



Annual Report **2007**



Aioi Insurance Co., Ltd.

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 ¥868 billion (\$7,360 million) on a consolidated basis and total assets of ¥3,082 billion (\$26,113 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 511 sales offices under 109 sales branch offices, 205 claim service centers and offices, and 42,499 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 representative offices in 21 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.

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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 through 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 personal characteristics and talent of individual employees.

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Mission

>> Always There for the Customer

Aioi Insurance responds accurately and rapidly to market needs by leveraging its close links with customers. And 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 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 whole.

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

Aiming to open new industry frontiers, Aioi Insurance places 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)
	2007	2006	2007
Net premiums written.....	¥ 868,907	¥ 847,008	\$ 7,360,501
Interest and dividend income.....	57,503	48,372	487,115
Net income.....	16,187	20,791	137,125
Total shareholders' equity	—	624,103	—
Total equity	620,731	—	5,258,204
Total assets	¥3,082,676	¥3,008,838	\$26,113,315

Note: U.S. dollar amounts are converted from yen, for convenience only, at the prevailing rate of ¥118.05 to U.S.\$1 on March 31, 2007.

NON-CONSOLIDATED FINANCIAL HIGHLIGHTS	Millions of Yen		Thousands of U.S. Dollars (Note)
	2007	2006	2007
Net premiums written.....	¥ 851,238	¥ 834,284	\$ 7,210,833
Interest and dividend income.....	51,228	42,167	433,952
Net income.....	18,874	19,750	159,881
Total equity	628,680	630,663	5,325,545
Total assets	¥2,784,898	¥2,761,116	\$23,590,840

	%	
	2007	2006
Loss ratio	62.44	62.71
Expense ratio	32.66	33.07

Note: U.S. dollar amounts are converted from yen, for convenience only, at the prevailing rate of ¥118.05 to U.S.\$1 on March 31, 2007.

Message from the President

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Message from the President

The financial figures in this section are nonconsolidated.

Aioi Insurance is aiming to become the most attractive and accessible non-life insurance company for customers by focusing on local communities and retail business by providing original products and services that meet the needs of retail insurance customers, thus contributing to an improvement in quality of life.

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2006 FISCAL YEAR PERFORMANCE

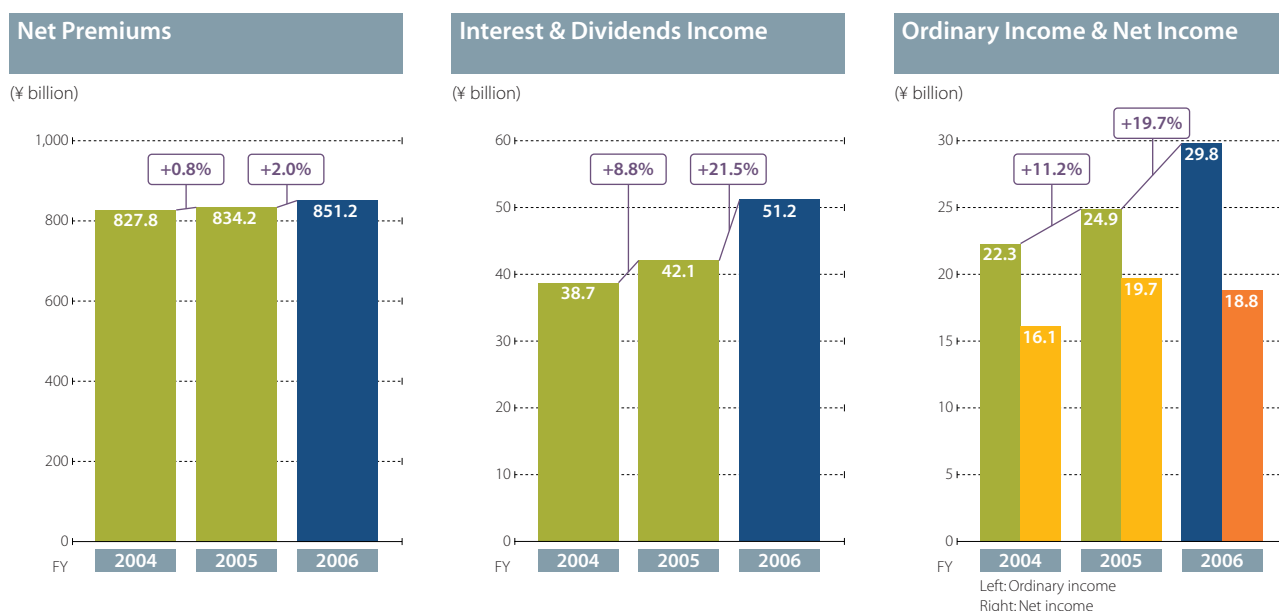
Looking back on developments of the 2006 fiscal year the non-life insurance industry has experienced further liberalization and deregulation, intensifying competition in the areas of product development, insurance rate reduction and operating efficiency. Additionally while stock price stayed at a similar level, the market interest rate has increased due to the lifting of the zero interest policy. We are regarding this as a sign of economic recovery.

Under these circumstances Aioi achieved a continued sales increase and steady business growth in the 2006 fiscal year through; enhancing brand concept and product strategy to meet customer needs, expanding independent sales channels with business partners such as Toyota and continuing to focus on areas of automobile insurance where Aioi has a strong position. In addition, Aioi achieved a significant increase in investment income by reducing the amount of assets held in short-term asset, diversifying currency holdings and optimizing exposure to credit risk to improve portfolio composition.

FINANCIAL HIGHLIGHTS

- Ordinary income continued to rise due to an increase in investment income, offsetting a shortfall in insurance income which was reported the previous year and net income decreased from the previous year due to no extraordinary income.

*1 Figures have been rounded down to the nearest whole number

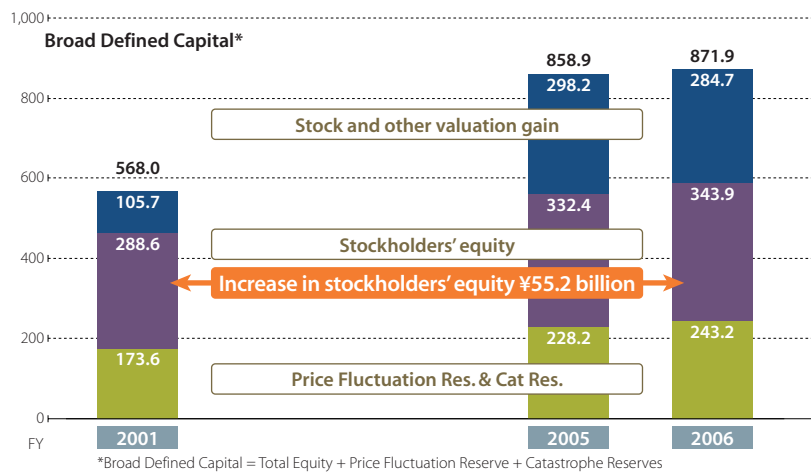


Aioi Insurance has expanded its capital including a catastrophe reserves to ensure that our credit position will not be adversely affected in the event of the materialization of a significant business risk, while also retaining earnings to lay the foundations of future growth. Since Aioi's establishment in the fiscal year 2001 its broad defined capital (total equity + price fluctuation reserve + catastrophe reserves) has increased by more than three hundred billion yen.

As a result of these efforts Aioi's ratings have been upgraded by three leading credit rating agencies domestically and internationally. We will continue to make efforts to receive better credit ratings recognising that credit ratings are one of the most important management targets in the insurance industry.

Strength of Financial Base

(¥ billion)



Improvement of Ratings

	S&P	Moody's	R&I
End of March 2006	A	A3	A
End of May 2007	A+	A1	A+

NEW MID-TERM MANAGEMENT PLAN

The revelation of incidental unpaid insurance claims and inappropriate non-payment of claims related to third sector-insurance products, as well the Financial Services Agency's request to inspect the soliciting structure of fire insurance policies, shook consumer confidence in our non-life business. In order to restore consumer trust, Aioi has drastically reformed the whole of its business processes and formulated a new mid-term management plan (a two year plan starting in the 2007 fiscal year) that was designed to transform the company into a customer-oriented company. We are committed to making every effort to transform the company.

We will promote the reform by setting five management points as important pillars of structural reform, with the goal of transformation into a customer orientated company, pursuing healthy growth and a continued increase in profit.

1. Drastically reform the whole business process to create a "customer orientated company" with improvements in the quality and convenience of operations at the customer's points of contact.
2. Implementation of corporate governance reform focusing on enhancing internal management structures for improved stakeholder confidence and transparency of management.
3. A foundation of staff that are trusted by customers, follow the "*customer first*" principle, strictly follow compliance and have an improved knowledge of insurance.

4. Expanding and securing the customer base by rebuilding strength in the automobile insurance market and duly considering the risks and needs of our customers.
5. Establishment of a stable earnings base through productive, effective operations as well as by enhancing investment management capabilities.

In the 2007 fiscal year (first year of the mid-term management plan) three priority issues to improve the quality of operations will be addressed.

1. Introduce a "Peace of mind and Checking campaign" (a campaign to verify the details of all contracts) in order to rebuild an appropriate structure for the solicitation of insurance policies.
2. Eradicate inappropriate non-payment of insurance claims and establish high quality non-life insurance services that will be welcomed by customers.
3. Establish a corporate culture that seeks continuous improvements through company improvement activities to respond to customer feedback such as complaints.

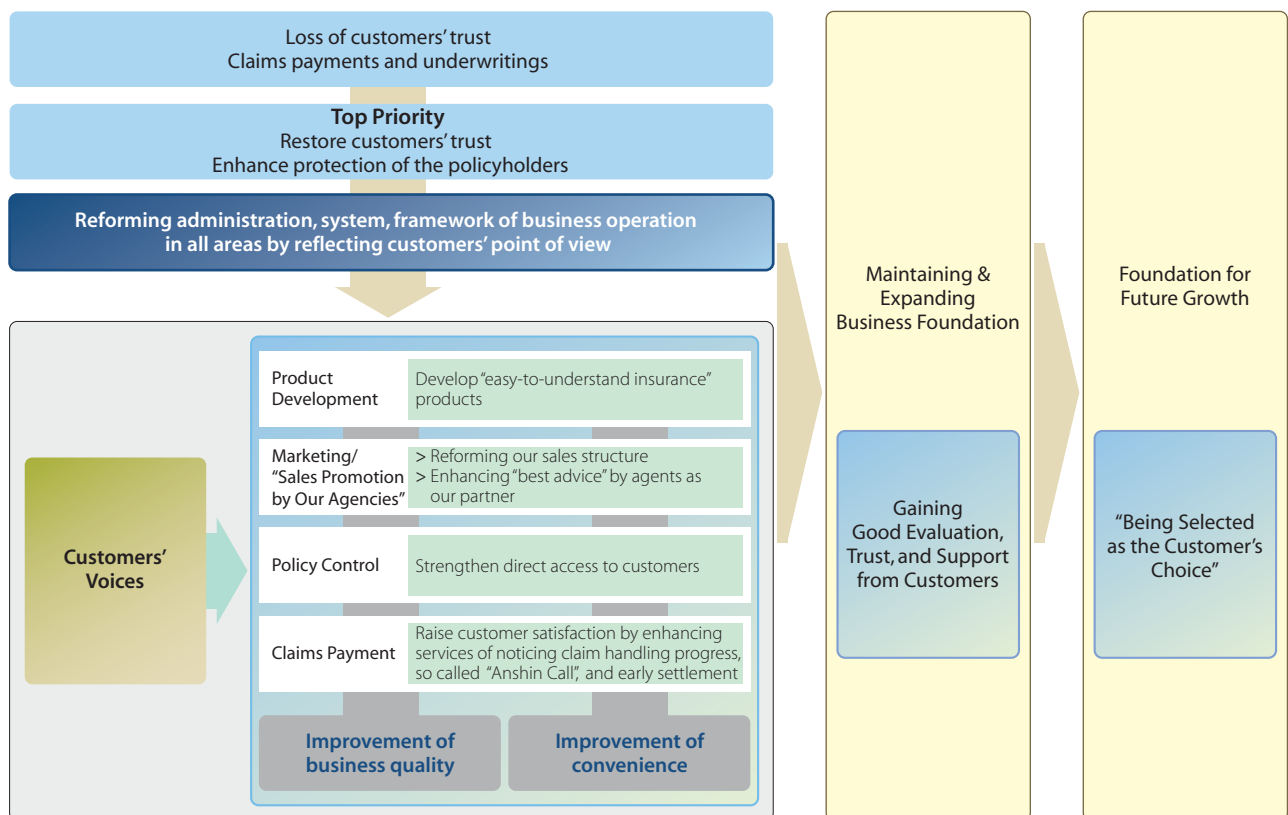
Aioi Insurance will reform its whole business process by reviewing business operations, structures and frameworks from the customers' point of view while considering how insurance product delivery, insurance policy solicitation, contract management and insurance claim payment can be made easily understandable for customers in turn increasing customer satisfaction. To become a non-life insurance company that is attractive to customers,

we must endeavour to strengthen our operating base with a major focus on the retail insurance market.

We believe that we will be able to pave the way for solid future growth by swiftly accomplishing business process reform. All executives and employees of the Aioi Insurance Group will work together with determination to implement and accomplish all these corporate reform efforts.

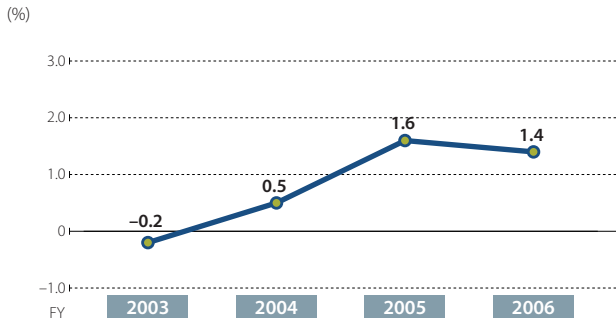
COMPANY REFORM

Customers' Selection of Aioi is Our Fundamental Goal since Our Business Mainly Relies on the Retail Markets



The following section explains Aioi Insurance's management policies, business strategies and corporate vision.

Vehicle Growth



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GROWTH STRATEGY

1. Automobile Insurance Strategy

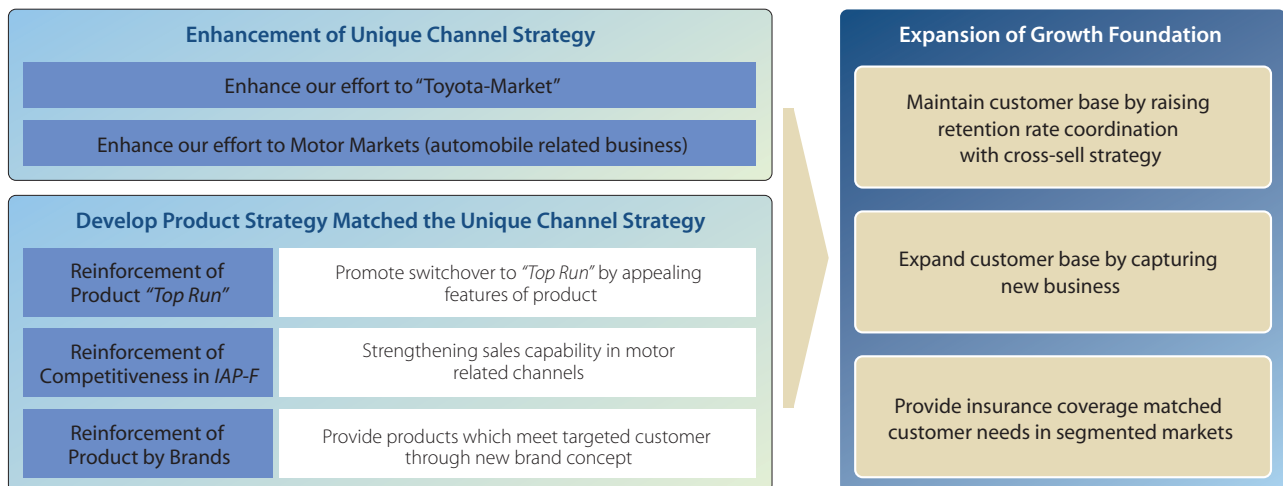
Aioi's strongest area is Automobile Insurance and therefore the quickest way of expanding our customer base would be to increase the number of vehicles covered by our insurance policies. Despite the fact that new car market's growth has been slowing, the number of vehicles covered by our automobile insurance policies has been increasing (as shown in the chart "change in percentage of vehicles covered by our automobile insurance policies") on the right.

One of the central focuses of our business strategy is to increase market share by strengthening our unique sales

channels as well as achieving a continued increase in the number of vehicles covered by our automobile insurance policies. A typical example of this is how we are strengthening our relationship with the Toyota dealer network and motor related business channels and further more how we are developing products best typified by "The Lexus Owner's Automobile Insurance Plan."

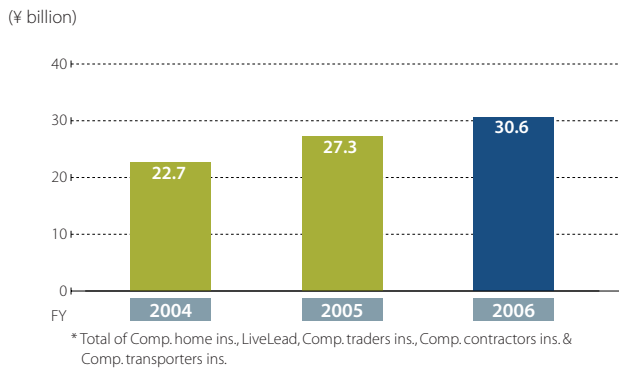
Under the company's product strategy we are maintaining a high renewal rate and have many policyholders changing to our major automobile insurance policy "Top Run" while simultaneously strengthening our competitiveness by selling "IAP-F" which is more price-competitive to advance our customer base.

MOTOR INSURANCE STRATEGY



The following section describes the "Platform (Cross-Selling) Strategy" we are pursuing in order to sell other varieties of insurance products or services to customers of automobile insurance where we have the greatest strength.

Sales Trend of Platform Product



2. Platform (Cross-Selling) Strategy

“Cross-selling” is an important and effective way to expand our customer base and prepare for future growth, in addition to the strengthening of our automobile insurance strategy.

Simply put our cross-selling strategy is the positioning of automobile insurance policies as a platform where other types of appropriate and distinctive products can be sold to automobile insurance policyholders.

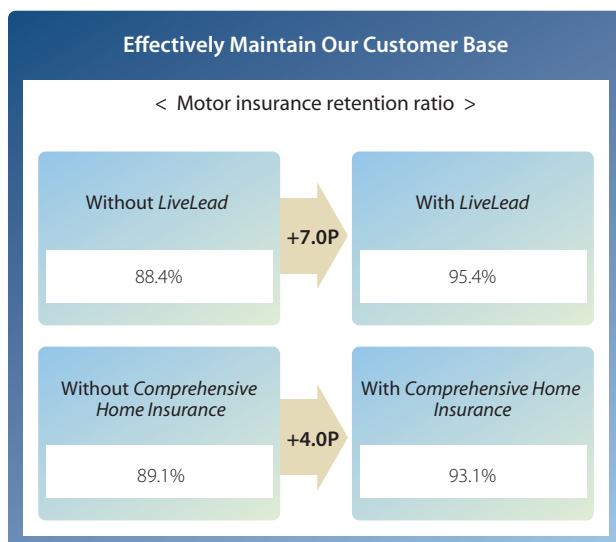
As the chart on the above shows, annual premiums from platform products have exceeded thirty billion yen. This strategy not only increased revenues through increased sales of platform products but also helped improve the retention ratio of automobile insurance among our automobile insurance policyholders.

In addition to the increase of sales of “platform products,” which increases our total insurance sales, we have endeavoured to make cross-selling efforts towards our automobile insurance policyholders which leads to an increase in the retention ratio itself.

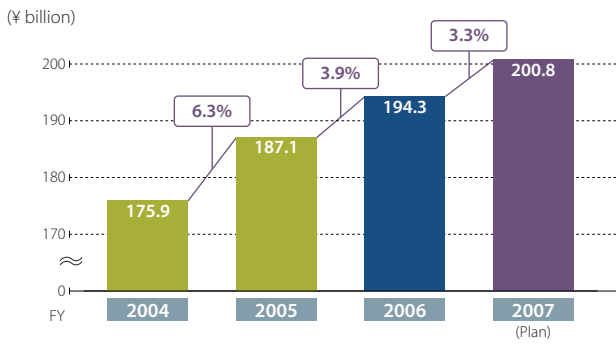
From now on, we will develop and enhance the functions of sales by utilizing systems for our agents and sales structures to assure appropriate product description and explanation by our sales channels. Further we will advance these efforts to strengthen sales of our mainstay platform product “*Live Lead*,” which is specifically designed to meet the need of third sector insurance customers.

CROSS-SELL STRATEGY

Strengthen Cross-Sell Strategy Focusing on “Third-Sector” by Rebuilding Sales Structure



Premium Trend of Toyota Market



3. Domestic Toyota Market Strategy

The Toyota market is one of the most important and fastest growing markets for Aioi Insurance. We have formed a solid business partnership Toyota Motor Group by forming capital and business ties. We play an increasingly important role as an insurance business within Toyota's value chain both domestically and internationally and we can continue to achieve a dramatic increase in revenue by addressing the needs of the Toyota market.

The domestic Toyota Market Strategy is twofold: developing products targeted at the Toyota market and improving capabilities to market insurance policies. Our product strategy has generated a steady increase in revenue from the "Lexus Owners' Automobile Insurance Plan," a high-end automobile insurance product. We will continue to develop new products to address the needs of the market.

In an effort to improve our capability to market insurance policies, we are creating measures to reform insurance services at each car dealership in order to respond to the need of the customers while also promoting our unique "insurance service reform activities" to integrate insurance service with auto repair and other

services other by car dealers. By drawing on our insurance know-how we will further product descriptions for customers of new cars at point of sales and are endeavouring to improve sales negotiation capabilities.

We aim to gain a 40% market share in this market while maintaining our growth rate within this market by steadily making a concerted effort for products, sales and services.

RELATIONS OF AIOI INSURANCE AND TOYOTA MOTOR

Aioi Insurance Co., Limited

Toyota Motor Corporation
(hereinafter "Toyota")

Toyota is the Company's largest shareholder
Toyota owns 33.4% of the Company's issued shares

The Toyota customers market* is the Company's largest market
The Company aims to continue the highest premium growth rate in the Toyota customers market and become the No.1 non-life insurer

The Company develops insurance products in collaboration with Toyota
As a non-life insurer catering to the customers of manufacturers, the Company develops and markets optimal products that reflect customers' needs

The overseas Toyota customers market continues to grow
The Company is strengthening coordination between Toyota's global strategy and finance and insurance business and aggressively advancing this business

The Company is strengthening coordination with Toyota in investment
The Company is strengthening coordination with Toyota Asset Management Co., Ltd.

* Insurance market comprising domestic dealers and group companies
Premium Trend of Toyota market

TOYOTA MARKET STRATEGY IN JAPAN

Provide Products for "Toyota-Market"

"Lexus-Market" (Motor Premium Trend)

Lexus Owners' Motor Insurance Plan

"Convini Plan"

"Nagaraku Plan"

Assist Toyota Group Dealers to Strengthen Sales Capability

Unique support for Toyota dealers' sales activities

Continuous activities in enhancing insurance operation to improve quality as well as efficiency of the sales operations, that will lead to contribution of business expansion

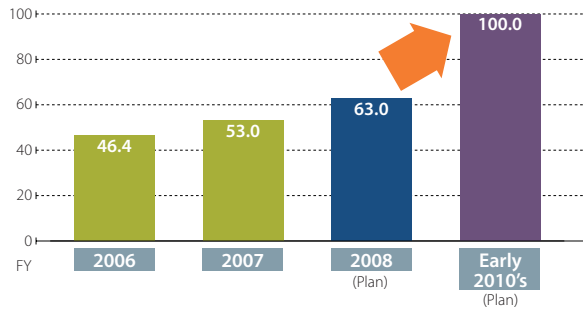
Unique Know-How in Sales of Insurance

Promoting car sales and insurance sales as a package through activities of enhanced insurance operation

Aiming for 40% market share in the "Toyota-market" with the highest level premium growth

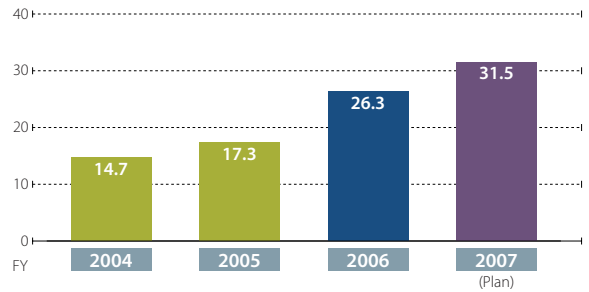
Direct Premium Income in Overseas

(¥ billion)



F&I Business Premium (Gross)

(¥ billion)



4. Overseas Toyota Market

“Finance & Insurance” (hereinafter “F&I”) business, which is based on our own unique business model and jointly conducted with Toyota Motor Group, is the mainstay of our overseas business operations. We have expanded F&I business while trying to establish this business model primarily in Europe. This business has generated a dramatic increase in revenue, as our

insurance functions were fully integrated into Toyota’s value chain. We will endeavour to expand this business into more countries by utilizing this unique business model, which has been so successful in Europe.

Our overseas operations with their focus on F&I business are the cornerstone of our strategy to increase revenue. We aim to increase overseas premiums to hundred billion yen by the early 2010s.

TOYOTA MARKET STRATEGY OVERSEAS

Enforce Toyota Retail Market Strategy

[Europe]

- > Targeting F&I business commencement in Italy and Spain
- > Consider entrance into Russia and Northern European Countries
- > Boost sales volume by product diversification (Credit Life, GAP*)

[North America]

- > Targeting F&I business commencement in Canada

[Oceania]

- > Auto premium increase in Australia and Thailand through expansion of sales channel

[China]

- > Enter auto insurance market through Guangzhou Guang Ai Insurance Brokers
- > Establish Tianjin branch and strengthen retail market business with local insurance company (partnership)

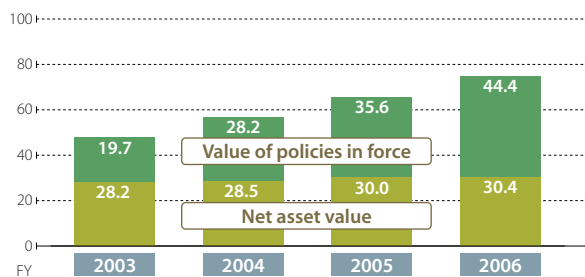
Enforce Profitability

- > Stabilize loss ratio and improve productivity by premium growth
- > Strengthen investment management skills

Target overseas premium income of ¥100 billion with F&I as the core business

Trend of EV

(¥ billion)



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5. Life Insurance Business Strategy

Aioi Life Insurance will improve management quality by strengthening foundations for its operations, service, products, sales and earning power from the customer's viewpoint in order for a significant leap forward in the medium to long term. Aioi Life will work on reforming sales channels for market insurance policies in order to ensure better accountability, while continuing to launch unique products to meet individual customer needs.

We will endeavour to improve the quality of insurance sales by shifting our main focus from sales of new insurance policies to management of existing insurance policies. The policy cancellation/lapse ratio, which was our major concern, improved when it dropped dramatically by 3.5 points to 10.0%. We will make efforts to improve it further. Meanwhile, we will develop and establish

appropriate measures to properly handle insurance claims and payment by increasing manpower and enhancing system functions.

We will implement these measures without delay to enhance corporate value in the long and medium terms while making meaningful contributions to consolidated earnings in the short term. Meanwhile, Embedded Value (EV) steadily increasing to 74.8 billion yen in the 2006 fiscal year.

TREND OF POLICIES IN FORCE

	FY2005	FY2006	FY2007 (Plan)
Policies in force (¥ billion)*	5,584.9	6,233.4	6,970.0
Cancellation/Lapse ratios (%) (Internal data basis)	13.5	10.0	9.0

* Policies in force include personal, personal pension and group insurance.

LIFE INSURANCE STRATEGY

Enhance Foundation of Business Process and Services

Pursue "easy-to-understand" documents for customers

Enhancement of service for customers through expansion of a menu on website

Continuous improvement in cancellation ratio and lapse ratio

Reinforce and re-establish claims payment infrastructure

Enhance Foundation of Products and Sales Channels

Strengthen product match with customer needs

Re-educate and expand distribution channels

Establish a Foundation of Profitability

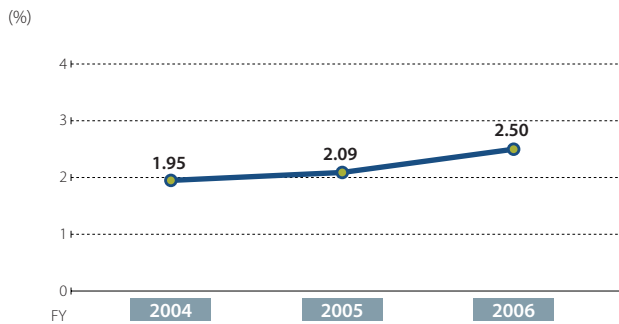
Improve productivity by business reforms activity

Strengthen evaluation and control of profitability by utilizing EV

Advanced ALM (Pursue the most appropriate hedge)

Aiming for earlier contribution of income to the parent through strengthen management quality

Trend of Income Yield



6. Investment Management Strategy

Income from investment management activities increased steadily in the fiscal year 2006, with income yield continuing to increase. We will decentralize and diversify investment in an effort to address the issue of continued increase of income from investment management activities.

Having taken steps to improve our investment portfolio, we will decentralize risk inherent in the region, product and/or source of income in an effort to sustain

continued growth of income from investment management activities by shifting our focus from traditional assets to alternatives and other non-traditional assets. We have reduced the balance of equity holdings, on a book value basis. In the future, we will replace underperforming stocks in an effort to improve investment management efficiency further.

We will increase system investment and manpower while improving risk management capabilities and supporting the above investment management strategies.

BASIC INVESTMENT POLICY



POLICY CONCERNING RETURNS TO SHAREHOLDERS

Our major management policy is the continued enhancement of our corporate value through our growth strategy to achieve an increase in premium and income in order to return profits to our shareholders.

We believe that it is appropriate for us to return part of profits to shareholders in the form of dividends, in view of our business and growth strategies. Specifically we will, in principle, pay a stable share of dividends to shareholders rather than increasing or reducing

dividends based on any single year's profit. We aim to achieve a target dividend payout ratio of 40% (non-consolidated) in the medium and long terms.

In the fiscal year 2006, we concluded with a dividend of 10 yen per share as in the previous fiscal year, in due consideration of business results and operating environment, including the costs to implement business process reform and every other measure to improve corporate value.

DIVIDEND POLICY

Continuous Enhancement of Corporate value

Further increase in premium and income growth by business expansion strategy leads to the continuous enhancement of corporate value on the mid-and long-term basis

Dividend Policy

Realization of Stable Dividend Payout

Sharing profit with our stockholders through our corporate growth

Aiming for Mid to Long-Term Dividend Payout Ratio (Non-Consolidated Basis) of 40%

Dividend Results

	FY2004	FY2005	FY2006
Net Income in ¥ billion	16.1	19.7	18.8
Dividend per share in ¥	8.0	10.0	10.0
Dividend payout ratio	36.2%	37.1%	38.9%

AIOI INSURANCE GROUP'S CORPORATE VISION BY EARLY 2010s

The Aioi Insurance Group is committed to realizing its “corporate vision by early 2010s” by completing corporate reforms outlined above at the earliest possible date, enhancing its growth strategy and earning power for each business

segment and making the best use of its strengths and of synergy. Figures in the tables below are targets for each group. The senior management team has set these numerical targets with a strong determination to achieve them.

The specific strategies and numerical targets for each business are as follows.

CORPORATE VISION BY EARLY 2010s

Having set the goal of becoming a “customer-oriented” and “easily accessible insurance company,” the Aioi Insurance Group will provide security and satisfaction to its customers through our insurance business and grow in harmony with the advancement of local communities.

Domestic Market

Net Premiums	¥1 trillion
Adjusted Income	60 billion
Adjusted Underwriting income ^{*1}	40 billion
Adjusted Investment Income ^{*2}	20 billion

^{*1} Underwriting income + Catastrophe Reserves Increase

^{*2} Dividends - Maturity refund type Ins. Dividends - Investment Costs

Overseas Market

Overseas Premiums ^{*3}	¥100 billion
Adjusted Income ^{*4}	5 billion

^{*3} Local premiums, gross

^{*4} Underwriting income + Investment income

Life Ins. Business

Contract in Force	¥10 trillion
Ordinary Income	10 billion

Non-life Insurance Business in Japan

We will continue to implement our most basic and consistent strategies, which are designed to strengthen cross-selling of platform products with a central focus on automobile insurance policies and expansion of our customer base. We shall achieve the largest share of Toyota automobile insurance policies in the market and capture new markets by establishing and operating a new non-life insurance company. We aim to increase net premiums to the one trillion yen level in early 2010s by steadily implementing these growth strategies. We also aim to achieve an adjusted income of sixty billion yen on the basis of internally managed policies. For this purpose, we aim to improve our insurance product portfolio, while pursuing business process reforms to increase productivity and strengthen asset management capabilities to increase profit.

Overseas Business

The Aioi Insurance Group and the Toyota Group jointly operate F&I business overseas, which plays a central role in increasing net premiums for Aioi Insurance. We aim to increase net premiums to hundred billion yen, more than twice the gross premiums from current other overseas operations, by placing a specific focus on F&I business.

Life Insurance Business

Aioi Life Insurance aims to achieve a total of ten trillion yen of policies in force, roughly twice the present amount, by achieving continued growth through efforts to reform business processes and strengthen sales capabilities. Aioi Life Insurance aims to account for the largest part of earnings of the Aioi Insurance Group as a subsidiary in the medium to long term corporate vision. Therefore it aims to increase its contribution to consolidated earnings by achieving an ordinary income of ten billion yen.

August 2007



Tadashi Kodama

Tadashi Kodama
Representative Director and President