

FINANCIAL REVIEW

Aioi Insurance Company, Limited and Consolidated Subsidiaries
Year Ended March 31, 2003

Non-Life Insurance

Net Premiums Written and Net Claims Paid

Class of Business	Net Premiums Written (Millions of Yen)	Component Ratio (%)	Net Claims Paid (Millions of Yen)	Component Ratio (%)
Fire and Allied Lines	¥ 82,706	9.78%	¥ 39,058	8.27%
Marine	5,929	0.70	3,009	0.64
Personal Accident	50,248	5.94	19,518	4.13
Voluntary Automobile	495,748	58.62	278,391	58.96
Compulsory Automobile Liability	131,531	15.56	51,236	10.85
Other	79,504	9.40	80,980	17.15
Total	¥845,669	100.00%	¥472,194	100.00%

Life Insurance

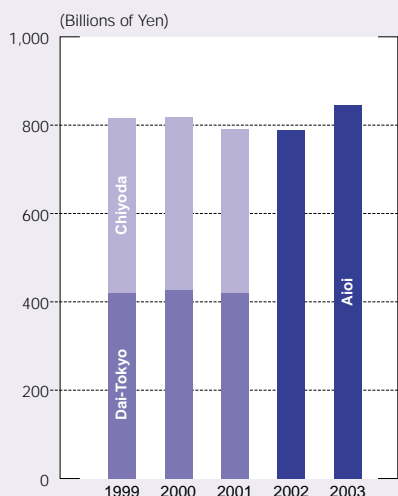
Life Insurance in Force

	Millions of Yen
Individual Life Insurance	¥2,958,268
Individual Annuity Insurance	92,057
Group Life Insurance	663,757
Group Annuity Insurance	668

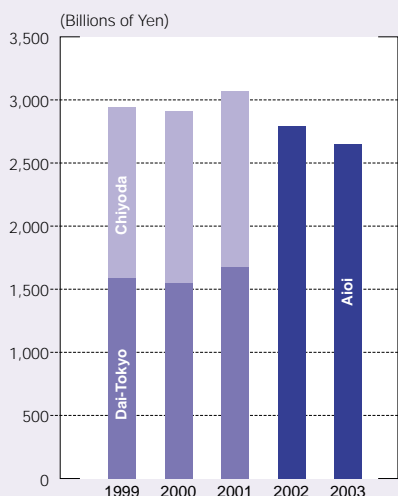
New Business

	Millions of Yen
Individual Life Insurance	¥679,623
Individual Annuity Insurance	14,812
Group Life Insurance	87,872
Group Annuity Insurance	0

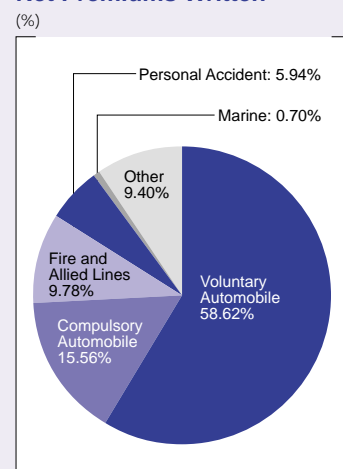
Net Premiums Written



Total Assets



Component Ratio of Net Premiums Written



In the year ended March 31, 2003, there was evidence of a turnaround in some sectors of the Japanese economy on the back of rising exports. However, this was outweighed by delays in structural reform, growing deflationary pressure, and increasing uncertainty about the direction of the global economy following the war in Iraq in March 2003. These factors combined to send the Nikkei Average down to a new post-bubble low and led to another year of difficult operating conditions.

Non-Life Insurance

In non-life insurance, Aioi Insurance's core business segment, the company had to contend with protracted weakness in the Japanese economy and intensifying competition triggered by deregulation in the insurance sector, which is forcing companies to develop innovative products and improve operational efficiency in a climate of falling premiums. Investment conditions were also difficult due to historically low domestic interest rates and the impact of falling stock markets. As a result, the operating environment in the non-life insurance business remained challenging during the year under review.

In this climate, we worked to upgrade our core *Aioi Automobile Policy (IAP)* lineup with new products targeting specific user categories. New products included *IAP Cynthia*, automobile insurance that incorporates a range of services tailored to specifically meet the needs of women drivers; and *IAP Fresh Stage*, which realizes more affordable premiums for younger drivers based on reduced coverage.

Furthermore, we revamped our *Comprehensive Family Insurance (Fire)* product. This product now offers Aioi Insurance policyholders a rider allowing them to sign up for a fire insurance policy when

renewing their existing automobile insurance. Customers taking advantage of this option are eligible for discounted automobile insurance premiums and cashless payment system. This product is representative of our efforts to expand sales of multiple insurance packages to existing automobile insurance policyholders.

In the promising "third-sector" personal insurance market, where insurance needs are growing for medical care, nursing care and asset accumulation as the population ages, we developed and launched a new product—*Kenko Club*, a comprehensive health insurance policy designed to address all these needs. This product is the centerpiece of our efforts to expand our customer base in the "third-sector" personal insurance market.

The past year also saw some new additions to our service lineup tailored to the "ubiquitous network society." Aioi Insurance is the only player in the Japanese non-life insurance industry to offer road assistance services over its own network. Building on this, we began offering *Keitai Aioi Services* in response to the widespread use of mobile phones. These services allow our policyholders to use their mobile phones to receive on-the-spot advice at the scene of an accident, while our *Accident Information Services*, also for mobile phone users, allow policyholders to obtain information on accidents and the status of the cleanup.

We are also taking full advantage of IT to enhance convenience for our customers. We have developed a mobile phone-based POS system that allows customers to use mobile phones or other portable devices to apply for insurance policies. This system is both paperless and cashless.

New risk consulting services were offered for business customers, too. These included *Insurance Clinic*, software designed to help companies evaluate their

insurance policy portfolios, and a *Wooden House Inspection Service*, offered through a business alliance with the Japan Wooden Housing Earthquake Resistance Enhancement Construction Contractors Association (Mokutaikyo).

In another development, we joined hands with Aioi Life Insurance Co., Ltd. to set up Aioi Support Box Co., Ltd. in October 2002 to provide support services for both life and non-life insurance agencies. This company aims to tap demand for management consultation, temporary personnel, education and training, and business/IT system support services, as agencies increasingly seek out merger and expansion opportunities. The thinking behind the establishment of Aioi Support Box is to help create and foster larger, higher-quality agencies that can survive in a deregulated and competitive insurance market.

In the year under review, Aioi Insurance Company of Europe Ltd. took steps to strengthen its finances through restructuring measures and efforts to improve profitability in core businesses. Measures included withdrawing from unprofitable businesses and selling shares in subsidiaries so as to prioritize resources in core and growing business domains.

As a result of the above, the non-life insurance business segment recorded a 7.3% increase in net premiums written to ¥845.6 billion.

Life Insurance

Aioi Life Insurance Co., Ltd. launched several new insurance products designed to better meet consumer needs. These included *Comprehensive Welfare Group Term Insurance* in April 2002, the first such low-premium, non-dividend insurance product for the group insurance market in Japan. This was followed closely

by the launch of two products in June—*Low Cancellation Return Premium Term Insurance* and *Non-Cancellation Return Premium Term Insurance*. Offering death cover with a rational benefits package and an inexpensive premium structure, these two products are both aimed at the individual life insurance market.

Both Aioi Insurance and Aioi Life Insurance have scored well on an important indicator of fiscal health, the solvency margin rate, which is often used by administrative authorities to guide and evaluate insurers.

The rate for Aioi Insurance was calculated at 683.4% and that of Aioi Life Insurance was found to be 1,995.7%, based on computations specified by the Japanese Insurance Business Law.

A rate above 200% is deemed to “be appropriately positioned with sufficient ability to cover insurance payouts and other expenditures.”

Thus both companies were judged to be sufficiently solvent to provide for a maximum volume of insurance expenditures.

Cash Flows

Net cash used in operating activities was ¥3.5 billion. The principal use of cash was the payment of maturity refunds and dividends to annuity policyholders. Net cash provided by investing activities was ¥53.6 billion. The principal source of cash was proceeds from the sale and redemption of marketable securities. Net cash used in financing activities totaled ¥26.6 billion. The main use of cash in financing activities was redemption of convertible bonds.

As a result of the above, net cash inflow for the year was ¥23.1 billion, lifting cash and cash equivalents at the end of the year to ¥166.2 billion.

CONSOLIDATED BALANCE SHEET

Aioi Insurance Company, Limited and Consolidated Subsidiaries
March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
ASSETS			
Cash and cash equivalents	¥ 166,246	¥ 143,109	\$ 1,383,078
Money held in trust (Note 3).....	11,503	20,275	95,702
Investments in securities (Notes 4 and 5)	1,459,155	1,613,414	12,139,399
Loans (Note 6)	368,645	403,238	3,066,935
Property and equipment—net (Note 7).....	186,416	194,405	1,550,884
Premiums receivable from policyholders and agents	50,716	53,426	421,937
Reinsurance receivable and recoverable on paid losses	101,042	111,588	840,619
Deferred tax assets (Note 11).....	185,308	142,039	1,541,666
Other assets (Notes 4 and 15)	138,609	131,032	1,153,160
Allowance for doubtful accounts	(16,431)	(20,426)	(136,705)
TOTAL	¥2,651,212	¥2,792,102	\$22,056,679
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Underwriting reserves:			
Estimated losses and claims	¥ 384,649	¥ 411,686	\$ 3,200,080
Unearned premiums	1,013,324	933,304	8,430,317
Maturity refunds and dividends to policyholders.....	801,049	897,462	6,664,305
Reinsurance payable and due to other insurance companies	73,819	65,656	614,137
Income taxes payable (Note 11)	4,095	2,031	34,072
Convertible bonds (Note 8).....		18,800	
Liability for employees' retirement benefits (Note 9)	17,913	16,862	149,029
Reserve for price fluctuation.....	1,340	1,268	11,149
Deferred tax liabilities (Note 11)		161	
Other liabilities (Note 5)	59,340	66,223	493,682
Total liabilities	2,355,532	2,413,457	19,596,775
MINORITY INTERESTS	9		82
COMMITMENTS AND CONTINGENT LIABILITIES (Note 13)			
SHAREHOLDERS' EQUITY (Note 10):			
Common stock—authorized, 2,000,000 thousand shares; issued, 756,201 thousand shares in 2003 and 2002	100,005	100,005	831,988
Additional paid-in capital	44,081	44,081	366,737
Retained earnings.....	134,930	126,287	1,122,549
Unrealized gain on available-for-sale securities	18,416	107,535	153,218
Foreign currency translation adjustments	1,172	1,111	9,756
Total	298,606	379,021	2,484,250
Treasury stock—at cost, 10,216 thousand shares in 2003 and 1,240 thousand shares in 2002	(2,936)	(376)	(24,429)
Total shareholders' equity	295,670	378,644	2,459,821
TOTAL	¥2,651,212	¥2,792,102	\$22,056,679

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Aioi Insurance Company, Limited and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
OPERATING INCOME:			
Underwriting income	¥1,063,423	¥1,066,578	\$8,847,117
Net premiums written	845,669	788,275	7,035,516
Premiums for maturity of refundable portion of long-term insurance ...	103,651	106,327	862,325
Investment income on premiums for maturity of refundable portion of long-term and other insurance.....	22,412	25,327	186,456
Life insurance premiums	47,443	41,057	394,706
Reversal of estimated losses and claims	27,371		227,718
Reversal of unearned premiums (Note 16).....	16,505	101,541	137,320
Other underwriting income (Note 16).....	369	4,048	3,074
Investment income	65,736	69,164	546,896
Interest and dividend income	44,959	50,393	374,038
Gain on money held in trust	275	195	2,295
Gain on sales of investment in securities (Note 4).....	41,172	42,864	342,530
Gain from securities redemption	1,467	505	12,209
Other investment income	274	532	2,279
Transfer of investment income on premiums for maturity of refundable portion of long-term and other insurance	(22,412)	(25,327)	(186,456)
Other income (Note 17).....	23,448	34,019	195,077
OPERATING EXPENSES:			
Underwriting expenses	905,625	1,043,081	7,534,319
Net claims paid (Note 16)	472,194	495,799	3,928,410
Loss adjustment expenses	39,556	40,046	329,089
Commissions and brokerage	154,278	159,788	1,283,511
Maturity refunds and dividends to policyholders for long-term insurance	220,484	223,709	1,834,311
Life insurance claims	7,700	6,192	64,067
Provision for estimated losses and claims (Note 16)		117,030	
Other underwriting expenses.....	11,410	513	94,928
Investment expenses	41,030	63,178	341,350
Loss on money held in trust	2,756	4,103	22,933
Loss on sales of investment in securities (Note 4)	4,852	4,957	40,368
Loss on valuation of investment in securities (Note 4).....	30,226	51,968	251,471
Other investment expenses	3,194	2,147	26,576
Operating and general administrative expenses	164,642	172,951	1,369,738
Other expenses (Note 18).....	17,099	26,332	142,262
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS			
	¥ 24,210	¥ (135,780)	\$ 201,420
INCOME TAXES (BENEFIT) (Note 11)			
	10,273	(47,532)	85,469
Current	3,375	2,687	28,081
Deferred	6,898	(50,220)	57,388
MINORITY INTERESTS IN NET INCOME			
	9		82
NET INCOME (LOSS)			
	¥ 13,927	¥ (88,247)	\$ 115,868
PER SHARE OF COMMON STOCK (Notes 2.o and 19):			
Basic net income (loss)	¥18.60	¥(116.87)	\$0.15
Diluted net income.....	18.21		0.15
Cash dividends applicable to the year.....	7.00	7.00	0.05

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Aioi Insurance Company, Limited and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

	Thousands		Millions of Yen				
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2001	407,154	¥ 57,139	¥41,712	¥130,163	¥ 87,846		¥ (2)
Adjustment due to merger	349,033	42,860	2,364	87,268			
Net loss				(88,247)			
Cash dividends				(2,850)			
Directors' bonuses				(47)			
Conversion of convertible bonds.....	13	5	4				
Increase in treasury stock							(374)
Net increase in unrealized gain on available-for-sale securities					19,688		
Net increase in foreign currency translation adjustments.....						¥1,111	
BALANCE, MARCH 31, 2002	756,201	100,005	44,081	126,287	107,535	1,111	(376)
Net income				13,927			
Cash dividends				(5,284)			
Increase in treasury stock							(2,559)
Net decrease in unrealized gain on available-for-sale securities					(89,118)		
Net increase in foreign currency translation adjustments.....						61	
BALANCE, MARCH 31, 2003	756,201	¥100,005	¥44,081	¥134,930	¥ 18,416	¥1,172	¥(2,936)

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	
BALANCE, MARCH 31, 2002	\$831,988	\$366,737	\$1,050,647	\$894,637	\$9,242	\$ (3,133)	
Net income			115,868				
Cash dividends			(43,967)				
Increase in treasury stock							(21,295)
Net decrease in unrealized gain on available-for-sale securities.....				(741,419)			
Net increase in foreign currency translation adjustments.....					513		
BALANCE, MARCH 31, 2003	\$831,988	\$366,737	\$1,122,549	\$153,218	\$9,756	\$(24,429)	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Aioi Insurance Company, Limited and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests.....	¥ 24,210	¥(135,780)	\$ 201,420
Adjustments for:			
Depreciation	21,539	21,590	179,193
Provision for (reversal of) estimated losses and claims	(27,371)	117,030	(227,718)
Reversal of underwriting reserve	(16,505)	(101,541)	(137,320)
Reversal of allowance for doubtful accounts	(3,997)	(2,113)	(33,253)
Reversal of investment loss allowances		(3)	
Increase (decrease) in liability for employees' retirement benefits ..	1,050	(22,742)	8,741
Provision for employees' bonus allowances	130	1,557	1,084
Reversal of allowances for the loss arising from sale of loans receivable.....		(106)	
Increase (decrease) in price fluctuation reserve	71	(9,474)	596
Interest and dividend income	(44,959)	(50,393)	(374,038)
Loss (gain) arising from sales or revaluation of investments in securities.....	(9,848)	13,565	(81,932)
Interest expenses	198	325	1,651
Foreign exchange losses.....	242	761	2,019
Loss on sale of property and equipment.....	610	3,915	5,078
Others—net	3,747	5,863	31,176
Interest and dividends received.....	48,327	52,754	402,058
Interest paid.....	(198)	(316)	(1,651)
Income taxes paid.....	(815)	3,007	(6,786)
Total adjustment	(27,778)	33,678	(231,100)
Net cash used in operating activities	(3,567)	(102,101)	(29,680)
INVESTING ACTIVITIES:			
Net increase in bank deposits.....	2,092	12,125	17,407
Purchase of debts	(6,150)	(7,339)	(51,164)
Proceeds from sale of debts purchased	5,125	8,340	42,641
Decrease in money held in trust—net.....	9,233	85	76,819
Purchase of investments in securities	(816,610)	(738,738)	(6,793,767)
Proceeds from sale or maturities of investments in securities	835,303	674,400	6,949,279
Decrease in loans—net	34,092	53,837	283,629
Purchases of property and equipment.....	(11,687)	(18,028)	(97,233)
Proceeds from sale of property and equipment.....	5,452	884	45,365
Decrease in payables under securities lending transactions		(30,920)	
Proceeds from sale of shares of a consolidated subsidiary	630		5,242
Others—net.....	(3,793)	(15,285)	(31,557)
Net cash provided by (used in) investing activities	53,688	(60,639)	446,661
FINANCING ACTIVITIES:			
Repayment of commercial paper		(55,000)	
Repayments of convertible bonds.....	(18,800)		(156,405)
Acquisition of treasury stock	(2,559)	(28)	(21,295)
Cash dividends.....	(5,284)	(2,850)	(43,967)
Cash distribution upon merger.....		(2,706)	
Others—net.....	(50)	(347)	(420)
Net cash used in financing activities.....	(26,695)	(60,931)	(222,089)
FOREIGN CURRENCY TRANSACTION ADJUSTMENT ON			
CASH AND CASH EQUIVALENTS.....	(289)	(1,607)	(2,404)
CASH AND CASH EQUIVALENTS INCREASED BY MERGER....		116,189	
NET INCREASE (DECREASE) IN CASH AND CASH			
EQUIVALENTS	23,136	(109,090)	192,487
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR.....	143,109	252,200	1,190,591
CASH AND CASH EQUIVALENTS, END OF YEAR.....	¥ 166,246	¥ 143,109	\$ 1,383,078
ADDITIONAL CASH FLOW INFORMATION:			
Non-cash investing and financing activities:			
Assets acquired upon merger (including investment in securities of ¥663,603 million and loans of ¥173,077 million).....		¥1,315,296	
Liabilities assumed upon merger (including underwriting reserve of ¥1,022,690 million).....		1,183,619	
Common stock increase upon merger		42,860	
Additional paid-in capital increase upon merger		2,364	

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Aioi Insurance Company, Limited and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

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 from the accounts maintained in accordance with the provisions set forth in the Japanese Securities and Exchange Law, the Insurance Business Law and related regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The Dai-Tokyo Fire and Marine Insurance Company, Limited were merged with The Chiyoda Fire and Marine Insurance Company, Limited (“the Chiyoda”) on April 1, 2001 and adopted new business name of Aioi Insurance Company, Limited. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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 translation 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 ¥120.20 to U.S.\$1, the approximate rate of exchange at March 31, 2003. 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. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

b. Consolidation

The consolidated financial statements as of March 31, 2003 include the accounts of the Company and its four significant (five in 2002) subsidiaries (together, the “Group”). One of previously consolidated subsidiaries is excluded from consolidation due to a sale of the entire number of shares of that subsidiary for the year ended March 31, 2003.

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.

Three 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.

c. 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, call loans and debts purchased. Money held in trust and time deposits with original maturities exceeding three months have been excluded from cash equivalents.

d. 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 rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statement of operations to the extent that they are not hedged by forward exchange contracts.

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current 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 foreign subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date.

e. 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 operations 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 a quoted market price in an active market, 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 domestic subsidiary, owns debt securities earmarked for underwriting reserve which meets 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 of which duration are coincident with that of underwriting reserves in the specific range stipulated in the report are stated at amortized cost using the moving-average method.

f. Derivatives

The Company uses 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 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 and credit 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 operations, 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.

Interest rate swaps are utilized to hedge interest rate exposures of yen-denominated bonds. These swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

Foreign currency swaps are utilized to hedge foreign currency exposures of foreign bonds. Foreign bonds are translated at the contracted rates if the swaps qualify for hedge accounting.

g. 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 the domestic 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.

h. Policy Acquisition Costs

Policy acquisition costs are charged to expense as incurred.

i. Underwriting Reserves

Underwriting reserves are established for estimated losses and claims, unearned premiums and maturity refunds and dividends to policyholders by each line of insurance and type of policy.

Estimated losses and 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.

Unearned premiums

The unearned premiums reserve is based on unearned premiums at the end of the year, or the underwriting balances at the end of the year for policies written during the year, whichever is greater, by lines of insurance and type of policy. However, for compulsory automobile liability insurance (“CALI”) and earthquake insurance, all underwriting balances are transferred to this reserve. The extraordinary loss reserve (“ELR”) is also provided for catastrophic losses from net premiums written. The maximum amount of ELR at the end of the year is stipulated in the Insurance Business Law. The amount of the annual transfer to ELR from net premiums written is the larger of the amounts deductible for tax purposes or the minimum required under the Insurance Business Law. The maximum amounts differ by line of insurance, and are calculated using percentages of net premiums written. With respect to CALI and earthquake insurance, there is no extraordinary loss reserve because all underwriting balances are transferred to the unearned premium reserve.

Maturity refunds and dividends to policyholders

Provision is made for the sum of the amount equal to the refundable portion of the insurance premiums for long-term insurance at maturity and the amount equal to the investment income attributable to such portion of the relevant premiums.

j. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. 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.

k. Allowance for Doubtful Accounts

The allowance for doubtful accounts included in the financial statements of the Company and its domestic 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 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 encumbered pledges or discharges of guarantees.

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

l. 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 subsidiary also has a termination allowance plan.

In accordance with the accounting standard for employees' retirement benefits, the Company and the consolidated domestic 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 straight-line method over the average remaining service life of the employees (15 years).

m. 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.

n. 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 below.

o. Per Share Information

Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, 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 securities were exercised or converted into common stock. Computation of diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants. Basic net income and diluted net income per share for the year ended March 31, 2003 are computed in accordance with the new standard. However, there is no effect in adopting of the new standard on per share information for the year ended March 31, 2003. Diluted net income per share for the year ended March 31, 2002 is not disclosed because of the Company's net loss position.

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

p. Deferred Expenses under Article 113 of the Insurance Business Law

Article 113 of the Insurance Business Law permits newly established insurance companies to defer organization costs and the selling and general administrative costs which exceed the total of net underwriting income and net investment income for the first five years from the year of its incorporation. These deferred costs are subject to amortization over a period of ten years. In accordance with this Article, the consolidated domestic subsidiary operating a life-insurance business which was established in 1996 has deferred a portion of selling and general administrative costs incurred before April 1, 1998 as well as its organization cost incurred at inception and recognized amortization expense as required by the aforementioned law.

3. MONEY HELD IN TRUST

All securities held as money held in trust are classified as trading securities. Aggregate cost and losses recognized at March 31, 2003 and 2002 in the consolidated statements of operations were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Aggregate cost.....	¥11,503	¥20,275	\$ 95,702
Losses	(1,613)	(2,270)	(13,421)

4. INVESTMENTS IN SECURITIES

Investments in securities at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
National and local government bonds	¥ 237,360	¥ 223,556	\$ 1,974,712
Corporate bonds.....	376,267	443,855	3,130,349
Equity securities	425,528	571,289	3,540,173
Foreign securities.....	378,796	363,837	3,151,382
Other securities	41,202	10,875	342,781
Total	¥1,459,155	¥1,613,414	\$12,139,399

Information regarding each category of the securities classified as trading, available-for-sale and held-to-maturity at March 31, 2003 and 2002 was as follows:

March 31, 2003	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Trading				¥ 30,247
Available-for-sale:				
Bonds	¥ 462,551	¥ 19,768	¥ (3,766)	¥ 478,553
Equity securities.....	383,687	54,018	(32,065)	405,641
Foreign securities	341,291	7,858	(8,633)	340,516
Other securities*	52,292	224	(8,585)	43,930
Total	¥1,239,823	¥ 81,869	¥(53,051)	¥1,268,642
Held-to-maturity:				
Bonds	¥ 206	¥ 47		¥ 254
Foreign securities	1,070	138		1,209
Total	¥ 1,277	¥ 185		¥ 1,463
March 31, 2002				
Securities classified as:				
Trading				¥ 42,405
Available-for-sale:				
Bonds	¥ 548,196	¥ 13,307	¥ (3,477)	¥ 558,026
Equity securities.....	408,156	150,891	(7,144)	551,903
Foreign securities	304,223	18,184	(1,985)	320,422
Other securities*	12,055	79	(1,589)	10,545
Total	¥1,272,632	¥182,462	¥(14,196)	¥1,440,897
Held-to-maturity:				
Bonds	¥ 2,086	¥ 44	¥ (132)	¥ 1,999
Foreign securities	1,070	288		1,359
Total	¥ 3,157	¥ 333	¥ (132)	¥ 3,358

March 31, 2003	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading.....				\$ 251,643
Available-for-sale:				
Bonds.....	\$ 3,848,186	\$164,462	\$ (31,338)	\$ 3,981,309
Equity securities.....	3,192,079	449,405	(266,767)	3,374,717
Foreign securities.....	2,839,360	65,380	(71,823)	2,832,917
Other securities*.....	435,044	1,865	(71,428)	365,481
Total.....	\$10,314,670	\$681,113	\$(441,357)	\$10,554,426
Held-to-maturity:				
Bonds.....	\$ 1,720	\$ 393		\$ 2,114
Foreign securities.....	8,905	1,152		10,058
Total.....	\$ 10,626	\$ 1,545		\$ 12,172

* Other securities include beneficial interest in small lot receivable trusts classified as other assets.

Debt securities earmarked for underwriting reserve at March 31, 2003 and 2002 were as follows:

March 31, 2003	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Bonds.....	¥129,648	¥16,526	¥ (6)	¥146,168
Foreign securities.....	799	73		872
Total.....	¥130,447	¥16,599	¥ (6)	¥147,040
March 31, 2002				
Bonds.....	¥100,525	¥ 3,516	¥(460)	¥103,580
Foreign securities.....	799	40		839
Total.....	¥101,324	¥ 3,556	¥(460)	¥104,419

March 31, 2003	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Bonds.....	\$1,078,604	\$137,494	\$(54)	\$1,216,044
Foreign securities.....	6,649	607		7,256
Total.....	\$1,085,253	\$138,101	\$(54)	\$1,223,300

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2003 and 2002 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Available-for-sale:			
Bonds.....	¥ 200	¥ 410	\$ 1,663
Equity securities.....	18,410	17,888	153,167
Foreign securities.....	7,000		58,236
Other securities*.....	5,876	7,893	48,891
Total.....	¥31,487	¥26,192	\$261,959
Held-to-maturity—Bonds.....	¥ 5,019	¥ 6,363	\$ 41,762
Total.....	¥ 5,019	¥ 6,363	\$ 41,762

* Other securities include beneficial interest in small lot receivable trusts classified as other assets.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were ¥662,901 million (\$5,514,984 thousand) and ¥452,182 million. Gross realized gains and losses on these sales, computed using the moving average cost basis, were ¥41,172 million (\$342,530 thousand) and ¥3,992 million (\$33,219 thousand), respectively, for the year ended March 31, 2003 and ¥41,392 million and ¥4,957 million, respectively, for the year ended March 31, 2002.

Carrying amounts of debt securities with contractual maturities classified as available-for-sale, held-to-maturity and debt securities earmarked for underwriting reserve at March 31, 2003 are as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Bonds	Foreign Securities	Other Securities*	Bonds	Foreign Securities	Other Securities*
Due in one year or less.....	¥ 39,672	¥ 22,293	¥ 830	\$ 330,055	\$ 185,471	\$ 6,910
Due after one year through five years	226,621	198,464	5,377	1,885,370	1,651,120	44,737
Due after five years through ten years.....	195,280	56,242	14,543	1,624,626	467,910	120,995
Due after ten years	152,054	19,516		1,265,009	162,369	
Total	¥613,628	¥296,518	¥20,751	\$5,105,061	\$2,466,872	\$172,643

* Other securities include investments in receivable trusts classified as other assets.

Investments in unconsolidated subsidiaries and affiliated companies were ¥4,687 million (\$38,993 thousand) and ¥4,708 million at March 31, 2003 and 2002, respectively.

The Company and the domestic subsidiary recognized ¥30,226 million (\$251,471 thousand) and ¥51,421 million loss on valuation of available-for-sale securities, respectively, for the years ended March 31, 2003 and 2002. A loss on valuation of available-for-sale securities is recognized in the statements of operations when its fair value declines by more than 50% as compared with its cost value or when its fair value declines by more than 30% and the decline in value is considered to be other than temporary even though the decline is not more than 50%.

5. COLLATERAL

The carrying amounts of investments in securities pledged as collateral for loans payable of ¥157 million (\$1,312 thousand) and ¥208 million, classified as other liabilities, at March 31, 2003 and 2002 were ¥41,114 million (\$342,054 thousand) and ¥34,534 million, respectively.

6. LOANS

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Defaulted loans	¥ 354	¥ 306	\$ 2,949
Delinquent loans (non-performing loans).....	20,167	14,296	167,783
Past due loans (over three months).....	921	604	7,663
Loans under mitigating conditions.....	4,038	8,199	33,596
Total	¥25,481	¥23,408	\$211,993

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 ¥184,805 million (\$1,537,483 thousand) and ¥179,970 million as of March 31, 2003 and 2002, respectively. Property and equipment were stated at cost less deferred gains of ¥9,787 million (\$81,430 thousand) and ¥10,497 million on sale and replacement of assets under certain conditions in accordance with the Japanese tax code for the years ended March 31, 2003 and 2002, respectively.

8. CONVERTIBLE BONDS

Unsecured bonds convertible into common stock are as follows:

	Conversion Price per Share		Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003	2002	2003
1.6% convertible bonds due					
March 31, 2003.....		¥1,194.30		¥ 3,810	
0.8% convertible bonds due					
March 31, 2003.....		761.90		14,990	
Total				¥18,800	

Under the trust deeds, conversion prices are subject to adjustment in certain cases including stock splits or the issuance of new shares at prices which are less than market prices.

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 consolidated domestic 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 Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. According to the enactment of the Defined Benefit 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.

As a result of this exemption, the Company recognized a gain on exemption from future pension obligation of the governmental program in the amount of ¥7,586 million (\$63,111 thousand) in accordance with the Article No. 47-2, a transitional measurement, of the "Practical Guidelines for Retirement Benefit Accounting (Interim Report)" (The Japanese Institute of Certified Public Accountants Accounting System Committee Report No. 13) for the year ended March 31, 2003. The substitutional portion of the plan assets which will be transferred to the government in the subsequent year is measured to be approximately ¥14,110 million (\$117,392 thousand) as at March 31, 2003.

The liability for employees' retirement benefits at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Projected benefit obligation.....	¥(133,532)	¥(147,617)	\$(1,110,916)
Fair value of plan assets.....	83,467	108,197	694,408
Unrecognized actuarial loss.....	37,774	22,557	314,261
Prepaid pension cost.....	(5,623)		(46,784)
Net liability	¥ (17,913)	¥ (16,862)	\$ (149,029)

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Service cost.....	¥ 7,592	¥ 6,586	\$ 63,165
Interest cost.....	3,568	3,819	29,684
Expected return on plan assets.....	(1,580)	(1,856)	(13,150)
Recognized actuarial loss.....	1,491	194	12,411
Amortization of prior service cost*.....		(11,290)	
Gain on returning a substitutional portion of the public pension funds to the government.....	(7,586)		(63,111)
Net periodic benefit costs	¥ 3,485	¥ (2,546)	\$ 28,999

Assumptions used for the years ended March 31, 2003 and 2002 are set forth as follows:

	2003	2002
Discount rate	2.0%	2.5%
Expected rate of return on plan assets.....	2.5%	3.0%
Recognition period of actuarial gain/loss	15 years	15 years
Amortization period of prior service cost	1 year	1 year

* Since the projected benefit obligation was decreased as a result of the revision of the employees' retirement benefits and pension plan on the occasion of the merger on April 1, 2001, prior service cost was accrued.

10. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded 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 as additional paid-in capital. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as 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 at least equal to 20% 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. The Company's legal reserve amount, which is included in retained earnings, totals ¥26,058 million (\$216,788 thousand) and ¥24,958 million as of March 31, 2003 and 2002, respectively. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount to be distributed as dividends and transferred to stated capital both resolved at the general shareholders' meeting plus the amount of stated capital, additional paid-in capital and legal reserve.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥100,221 million (\$833,788 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of account.

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

In connection with the merger with the Chiyoda on April 1, 2001, the Company carried over the stock option plan originated from the Chiyoda. A resolution, which was approved at the Chiyoda's general shareholders' meeting held on June 29, 1999 provided for granting options to directors and key employees to purchase up to 389 thousand shares of the Company's common stock until August 29, 2003. The options would be granted at an exercise price of ¥469 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.

11. INCOME TAXES

The Company and its domestic subsidiary are subject to corporate income tax and inhabitant income tax which, in the aggregate, resulted in a normal statutory tax rate of approximately 36.1% for the years ended March 31, 2003 and 2002. The tax effect of temporary differences between the book basis and tax basis of assets and liabilities which create deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Unearned premiums.....	¥ 95,348	¥ 98,751	\$ 793,246
Estimated losses and claims	30,873	43,739	256,854
Devaluation of securities	31,902	22,557	265,408
Depreciation.....	12,112	8,985	100,767
Securities contributed to employees' retirement benefit trusts	7,851	7,736	65,319
Other	21,826	23,060	181,584
Total	199,914	204,831	1,663,180
Valuation allowance	(2,829)	(960)	(23,539)
Deferred tax assets.....	197,084	203,870	1,639,641
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities.....	(10,401)	(60,730)	(86,537)
Other	(1,374)	(1,262)	(11,437)
Total	(11,776)	(61,992)	(97,975)
Net deferred tax assets	¥185,308	¥141,877	\$1,541,666

Deferred tax assets and liabilities appearing on the consolidated balance sheet are net amounts for each consolidated entity while the figures above are the gross amounts.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of operations for the year ended March 31, 2003 is as follows:

	2003
Normal effective statutory tax rate	36.1%
Expenses not deductible for income tax purposes	3.8
Tax credit for dividends received	(4.5)
Minimum inhabitant taxes	1.6
Change in valuation allowance	7.7
Other—net.....	(1.7)
Actual effective tax rate	42.4%

A reconciliation for the year ended March 31, 2002 is not disclosed due to the loss position.

12. LEASE TRANSACTIONS

a. Information regarding finance leases other than those which deem to transfer ownership of the leased property to the lessee, of the Company and consolidated subsidiaries, is as follows:

On an "as if capitalized" basis, pro forma information of leased property of the Company and consolidated subsidiaries such as acquisition cost, accumulated depreciation, 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, 2003 and 2002 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Acquisition cost	¥858	¥1,397	\$7,146
Accumulated depreciation	591	959	4,917
Net leased property	¥267	¥ 437	\$2,228

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, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year.....	¥146	¥238	\$1,216
Due after one year.....	121	199	1,012
Total	¥267	¥437	\$2,228
Total payments for finance leases	¥178	¥307	\$1,486

The amounts of obligations under finance leases include the imputed interest expense portion. Depreciation expense, which is not reflected in the accompanying consolidated statements of operations, computed by the straight-line method was equal to the above total payment for finance leases.

b. Obligations under operating leases as of March 31, 2003 and 2002, and total payments for the years were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year.....	¥204	¥ 424	\$1,698
Due after one year.....	641	918	5,336
Total	¥845	¥1,343	\$7,035

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 violation of any condition in the contracts. The unused amount within the prescribed limits relating to these contracts totaled ¥7,213 million (\$60,016 thousand) and ¥8,214 million at March 31, 2003 and 2002, respectively.

14. DERIVATIVES

a. Utilization

The Company utilizes various derivative financial instruments ("derivatives") in its 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 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 and credit derivatives. The Company enters into these contracts with major financial institutions in order to avoid 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 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.

b. The Company had the following derivatives contracts outstanding at March 31, 2003 and 2002.

	Millions of Yen						Thousands of U.S. Dollars		
	2003			2002			2003		
	Contract Amount	Market Value	Unrealized Gain	Contract Amount	Market Value	Unrealized Gain (loss)	Contract Amount	Market Value	Unrealized Gain
Currency-related transactions:									
Foreign exchange									
contracts—forward:									
Selling U.S.\$.....									
				¥14,128	¥14,254	¥(126)			
	¥82,382	¥83,411	¥1,028	104,267	105,557	1,289	\$685,382	\$693,940	\$8,557
Buying U.S.\$									
Currency swaps—									
floating rate receipts,									
				1,810	(813)	(813)			
Total			¥1,028			¥348			\$8,557

Notes: 1. Market values of foreign exchange transactions are based on the forward exchange rate as of the year-end date.
2. Derivatives which qualify for hedge-accounting are excluded from the above table.

	Millions of Yen						Thousands of U.S. Dollars		
	2003			2002			2003		
	Contract Amount	Market Value	Unrealized Gain (loss)	Contract Amount	Market Value	Unrealized Gain (loss)	Contract Amount	Market Value	Unrealized Gain (loss)
Interest rate-related transactions—									
Interest rate swaps—									
fixed rate receipts,									
floating rate payment..	¥33,900	¥786	¥786	¥38,900	¥1,025	¥1,025	\$282,029	\$6,543	\$6,543

Notes: 1. Market values are based on the indicated figures from financial institutions.

2. Derivatives which qualify for hedge-accounting are excluded from the above table.

	Millions of Yen						Thousands of U.S. Dollars		
	2003			2002			2003		
	Contract Amount	Market Value	Unrealized Gain (loss)	Contract Amount	Market Value	Unrealized Gain (loss)	Contract Amount	Market Value	Unrealized Gain (loss)
Equity-related transactions—									
Stock index futures—									
selling				¥957	¥957				

Note: Market values are based on the Tokyo Stock Exchange closing prices.

	Millions of Yen						Thousands of U.S. Dollars		
	2003			2002			2003		
	Contract Amount	Market Value	Unrealized Gain (loss)	Contract Amount	Market Value	Unrealized Gain (loss)	Contract Amount	Market Value	Unrealized Gain (loss)
Bond-related transactions—									
Over-the-counter option—buying (call).....				¥7,140			\$59,400		

Note: Market values are based on the indicated figures from financial institutions.

	Millions of Yen						Thousands of U.S. Dollars		
	2003			2002			2003		
	Contract Amount	Market Value	Unrealized Gain (loss)	Contract Amount	Market Value	Unrealized Gain (loss)	Contract Amount	Market Value	Unrealized Gain (loss)
Others—Credit derivatives—selling.....	¥27,000	¥215	¥215	¥21,000	¥(63)	¥(63)	\$224,625	\$1,790	\$1,790

Note: Market values are based on the indicated figures from financial institutions.

15. DEFERRED EXPENSES UNDER ARTICLE 113 OF THE INSURANCE BUSINESS LAW

¥1,100 million of the unamortized expenses under Article 113 of the Insurance Business Law was recorded as other assets on the domestic subsidiary's books as of March 31, 2002. The amortization of deferred expenses under Article 113 of the Insurance Business Law was completed and the amount on the consolidated balance sheet as of March 31, 2002 was charged to the consolidated statements of operations as a part of other expenses for the fiscal year ended March 31, 2003.

16. UNDERWRITING INCOME AND EXPENSES

For the year ended March 31, 2002, paid losses of ¥32,284 million claimed under the provision of certain reinsurance treaties entered into with foreign insurers, resulting mainly from the September 11, 2001 terrorist attacks in the United States, were offset against the ELR in accordance with the Insurance Business Law. Under the Insurance Business Law, paid losses are permitted to be offset against the ELR where the loss ratio of the Group of insurance lines, which cover certain insurance losses incurred, is in excess of 50%.

The remaining balance of losses incurred in the above-mentioned incidents of ¥106,422 million were reported in the form of both provision for estimated losses and claims of ¥107,382 million and exchange gain classified as other underwriting income of ¥959 million accordingly in the consolidated statement of operations for the year ended March 31, 2002.

17. OTHER INCOME

Other income for the year ended March 31, 2003 included ¥3,448 million (\$28,685 thousand) of gain on sales of properties, ¥7,586 million (\$63,111 thousand) of gain on returning a substitutional portion of the public pension funds to the government, ¥3,394 million (\$28,243 thousand) of reversal of allowance for doubtful accounts and ¥2,523 million (\$20,994 thousand) of gain on sales of shares of a consolidated subsidiary.

Other income for the year ended March 31, 2002 included ¥11,290 million of reversal of liabilities for employees' retirement benefits in line with the revision of employees' retirement benefits and pension plan, ¥9,474 million of reversal of price fluctuation reserve, ¥4,561 million of gain on securities contributed to employees' retirement benefit trusts and ¥1,468 million of reversal of allowance for doubtful accounts.

18. OTHER EXPENSES

Other expenses for the year ended March 31, 2003 included ¥2,658 million (\$22,118 thousand) of loss on sales of properties, ¥10,468 million (\$87,095 thousand) of merger expenses and ¥1,250 million (\$10,405 thousand) of loss on valuation of properties.

Other expenses for the year ended March 31, 2002 included ¥21,396 million of merger expenses and ¥2,135 million of loss on valuation of properties.

19. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2003 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-average Shares	EPS	
March 31, 2003				
Basic EPS—Net income available				
to common shareholders	¥13,927	748,497	¥18.60	\$0.15
Effect of dilutive securities—				
Convertible bonds	116	22,676		
Diluted EPS—Net income for computation	¥14,043	771,173	¥18.21	\$0.15

20. SUBSEQUENT EVENTS

At the general shareholders' meeting held on June 27, 2003, the following appropriations of retained earnings, stock option plan for the Company's and subsidiaries' directors and key employees, and the purchase of treasury stock for retirement and the related reduction of retained earnings were resolved:

a. Stock Option Plan

The plan provides for granting options to directors and key employees to purchase up to 5,000 thousand shares of the Company's common stock in the period from July 1, 2005 to June 30, 2007. The options will be granted at an exercise price of 110% of the higher of the average fair market value of the Company's common stock during the month preceding the date of option grant or the fair market value of the Company's common stock at the date of option grant. The Company plans to issue acquired treasury stock upon exercise of the stock options.

b. Purchase of Treasury Stock

The Company is authorized to repurchase up to 50,000 thousand shares of the Company's common stock (aggregate amount of ¥15,000 million (\$124,792 thousand)) as treasury stock until the next general shareholders meeting.

c. Appropriations of Retained Earnings

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7 (\$0.05) per share	¥5,221	\$43,443

21. SEGMENT INFORMATION

Segment information is not disclosed as the Company and its consolidated subsidiaries do not operate significant businesses other than the insurance business, and foreign operations and sales to foreign customers were immaterial for the years ended March 31, 2003 and 2002.

Tohmatsu & Co.
MS Shibaura Building
13-23, Shibaura 4-chome
Minato-ku, Tokyo 108-8530, Japan

Tel :+81 -3-3457-7321
Fax :+81 -3-3457-1694
www.tohmatsu.co.jp

**Deloitte
Touche
Tohmatsu**

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, 2003 and 2002, and the related consolidated statements of operations, 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, procedures and practices generally accepted and applied 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices 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.

Deloitte Touche Tohmatsu

June 27, 2003