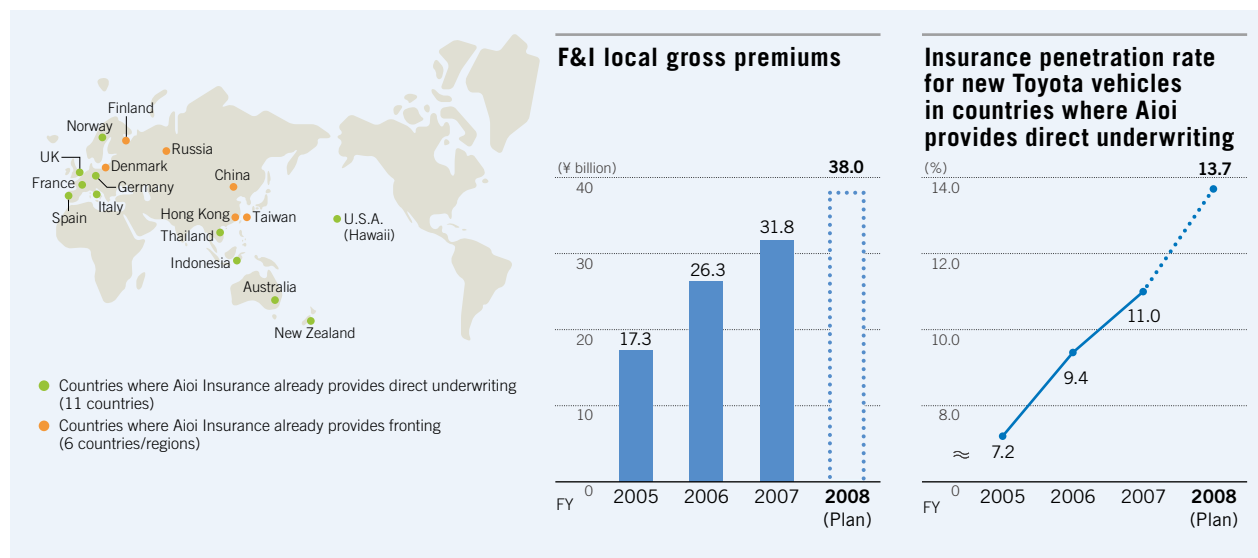
(2) AUTOMOBILE INSURANCE (OVERSEAS)

- Developing F&I business^{*1} in 17 countries and regions through direct underwriting and fronting
- Exploiting strengths of F&I business to steadily expand such automobile-related products as warranty extension^{*2} and credit life insurance^{*3}

^{*1} F&I business: In alliance with Toyota Financial Services Corporation, this business provides buyers of Toyota vehicles services and products integrating automobile sales financing and automobile insurance.

^{*2} Warranty extension: Warranty after the end of manufacturers' warranty period

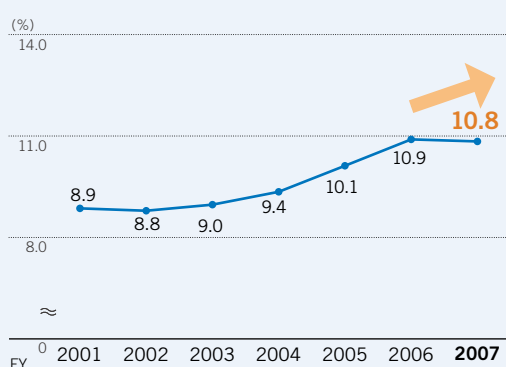
^{*3} Credit life insurance: Provides coverage of outstanding liabilities in the event of injury or illness during period of loans, leases



(3) FIRE INSURANCE

- Leveraging strength in housing industry channel to significantly increase Aioi Insurance's market share
- As well as introducing competitive products that reflect markets needs, through investment and alliances Aioi Insurance will attempt to corner the affinity insurance market to achieve sustainable growth

Share of the fire insurance market
(based on Japan's top nine non-life insurance companies)



* Based on sales results

Market for newly built/existing housing

- Leveraging strength in housing industry channel to continue increasing revenues even in tough market conditions
- Reinforcing newly established channel as the first priority
- Introducing competitive products for housing industry channel

Rental housing market

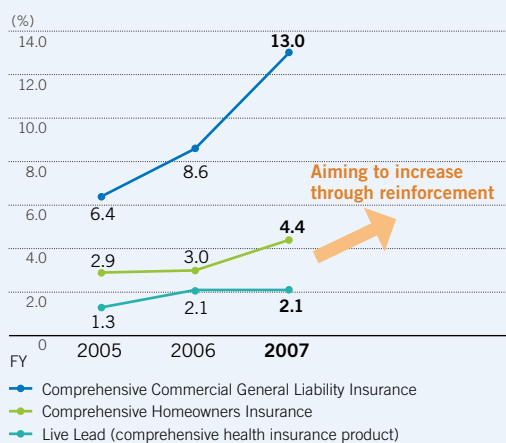
Rental housing channel

- Reinforcing newly established channel, positioning rental housing channel as priority channel
- Providing Hyper Home Contents cover as competitive product Affinity insurance market
- Attempting to corner market by increasing number of Aioi Insurance agents
- Attempting to corner market through investment and alliances

(4) REINFORCEMENT OF CROSS-SELLING

- Providing distinctive products to automobile insurance customers, advancing cross-selling
- Strengthen ability to offer solutions, introduce competitive new products and reinforce cross-selling

Cross-selling rate



* Based on sales results

Third sector

NEW

先進医療費用補償付リブリード
リブリード アドバンス
Live Lead Advance

Strengthening appeal of advanced health care coverage

Feature 1

- Increased multiplication ratio of daily hospitalization insurance payments for advanced medical treatment

Feature 2

- Direct payment of advanced medical expenses to hospitals

Life insurance

NEW

プレミアムW
ベストワンW

Feature 1

- Competitive insurance premiums for income security, in particular industry-leading insurance premiums for non-smokers

Feature 2

- New establishment of Specific Illnesses Health Check Pension Rider
- Provision for decrease in income upon contracting any of three major illnesses

MEDIUM-TERM MANAGEMENT PLAN

IOI Quality for the Customer—Reforming to Become a Customer First Company

Aioi Insurance regards regaining customer trust as its greatest corporate management issue and as such has prepared a two-year medium-term management plan, IOI Quality for the Customer—Reforming to Become a Customer-First Company, which began from fiscal 2007.

To transform Aioi Insurance into a customer-first company and to achieve sound growth and sustainable earnings growth, all employees will make a fully committed and concerted effort to advance corporate reform initiatives in fiscal 2008.

BASIC CORPORATE REFORM POLICIES TO BECOME A CUSTOMER FIRST COMPANY

Basic Corporate Reform Policies

Aiming to regain customer trust, Aioi Insurance will reform all operations, systems and frameworks from our customers' perspective to transform into a customer-first company.

Corporate Management	Change to customer-first corporate management that gives priority to customer evaluation, trust and endorsement
Organization	Change into an organization that is close to its markets and reflects customer feedback at points of contact with customers
Employees	Change into insurance professionals that provide customers with peace of mind and protection
Agents	Change into business partners that grow together and manage customers' risk with Aioi Insurance

PILLARS OF MEDIUM-TERM MANAGEMENT PLAN AND MEDIUM-TERM MANAGEMENT STRATEGY

Pillars of Medium-Term Management Plan

Aioi Insurance will transform into a customer-first company and achieve sound growth and sustainable earnings growth.

Reform all operational processes drastically to further improve quality and convenience of operations at points of contact with customers and create a customer-first company

Secure and expand customer base by rebuilding areas of strength, centered on the automobile insurance business, and by providing consulting based on customers' risk and needs

Establish stable earnings base by highly productive and efficient management of operations and strengthening asset management capabilities

Establish base of personnel that earn customer trust and gratitude by realizing the customer-first philosophy through rigorous compliance and improvement of specialized insurance knowledge

Reform corporate governance based on strengthening of internal control to earn further trust from all stakeholders and improve the soundness and transparency of corporate management



Specific Initiatives and Issues in fiscal 2008

Establish corporate culture that continuously improves quality

Restore marketing capabilities and increase the number of customers in Japan

Secure and increase Group earnings

Establish human resources base that supports all activities and quality

Strengthen and upgrade risk management

MEDIUM-TERM MANAGEMENT TARGETS

Non-life insurance operations

	(¥ billion/%) FY2006 FY2008	
Net premiums written	¥851.2	¥835.0
Overseas premiums written*	¥ 46.4	¥ 59.5
Net loss ratio	62.4%	65.1%
Net expense ratio	32.7%	34.2%
Combined ratio	95.1%	99.3%
Ordinary profit	¥ 29.8	¥ 28.0
Net income	¥ 18.8	¥ 17.0

*Local gross premiums

Life insurance operations

	(¥ billion) FY2006 FY2008	
Value of new individual insurance and individual pension contracts	845.6	1,026.0
Value of policies in force	6,233.4	7,514.0
(of which individual insurance and individual pension)	4,657.0	5,446.0
Ordinary profit	1.9	3.6

Note: Primarily due to the rate reduction of compulsory automobile liability insurance in April 2008, Aioi Insurance revised the target for net premiums written and the ratio targets of fiscal 2008. Furthermore, because automobile liability insurance is "no loss, no profit," this does not directly affect earnings targets.

BASIC CONCEPTS OF MEDIUM-TERM MANAGEMENT STRATEGY

