

Highlights of the Year

Topics

◆ Second Senior Day Care Center Opens its Doors

Japan's population is aging rapidly, and that is causing burgeoning demand for health care for the elderly – and for assistance for their primary caretakers, who are typically family members. Aioi is helping respond to this critical demand by operating our own senior day care facilities through a fully owned subsidiary, Fureai Do-Life Service Co., Ltd. After opening a first senior center in Shinagawa, Tokyo, last year, Fureai began operating a facility in Mizuho, Nagoya, in April 2002. The new center differs from other facilities for seniors in its policy of tailoring individualized activity and care programs to meet the needs of each user. It also boasts an auxiliary nursing care training facility for employees and affiliated staff as well as local residents, who can train to acquire licenses as qualified health care workers for home visits.



◆ New Company is Japan's First to Support Car Sharing

Aioi Insurance joined with associate company, Anshin Dial Co., Ltd. and several major Japanese corporations, including Orix Corporation, Orix Rent-a-Car Co., Ltd., Suzuki Motor Co., Ltd., NEC Software Co., Ltd. and NEC Corporation, to establish CIV Sharing Co., Ltd. on February 20, 2002. The new company is the first dedicated support venture for shared automobile use. Car sharing, in which drivers reserve cars for use on a hourly basis, has proven an increasingly popular strategy in many cities in Europe and North America for slashing driving costs while reducing urban smog and traffic congestion.

Several non-profit electric and electronic vehicle promotion organizations, with the assistance of the Japanese government, have carried out experiments in car sharing in Japanese cities such as Yokohama, Inagi and Kyoto. Their tests have proven that by using advanced transportation and information technology, a system by which motorists borrow and return vehicles for short periods at low costs can be economically feasible. Aioi intends to improve urban traffic flows and contribute to the environment by encouraging frequent use of low-emission vehicles in this car-sharing business. The company also plans to develop original automobile insurance products for car-sharing applications.

◆ Auto Insurance Rider Rewards Motorists for Recycling Parts

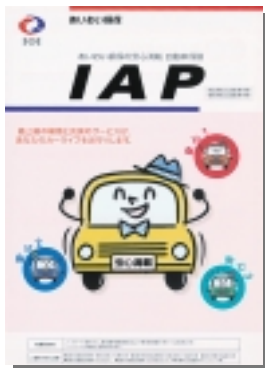
Environmental awareness is growing in Japan, encouraging greater efforts by both business and consumers to conserve and reuse resources. More effective utilization of our resources is also the goal of the Automobile Recycling Law, which will be implemented in 2004. Aioi became one of the first domestic insurers to promote recycling of automobile parts long before the law goes into effect when we developed and released a new auto insurance rider that rewards such recycling in July 2000. We then launched "Heartful Recycle," a new automobile insurance policy incorporating this clause in April 2002. The clause provides car owners with a 5% discount on car insurance premiums if their car repairs use recycled parts. The discount is applicable if the repairs take place at least 37 months after initial vehicle registration.

Aioi recently tied up with the NGP Group, Japan's largest supplier of recycled parts, to ensure a smooth supply of the necessary components, and we have collaborated with local auto repair facilities all over Japan to prepare for smooth implementation of the policy. We will strive to increase the utilization rate of recycled automobile parts in the future as part of our corporate "earth-friendly" environmental commitment.

New Products

◆ Driving is More Secure, More Rewarding with IAP Automobile Insurance

In April 2001 Aioi Insurance marked the start of company operations with the release of newly developed IAP automobile insurance. These insurance products, for both individual and corporate policyholders, meet a wide range of customer needs, combining optimal coverage with reasonable premiums. All policies offer comprehensive security against breakdowns as well as accidents and upgraded free service options. Some of the most popular new features are the Road Assistance Service; the Car and Home Service, which dispatches assessors to automobile accident sites; and a service for visits to policyholders to allay their concerns after accidents causing injury. In April 2002, Aioi began marketing IAP Anshin Mansai car insurance, which features enhanced services and a high level of indemnity.



◆ New Non-life Coverage Offers Entrepreneurs Broad Risk Indemnity

A convenient new property and casualty insurance product, Issho Rakuraku, was successfully launched in October 2001 to protect independent business owners against a wide variety of non-vehicle-related business risk, including fire, shutdowns, general liability risk and accidental injury to employees. It includes a unique indemnification clause to cover equipment and fixtures that ensures payouts at the highest level of insured replacement value for loss of movable property. It also features a 5% discount on insurance premiums for those customers holding Aioi automobile insurance policies.



◆ Aioi Penetrates Health Care Market with Group Medical Insurance

Among our main growth strategies is to expand our presence in the burgeoning medical and nursing care market. We took an important first step in this direction with the July 2002 introduction of Kenko Kigan, combined accident and medical insurance coverage for corporate employees. This comprehensive health insurance option offers low premiums and is tailored to each company's needs. It is also designed to accommodate already existing health insurance coverage. Kenko Kigan has proven attractive to business owners who wish to enhance employee welfare by providing additional indemnity in case of an emergency without greatly increasing their cost burden.



Notable Products and Services

The Aioi Club: Life Support for Policyholders

To become an integrated service company that customers feel plays a role in their daily lives -- our corporate goal -- you must provide customers with easily accessible information and services they can use. This is the role of the Aioi Club for individual policyholders and the Corporate Aioi Club for corporate clients. The Aioi Club is a local information-based service network that helps customers with automobile accidents and car trouble, assists with housing emergencies such as water leakage or getting locked out and even offers consultation and advice on medical and legal matters. The club's corporate counterpart supports company management with such services as advice on subsidy utilization, drivers' safety instruction, consultation on employee welfare measures and help with risk management.

We intend to broaden the services we can offer in the future with a planned business tie-up between our advanced call reception facility, Customer Service Center, and Aioi associate company, Anshin Dial Co., Ltd., Japan's only general assistance dial-up service company.

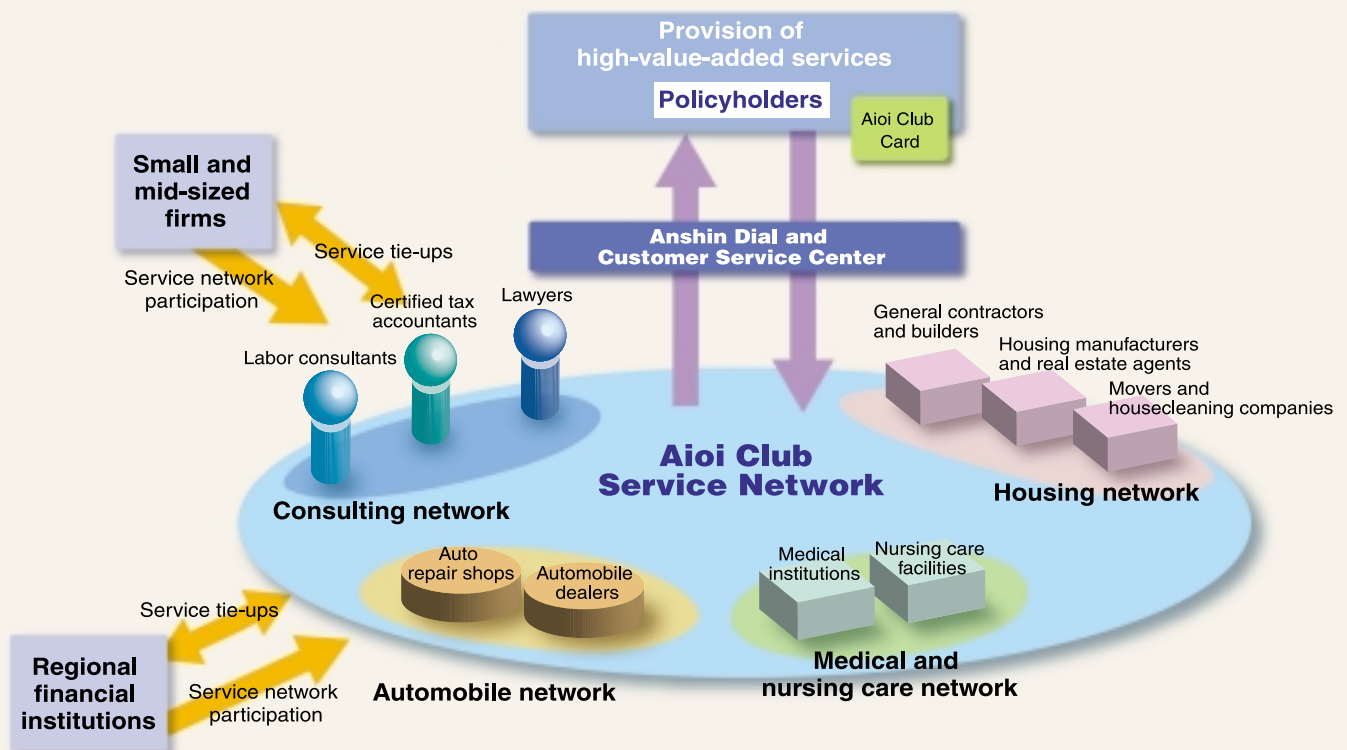
The original Aioi Club network consists of Aioi Insurance, its agencies and its customers. The Club's principle is that specialists introduced by the Club to provide information or resolve problems for customers should ideally be part of the Club themselves -- agencies or customers who have special knowledge or skills. To this end, we conduct a pre-screening assessment before registering specialists for the network, and insist that they offer preferential rates to customers for their services. Our original service network has gained a favorable reputation for offering high-quality services to customers

while supporting the business activities of our corporate clients.

Some examples of the business opportunities presented by our local information networks reveal their variety and potential. In the Kanagawa area, near Tokyo, professional underwriting agencies and car dealers among our members are cooperating to offer high-quality automobile repair and maintenance at low prices. The participating businesses have all recorded increased customers as a result of this initiative. In western Japan, companies have profited from use of our customer lists to promote automotive and housing services. We hope to be able to develop and provide even more original locally based services in coming years by pursuing closer alliances with financial institutions such as banks and credit card companies.

Overview of the Aioi Club

(Services offered through regional information networks)

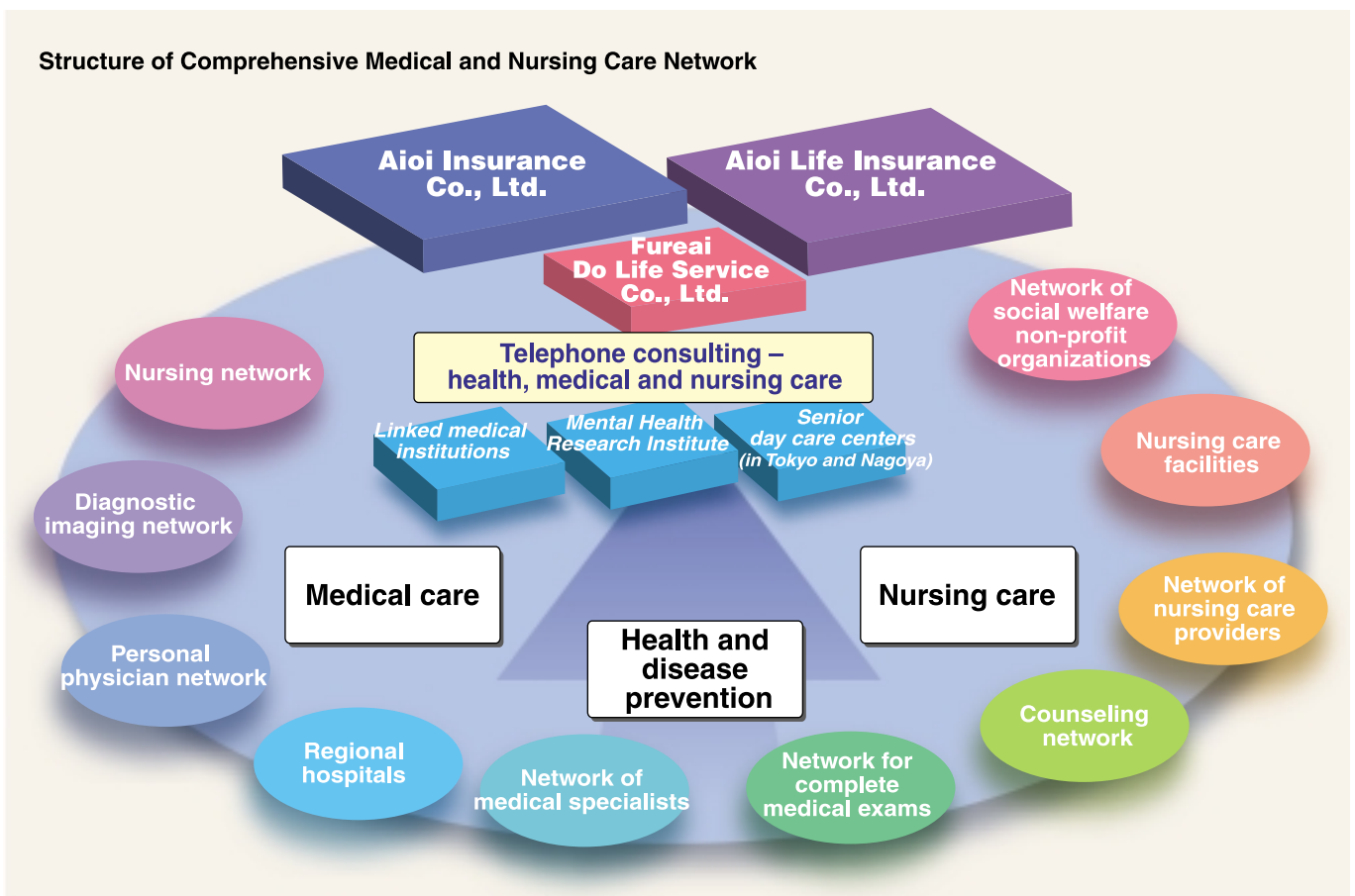


Integrated Medical and Nursing Care Network: A Systematic, Caring Approach

Domestic demographic trends (falling birth rate, increased longevity) have contributed to growing demand for health and nursing care, and such questions as how to identify appropriate health care institutions or cover hospitalization costs and related expenses are becoming major societal issues. Aioi's approach has been to offer our clients a range of medical information services, akin to the services we offer automobile owners. Three Aioi group companies, Aioi Insurance, our subsidiaries Fureai Do-Life Services and Aioi Life Insurance have formed an integrated network offering high-quality health, medical and nursing care services on a payment-in-kind basis as our contribution to improving customers' quality of life.

The logic behind the health care network is identical to that behind our Aioi Club: We can leverage our accumulated expertise in providing lifestyle information and a rapid response in emergencies, and our ties to concerned customers and medical care professionals and institutions to establish a network that links customers and reliable service providers. This network can offer practical help in addressing policyholders' health care concerns and can create new business opportunities for corporate clients as well as Aioi.

When entering these new business areas, we must be well versed on the problems and requirements of health care patients, the elderly, those needing nursing care and their families, and nursing and medical care staff. We are enhancing our operating system to allow us to smoothly incorporate such feedback from employees and agency staff involved in health care, such the staff of our two thriving senior day care centers and auxiliary nursing care training center, in current and future service and marketing activities.



Notable Products and Services

Internet Provides Powerful Link Between Agencies, Customers and Aioi

Current or prospective Aioi policyholders need only visit the company's website (<http://www.ioisonpo.co.jp>) to access a wealth of useful information. Individual or corporate clients can get information about Aioi products and services or introductions to the nearest insurance agencies, learn about the status of their insurance contracts and get advice on steps to take as a policy approaches maturity. They can test their insurance knowledge and learn about recent insurance-related legislative issues, such as the implications of the Product Liability Law. Those who wish to apply for travel insurance coverage can submit their applications on-screen, and investors and shareholders can find out the latest company information and stock prices.

Many Japanese use cellular telephones instead of computers for both communications and e-mail. Aioi has designed special features for these customers, including an application that allows them to immediately contact the company in case of accident and to be advised on the steps to take merely by following the questions that appear on their screens.

Our affiliated insurance agencies find Aioi's Internet support to be an essential back-up for their business operations, enabling them to smoothly communicate with both customers and the parent company. On the Aioi website they can access local and product information, complete estimates for automobile insurance and request documents. Aioi also supplies agencies with a variety of insurance software and systems, including a program to help them prepare their own home page, a system for estimating insurance premiums, and a travel insurance contract system.



New Systems and Facilities

◆ Our Customer Service Center is the Modern Face of the Company

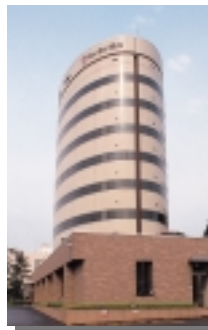
Calls from our policyholders are routed to our ultramodern Aioi Insurance Customer Service Center, a 2000-square-meter facility that is the largest and most advanced of its kind in Japan. The Center operates according to a highly regarded quality management system that works to achieve continual improvement in efficiency and productivity. More than 300 operators are on hand at the center to field customer inquiries about policies, requests for product and service information, or any other call for assistance. All the operators, who are regular Aioi employees, have been trained extensively in our insurance operations and can provide courteous, informative responses based on their in-depth knowledge.



◆ Automobile Research Center Establishes Crash Test Site

The liberalizing automobile insurance sector is subject to increasing price and new product competition, giving an edge to those insurers with superior expertise. Aioi Insurance has bolstered our position as a leader in automobile insurance with completion of a accident simulation facility at our Automobile Technology Research Institute. Although such testing facilities have already been introduced by major non-life insurance firms in Europe and North America to help calculate differentiated insurance premiums, our site is the first in Japan to be operated by a non-life insurer.

We have already begun marketing an automobile insurance product, "Dohn! to Omakase," based on the results generated from crash test data. The new product provides premium discounts for specific automobile models depending on their demonstrated durability and ease of repair. In the future, Aioi intends to propose further reductions in repair costs and insurance premiums in cooperation with major automobile makers.



◆ I@B Line System Supports Bank Sales of Aioi Insurance

The Japanese government lifted its restrictions on retail sales of insurance products at bank counters in April 2001, creating new business opportunities for Aioi that we are aggressively pursuing with new marketing tools and technologies. One of these is the I@B Line dedicated support system, which helps bank employees market insurance policies to customers when they process housing loans. As of March 31, 2002, the system was being supplied to a total of 30 financial institutions.

With the I@B Line, bank employees can easily and efficiently compute insurance premiums, prepare estimates and complete application forms on-line. The application form data is then automatically entered via Internet connections into Aioi's operating system.

This is expected to be the first of several Aioi Insurance Internet-based support systems designed to make it more convenient for potential customers to apply for insurance coverage at their local banks.

Review of Operations

The Japanese economy during the fiscal year ended March 31, 2002 was marked by a deepening and continuing downturn, largely due to continued declines in capital investment and lackluster consumer spending, coupled with a slowdown in the U.S. economy. Delayed implementation of government structural reforms and new concerns about the soundness of Japan's financial institutions resulted in increased domestic uncertainty over the economy's near-term prospects. Despite this adverse economic climate, The Dai-Tokyo Fire and Marine Insurance Co., Ltd. and The Chiyoda Fire and Marine Insurance Co., Ltd. made a fresh start during the fiscal year, merging on April 1, 2001 to form Aioi Insurance Co., Ltd. The aim of the new company is to strengthen competitiveness and our business foundations.

New products and services broaden our range

Our largest source of revenues continues to be automobile coverage. During fiscal 2001 we developed and marketed several unique new auto insurance products, including Aioi Automobile Policy, a comprehensive form of coverage issued to commemorate the company's establishment in April 2001. We created another new product, Dohn!-to-Omakase accident insurance, based on detailed data from accident simulations carried out at our Automobile Technical Research Center. Together with Toyota Finance Co., Ltd., we developed and launched a new long-term automobile insurance policy, the Ashinaga Plan, designed for Toyota car owners.

Following the relaxation of restrictions on "third-sector" personal insurance products in July 2001, Aioi began aggressive marketing of medical and nursing care coverage. We promoted sales of a new cancer insurance policy, comprehensive medical indemnification coverage and a rider to cover disease that may be packaged with accident insurance. And we launched an upgraded version of our popular nursing care insurance, the first insurance policy sold in Japan associated with public nursing care.

To strengthen and enhance the utility of our insurance products we have developed a range of support services. Aioi's Car and Home Service, which rapidly dispatches expert staff to automobile accident sites for better claim service and accident support, has been extended throughout the country, as has our Road Assistance Service, which is recognized as one of the best such services in the auto insurance sector. Our new Aioi Club is a general information network for all Aioi policyholders that integrates services previously offered separately for specific insurance contracts. In fiscal 2002 the Aioi Insurance Customer Service Center, an advanced call reception center manned by 300 operators that is the largest and most modern of its kind in Japan, became the first non-life insurance call center to be awarded ISO 9001:2000 certification by the International Organization for Standardization, in recognition of "the continuing improvement of its quality management system."

In January 2002, we began operation of a new integrated claim processing and management system, "Symphony," that will speed up claim processing, and we developed a new Aioi Fleet Risk Management 54 program, offered to corporate policyholders as part of their accident coverage, which aims to reduce traffic accidents. Aioi also worked to enhance our computer-based applications for policyholders with such new offerings as a domestic travel accident insurance policy that customers can apply for over the Internet.

Consolidated results for the fiscal year

In the fiscal year ended March 31, 2002 Aioi Insurance recorded a consolidated net loss before income taxes of ¥135.7 billion (\$1,018 million), mainly due to a large decline in the balance of large-scale underwritten reinsurance contracts in the wake of the September 11, 2001 terrorist attacks in the United States and special financial measures taken to adjust for falling prices in the domestic stock market. After taking income taxes, resident taxes and adjustments to deferred income taxes into account, the result was a consolidated net loss of ¥88,247 million (\$662,271 thousand).

The following are operating results by business line:

Non-life Insurance

Japan's non-life insurance sector, the main business arena for the Aioi group of companies, experienced a turbulent year, as full-scale industry liberalization ushered in escalating competition, rapid new product development, falling insurance premiums and greater operating efficiency, despite the prevailing economic malaise. Companies were also faced with a poor investment environment marked by extremely low interest rates and sluggish stock prices.

In addition, due to the September 2001 terrorist attacks, Aioi Insurance, like many other insurers, became obligated for payments to cover specific large-scale overseas reinsurance contracts. The company initiated outside as well as internal investigations to thoroughly assess the amount of total loss. As a result, the non-life insurance segment recorded net claims paid of ¥32.2 billion (\$242 million) and a provision for estimated losses and claims of ¥106.4 billion (\$798 million), and a total of ¥138.7 billion (\$1,040 million) was fully charged to consolidated statement of operations in the fiscal year ended March 31, 2002.

Aioi Insurance Company of Europe Ltd. undertook thorough corporate restructuring during the year to address its poor operating results in recent years. Accordingly, the subsidiary established a provision for corporate restructuring which included projected necessary restructuring expenses in its fiscal year ended December 31, 2001, enabling it to achieve better financial stability.

Consolidated net premiums written for non-life insurance totaled ¥788.2 billion (\$5,915 million), a 0.5% decrease from the previous year.

Life Insurance

Aioi Life Insurance launched several promising new products in line with its policy of developing and providing better insurance offerings tailored to consumer needs. In July 2001 it issued whole-life insurance for the aged; insurance by mail, issued by an intermediary agency, which does not require customers to submit disclosures or medical examination results; and term insurance segmented by age with one-year maturity. In February 2002 Aioi Life Insurance also introduced a new disease insurance rider that covers hospitalization costs. The company was one of the first to be licensed to provide reasonably priced, non-dividend-type comprehensive term insurance designed for welfare organizations.

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 783.0% and that of Aioi Life Insurance was found to be 2,018.3%, 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.

* Figures for the previous consolidated accounting period, which form the basis for calculating year-on-year variances, are aggregate figures for both The Dai-Tokyo Fire and Marine Insurance Co., Ltd. and The Chiyoda Fire and Marine Insurance Co., Ltd.