CONSOLIDATED BALANCE SHEETS

Aioi Insurance Company, Limited (Formerly The Dai-Tokyo Fire and Marine Insurance Company, Limited) and Consolidated Subsidiaries

March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
ASSETS			
Cash and cash equivalents	¥ 252,200	¥ 168,205	$ 2,035,512
Money held in trust (Note 3)	12,240	41,226	98,790
Investments in securities (Note 4)	864,109	707,086	6,974,247
Loans (Note 5)	285,505	318,111	2,304,324
Property and equipment—net	105,176	110,545	848,884
Premiums receivable from policyholders and agents	21,460	23,577	173,207
Reinsurance receivable and recoverable on paid losses	39,832	43,695	321,487
Deferred tax assets (Note 9)	29,629	79,734	239,138
Allowance for doubtful accounts	(14,511)	(11,915)	(117,125)
Other assets (Note 12)	81,538	64,375	658,103
Foreign currency translation adjustment	—	2,620	—
TOTAL	¥1,677,181	¥1,547,262	$13,536,570
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Underwriting reserves:			
Estimated losses and claims	¥ 136,997	¥ 127,274	$ 1,105,707
Unearned premiums	492,718	493,886	3,976,744
Maturity refunds and dividends to policyholders	572,603	611,788	4,621,496
Reinsurance payable and due to other insurance companies	28,856	28,440	232,901
Income taxes payable (Note 9)	15	5,315	122
Commercial paper	30,000	—	242,130
Convertible bonds (Note 6)	3,810	3,810	30,750
Liability for employees' retirement benefit	22,806	20,519	184,070
Reserve for price fluctuation	5,021	3,730	40,531
Deferred tax liabilities (Note 9)	1,989	263	16,061
Other liabilities	65,501	27,539	528,667
Total liabilities	1,360,320	1,322,568	10,979,184
COMMITMENTS AND CONTINGENT LIABILITIES (Note 11)			
SHAREHOLDERS' EQUITY:			
Common stock, ¥50 par value – authorized, 800,000 thousand shares; issued and outstanding, 407,154 thousand shares in 2001 and 2000	57,139	57,139	461,177
Additional paid-in capital	41,712	41,712	336,664
Retained earnings	130,163	125,843	1,050,553
Unrealized gain on available-for-sale securities	87,846	—	709,012
Total	316,862	224,695	2,557,407
Treasury stock, at cost	(2)	(0)	(21)
Total shareholders' equity	316,860	224,694	2,557,386
TOTAL	¥1,677,181	¥1,547,262	$13,536,570

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Aioi Insurance Company, Limited (Formerly The Dai-Tokyo Fire and Marine Insurance Company, Limited) and Consolidated Subsidiaries

Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
UNDERWRITING INCOME:			
Underwriting revenue:			
Net premiums written	¥444,946	¥449,464	$3,591,176
Premiums for maturity of refundable portion of long-term insurance	80,274	92,492	647,900
Investment income on premiums for maturity of refundable portion of long-term and other insurance	16,501	20,056	133,185
Reversal of underwriting reserves	40,352	28,834	325,682
Other underwriting revenue	705	78	5,695
Total underwriting revenue	582,781	590,925	4,703,640
Underwriting expenses:			
Net policy losses paid	246,594	238,471	1,990,271
Loss adjustment expenses	17,848	17,150	144,052
Policy acquisition costs and premiums collection costs	75,407	80,537	608,617
Maturity refunds and dividends to policyholders for long-term insurance	134,252	154,435	1,083,557
Other underwriting expenses	9,916	1,419	80,038
Total underwriting expenses	484,019	492,015	3,906,537
Net underwriting income	98,761	98,910	797,103
INVESTMENT INCOME (EXPENSES):			
Interest and dividend income	28,468	41,072	229,773
Gain on sales of investments in securities – net	24,151	8,483	194,929
Loss on revaluation of investments in securities	(6,917)	(8,415)	(55,832)
Other investment expenses – net	(7,640)	(4,681)	(61,662)
Transfer of investment income on premiums for maturity of refundable portion of long-term and other insurance	(16,501)	(20,056)	(133,185)
Net investment income	21,561	16,403	174,022
OTHER INCOME (EXPENSES):			
Selling and general administrative costs	(90,739)	(94,440)	(732,356)
Reversal of (provision for) allowance for doubtful accounts	(3,928)	2,833	(31,710)
Provision for price fluctuation reserve	(1,291)	(1,317)	(10,422)
Loss on sales of property – net	(213)	(384)	(1,722)
Other – net	(13,185)	(10,865)	(106,417)
Other expenses – net	(109,357)	(104,174)	(882,629)
INCOME BEFORE INCOME TAXES	10,964	11,138	88,496
INCOME TAX EXPENSE (BENEFIT) (Note 9):			
Current	1,530	7,384	12,351
Deferred	2,213	(2,939)	17,866
Income taxes	3,744	4,445	30,218
NET INCOME	¥ 7,220	¥ 6,693	$ 58,277

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK:			
Net income	¥ 17.73	¥ 16.44	$ 0.14
Diluted earnings	17.69	16.37	0.14

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Aioi Insurance Company, Limited (Formerly The Dai-Tokyo Fire and Marine Insurance Company, Limited) and Consolidated Subsidiaries

Years Ended March 31, 2001, 2000 and 1999

	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	Treasury Stock, at Cost
BALANCE, APRIL 1, 1999	407,154	¥57,139	¥41,712	¥102,318		¥(0)
Adjustment made on unearned premiums for adoption of new accounting policy for income taxes				(56,798)		
Cumulative effect of deferred taxes to the retained earnings				76,531		
Net income				6,693		
Cash dividends, ¥7 per share				(2,850)		
Bonuses to directors				(52)		
Decrease in treasury stock – net						0
BALANCE, MARCH 31, 2000	407,154	57,139	41,712	125,843		(0)
Net income				7,220		
Cash dividends, ¥7 per share				(2,850)		
Bonuses to directors				(50)		
Increase in treasury stock – net						(1)
Unrealized gain on available-for-sale securities					¥87,846	
BALANCE, MARCH 31, 2001	407,154	¥57,139	¥41,712	¥130,163	¥87,846	¥(2)

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Treasury Stock, at Cost
BALANCE, MARCH 31, 2000	$461,177	$336,664	$1,015,682		$ (6)
Net income			58,277		
Cash dividends, $0.05 per share			(23,002)		
Bonuses to directors			(403)		
Increase in treasury stock – net					(15)
Unrealized gain on available-for-sale securities				$709,012	
BALANCE, MARCH 31, 2001	$461,177	$336,664	$1,050,553	$709,012	$(21)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Aioi Insurance Company, Limited (Formerly The Dai-Tokyo Fire and Marine Insurance Company, Limited) and Consolidated Subsidiaries

Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
OPERATING ACTIVITIES:			
Income before income taxes	¥ 10,964	¥ 11,138	$ 88,496
Adjustments for:			
Depreciation	7,930	8,053	64,008
Reversal of underwriting reserve	(30,629)	(28,429)	(247,211)
Provision for (Reversal of) allowance for doubtful accounts	2,596	(3,093)	20,952
Provision for (Reversal of) investment loss allowances	(106)	110	(861)
Increase in liability for employees' retirement benefit	2,286	—	18,456
Reversal of employees' retirement allowances	—	(244)	—
Reversal of employees' bonus allowances	(332)	(248)	(2,686)
Reversal of allowances for the loss arising from sale of loans receivable	(56)	(806)	(454)
Increase in price fluctuation reserve	1,291	1,317	10,422
Interest and dividend income	(28,468)	(41,072)	(229,773)
(Gain) loss arising from sales or revaluation of investments in securities	(18,278)	220	(147,525)
Interest expenses	309	260	2,501
Foreign exchange losses	2,830	2,859	22,845
Loss on sale of property and equipment	2,947	473	23,792
Others – net	14,264	3,913	115,127
Interest and dividends received	26,421	38,993	213,251
Interest paid	(319)	(270)	(2,577)
Income taxes paid	(9,640)	2,505	(77,808)
Total adjustment	(26,953)	(15,458)	(217,539)
Net cash used in operating activities	(15,988)	(4,319)	(129,043)
INVESTING ACTIVITIES:			
Net increase in bank deposits	4,325	7,245	34,914
Purchase of debts	(8,890)	(2,000)	(71,751)
Proceeds from sale of debts purchased	1,055	1,000	8,515
Decrease (Increase) in money held in trust – net	23,259	(3,136)	187,728
Purchase of investments in securities	(437,213)	(767,183)	(3,528,764)
Proceeds from sale or maturities of investments in securities	434,850	777,033	3,509,690
Decrease in loans – net	31,185	12,522	251,697
Purchases of property and equipment	(7,811)	(7,888)	(63,046)
Proceeds from sale of property and equipment	2,775	433	22,399
Increase in deposits received under loan debenture agreement	30,920	—	249,562
Decrease in deposits received in securities under loan securities agreement	—	(33,919)	—
Others – net	(2,146)	1,555	(17,325)
Net cash provided by (used in) investing activities	72,310	(14,339)	583,621
FINANCING ACTIVITIES:			
Proceeds from (repayment of) commercial paper – net	30,000	(40,000)	242,130
Repayment of convertible bonds	—	(4,355)	—
Acquisition of treasury stock	(1)	(0)	(14)
Cash dividends	(2,850)	(2,850)	(23,002)
Others – net	(8)	(11)	(66)
Net cash provided by (used in) financing activities	27,139	(47,217)	219,047
Foreign Currency Transaction Adjustment on Cash and Cash Equivalents	532	(542)	4,299
Net Increase (Decrease) in Cash and Cash Equivalents	83,994	(66,418)	677,924
Cash and Cash Equivalents, Beginning of Year	168,205	234,623	1,357,588
Cash and Cash Equivalents, End of Year	¥252,200	¥168,205	$2,035,512

See notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Aioi Insurance Company, Limited (Formerly The Dai-Tokyo Fire and Marine Insurance Company, Limited) and Consolidated Subsidiaries

Years Ended March 31, 2001 and 2000

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of The Dai-Tokyo Fire and Marine 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 Accounting Standards. 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 the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically for the convenience of readers outside Japan. In accordance with accounting procedures generally accepted in Japan, certain comparative disclosures are not required to be and have not been presented herein.

The accounts of the Company and its consolidated subsidiary established in Japan are maintained in Japanese yen, the currency of the country in which the Company is incorporated and operates. Figures stated in yen have been rounded down to millions of yen. Figures stated in U.S. dollars in the accompanying consolidated financial statements are converted, solely for convenience of readers outside Japan and are stated at the rate of ¥123.90 to U.S.$1, the approximate rate of exchange at March 31, 2001. The translations should not be construed as representations that the Japanese yen amounts could have been converted to U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

a. Consolidation – The accompanying consolidated financial statements include the accounts of the Company and its two significant subsidiaries. The financial statements of the remaining unconsolidated subsidiaries would not have a material effect on the accompanying consolidated financial statements. Investments in unconsolidated subsidiaries and affiliates are stated at cost.

All significant inter-company balances and transactions have been eliminated in consolidation. The effect on the consolidated financial statements of not applying the equity method is immaterial.

One of the subsidiaries is 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.

b. Cash Equivalents – Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, call loans, debts purchased and money management funds (MMF). Money held in trust and time deposits with original maturities exceeding three months have been excluded from cash equivalents.

c. Foreign Currency Translation – The accounts stated on the financial statements of the Company and its consolidated subsidiaries are translated as follows:

Before the revised accounting standards prescribed below became operative, current receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while non-current receivables and payables denominated in foreign currencies were recorded and reported at the rates prevailing when acquired or incurred.

The revised accounting standard for foreign currency transaction become operative for financial statement covering periods beginning on or after April 1, 2000, the Company and the consolidated domestic subsidiary adopted the revised accounting standard accordingly. In accordance with the revised standard, all current and non-current 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 income statement.

Revenue and expense accounts of the foreign consolidated subsidiary are translated into yen at the rates of exchange in effect at the balance sheet date. Balance sheet accounts are also translated at the same exchange rates, except for the components of shareholders' equity which are translated at the historical rate.

Prior to April 1, 2000, differences arising from such translation were shown as "Foreign currency translation adjustments" as either asset or liability in the balance sheet.

Effective April 1, 2000, such differences are presented as "Foreign currency translation adjustments" forming a separate component of shareholders' equity in accordance with the revised accounting standard for foreign currency transactions.

The adoption of the revised accounting standard, did not effect the consolidated financial statement as of and for the year ended March 31, 2001.

d. Investments in Securities and Derivatives Activities – Prior to April 1, 2000, on which the new accounting standard for financial instrument became operative, listed securities owned by the Company and the consolidated domestic subsidiary were stated at the lower of moving-average cost or market. Carrying amounts of investments in securities were determined by comparing their original historical cost and market value at each balance sheet date. Unlisted securities owned by the Company were stated at moving-average cost. Listed securities included in money held in trust were stated in accordance with the same policy prescribed above. Marketable bonds (except for the convertible bonds) owned by the consolidated domestic subsidiary were, however, stated at moving-average cost. All securities owned by the foreign consolidated subsidiary were stated at the lower of moving-average cost or market.

Effective April 1, 2000, the Company and the consolidated subsidiaries adopted a new accounting standard for financial instruments, including investment in securities and derivatives activities.

The standard requires all applicable securities to be 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 near term are reported at fair value, and the related unrealized gains and losses are included in the income statement for the period. The carrying amount of the securities are determined by the moving-average cost. (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 of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The carrying amount of the securities are determined by the moving-average cost. 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.

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 income statement and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The effect of adoption of the new standard was to increase income before income taxes by ¥11,887 million ($95,943 thousand), which includes the effect of adopting the new standard for derivatives financial instruments.

e. 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 income as incurred.

Depreciation of property and equipment is computed by the declining-balance method while the straight-line method is applied to buildings acquired on or after April 1, 1998, in accordance with the revised Corporate Tax Law in Japan. The range of useful lives is based on the Ministerial Ordinance to the Corporate Tax Law.

f. Policy Acquisition Costs – Policy acquisition costs are charged to income as incurred.

g. Underwriting Reserves – Underwriting reserves are set aside as reserves for unpaid estimated losses and claims and unearned premiums and maturity refunds and dividends to policy holders by each line of insurance.

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 total of these reserves by lines will be roughly equal to the unearned premiums determined by using the monthly pro rate method. 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 maximums 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 an amount equal to the refundable portion of the insurance premiums of long-term insurance at maturity and an amount equal to the investment income attributable to such portion of the relevant premiums.

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

i. Allowance for Doubtful Accounts – The allowance for doubtful accounts stated on the financial statements of the Company and the domestic subsidiary is determined based on management's judgment and assessment of future losses formatted and secured through 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 asset and the rules for provision or write-offs of doubtful accounts.

For loans to counter parties who are in legal or perfunctory bankruptcy and are not allowed to participate in the bank clearing process, and for loans to counter parties 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 encumbranced 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 the 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 self-assessment.

j. Employees' Retirement Benefit and Pension Plan – The Company and the consolidated domestic subsidiary have severance payment plans for employees.

Under the employees' retirement plans for the Company and the domestic subsidiary, until April 1, 2000, the reserve for employees' retirement allowances was stated at the amount which would be required if all employees terminated their employment at the end of each year under voluntary conditions, less the amount covered by the pension plan.

Effective April 1, 2000, which the new accounting standard for employees' retirement benefits become effective, the Company and the consolidated domestic subsidiary adopted a new accounting standard for employees' retirement benefits and accounted 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.

The full amount of the transitional obligation determined as of the beginning of year was charged to income and presented as other expense in the income statement. As a result, income before income taxes and minority interests as compared with the prior method, decreased by ¥3,601 million ($29,064 thousand).

Changes in the projected benefit obligation arising from modified actuarial assumptions are amortized by straight-line method over the average remaining service life of the employees (15 years) and recognized as an expense the years after the changes.

k. 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 is calculated using percentages set forth in the Insurance Business Law for each type of security.

l. 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 in the Note 10 set forth below.

m. Net Income per Share – Net income per share is computed based on the weighted average number of shares outstanding during each year.

Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year with an applicable adjustment for related interest expense (net of tax).

n. 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 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 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 made a pertinent amortization required by the aforementioned law.

3. Money held in trust

All of the money held in trust was classified as trading securities. Aggregate cost at March 31, 2001 and gains or losses recognized in the income statement were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Money held in trust:		
Aggregate cost	¥12,240	$98,790
(Losses)	(2,077)	(16,770)

Aggregate cost and aggregate market value of money held in trust at March 31, 2000 were as follows:

	Millions of Yen		
	Aggregate Cost	Aggregate Market	Unrealized Gain (Loss)
Money held in trust	¥41,226	¥41,347	¥120

4. Investments in securities

Investment in securities as of March 31, 2001 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
National and local government bonds	¥104,734	$ 845,311
Corporate bonds	205,637	1,659,708
Equity securities	393,425	3,175,347
Foreign securities	137,980	1,113,646
Other securities	22,334	180,259
Allowances for investment loss	(3)	(26)
Total	¥864,109	$6,974,247

Information regarding each category of the securities classified as trading, available-for-sale and held-to-maturity at March 31, 2001 was as follows (see Note 2.d for the subsequent measurement of investments in securities):

	Millions of Yen			
	Aggregate Cost	Unrealized Gains	Unrealized Losses	Aggregate Market
Securities classified as:				
Trading				¥ 45,414
Available-for-sale:				
Bonds	¥285,934	¥ 9,486	¥ 900	¥294,520
Equity securities	256,524	142,865	15,776	383,613
Foreign securities	100,728	3,209	683	103,253
Other securities	11,105	49	784	10,370
Total	¥654,293	¥155,610	¥18,146	¥791,757
Held-to-maturity:				
Bonds	¥ 3,521	¥ 168	¥ 3	¥ 3,686
Foreign securities	798	39		838
Total	¥ 4,320	¥ 207	¥ 3	¥ 4,524

	Thousands of U.S. Dollars			
	Aggregate Cost	Unrealized Gains	Unrealized Losses	Aggregate Market
Securities classified as:				
Trading				$ 366,541
Available-for-sale:				
Bonds	$2,307,788	$ 76,564	$ 7,270	$2,377,081
Equity securities	2,070,418	1,153,069	127,335	3,096,152
Foreign securities	812,979	25,901	5,519	833,361
Other securities	89,629	401	6,333	83,697
Total	$5,280,815	$1,255,936	$146,459	$6,390,292
Held-to-maturity:				
Bonds	$ 28,418	$ 1,363	$ 24	$ 29,757
Foreign securities	6,448	315		6,763
Total	$ 34,866	$ 1,678	$ 24	$ 36,521

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2001 were as follows:

	Carrying Amount	
	Millions of Yen	Thousands of U.S. Dollars
Available-for-sale:		
Bonds	¥ 8,269	$ 66,745
Equity securities	9,355	75,507
Foreign securities	3,000	24,213
Other securities	13,008	104,994
Total	¥33,633	$271,460
Held-to-maturity—Bonds	¥ 4,060	$ 32,774
Total	¥ 4,060	$ 32,774

Proceeds from sales of available-for-sale securities for the year ended March 31, 2001 were ¥324,463 million ($2,618,749 thousand). Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥25,687 million ($207,321 thousand) and ¥1,529 million ($12,343 thousand), respectively.

Carrying amounts of debt securities with contractual maturities classified available-for-sale and held-to-maturity at March 31, 2001 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	¥ 54,700	¥ 5,155	¥13,089	$ 441,492	$ 41,611	$105,645
Due after one year through five years	157,471	52,585	4,400	1,270,956	424,420	35,513
Due after five years through ten years	57,696	35,506	5,181	465,667	286,576	41,820
Due after ten years	22,806	2,787	97	184,067	22,501	783
Total	¥292,674	¥96,036	¥22,768	$2,362,184	$775,110	$183,762

Aggregate cost and aggregate market value of investments in securities at March 31, 2000 were as follows:

	Millions of Yen		
	Aggregate Cost*	Aggregate Market	Unrealized Gain (Loss)
Bonds	¥259,712	¥266,070	¥ 6,358
Equity securities	255,911	467,958	212,046
Foreign securities	78,129	77,518	(610)
Other securities	10,900	10,857	(42)
Total	¥604,653	¥822,405	¥217,751

* The amounts shown above include only the cost of investments in securities for which a market value is reasonably obtained. Therefore, the total cost shown above does not equal the total carrying amount of investments in securities shown on the consolidated balance sheets.

5. Loans

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Defaulted loans	¥ 778	¥ 1,005	$ 6,281
Delinquent loans (non-performing loans)	11,890	9,589	95,966
Past due loans (over three months)	704	474	5,684
Loans under mitigating conditions	4,563	6,042	36,834
Total	¥17,936	¥17,112	$144,766

Defaulted loans represent loans for which the Company assumes that there are no prospects for recovery or repayment of principals or interest and therefore, do not account for accrued interest revenues.

Delinquent loans represent loans for which the Company assumes that there are very few prospects for recovery or repayment of principals or interest and therefore, do not account for accrued interest revenues. For delinquent loans, management does not intend to mitigate conditions of loans on behalf of the recovery of the counter parties 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 incurred are past due over three months from the due date set forth in the loan agreements, not falling into either the categories of defaulted loans or delinquent loans.

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

6. Convertible bonds

Unsecured bonds convertible into common stock is as follows:

	Conversion Price per Share	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
1.6% convertible bonds due March 31, 2003	¥1,194.30	¥3,810	¥3,810	$30,750

If all convertible bonds outstanding were converted as of March 31, 2001, common shares outstanding would be increased by 3,190 thousand shares.

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

7. Employees' retirement benefit and pension plan

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

The Company contributed certain available-for-sale securities to the employee retirement benefit trust for non-contributory pension plans, and recognized a non-cash gain of ¥3,672 million ($29,641 thousand). The securities held in this trust are qualified as plan assets.

Effective April 1, 2000, the Company and the consolidated domestic subsidiary adopted a new accounting standard for employees' retirement benefits.

The liability for employees' retirement benefits at March 31, 2001 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥(46,017)	$(371,407)
Fair value of plan assets	20,299	163,841
Unrecognized actuarial loss	2,911	23,495
Net liability	¥(22,806)	$(184,070)

The components of net periodic benefit costs for the year ended March 31, 2001 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 2,179	$17,588
Interest cost	1,269	10,242
Expected return on plan assets	(423)	(3,418)
Amortization on transitional obligation	7,158	57,775
Net periodic benefit costs	¥10,183	$82,187

Assumptions used for the year ended March 31, 2001 are set forth as follows:

Discount rate	3.0%
Expected rate of return on plan assets	3.0%
Recognition period of actuarial gain/loss	15 years
Amortization period of transitional obligation	1 year

The amounts contributed to the fund which were charged to income for the year ended March 31, 2000 were ¥1,248 million.

8. Shareholders' equity

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as paid-in capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as paid-in capital are credited to additional paid-in capital.

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 ¥14,150 million ($114,205 thousand) and ¥13,150 million as of March 31, 2001 and 2000, respectively, and is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

Under the Code, the Company is permitted to transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits the company to transfer portions of unappropriated retained earnings, available for dividends, to paid-in capital by resolution of the shareholders.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the authorized capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split cannot be less than ¥50.

Under the code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 2001, retained earning recorded on the Company's books were ¥118,951 million ($957,152 thousand) which is available for future dividends subject to the approval of the shareholders and legal reserve requirement.

9. 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, 2001 and 2000. The tax effects derived of significant temporary differences which result in deferred tax assets and liabilities at March 31, 2001 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred tax assets:			
Unearned premiums	¥51,597	¥55,180	$416,444
Liability for employees' allowances	6,334	—	51,129
Reserve for employees' allowances	—	4,961	—
Reserve for doubtful accounts	4,822	3,490	38,920
Estimated losses and claims		4,675	
Devaluation of securities	4,285	3,632	34,584
Depreciation	3,643	3,560	29,407
Others	7,790	5,738	62,873
Total	78,473	81,239	633,359
Valuation allowance	(821)	(1,062)	(6,628)
Deferred tax assets	77,651	80,176	626,730
Deferred tax liabilities:			
Deferred tax liabilities	—	(706)	—
Unrealized gain on available-for-sale securities	(49,617)	—	(400,464)
Others	(395)	—	(3,188)
Net deferred tax assets	¥27,639	¥79,470	$223,077

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

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2001 and 2000 and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	2001
Normal effective statutory tax rate	36.1%
Dividend received	(8.0)
Expenses not deductible for income tax purposes	6.5
Other – net	(0.5)
Actual effective tax rate	34.1%

	2000
Normal effective statutory tax rate	36.1%
Dividend received	(6.5)
Expenses not deductible for income tax purposes	7.0
Minimum inhabitant taxes	2.6
Other – net	0.7
Actual effective tax rate	39.9%

10. Lease transactions

a. Information regarding finance leases other than those which deem to transfer ownership of the leased property to the lessee, 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 subsidiary such as acquisition cost, accumulated depreciation, lease payment obligations, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee for the years ended March 31, 2001 and 2000, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Acquisition cost	¥154	¥146	$1,247
Accumulated depreciation	88	52	710
Net leased property	¥ 66	¥ 93	$ 537

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, 2001 and 2000, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Due within one year	¥36	¥34	$292
Due after one year	30	58	244
Total	¥66	¥93	$537
Total payments for finance leases	¥35	¥35	$287

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

Depreciation expense for the year ended March 31, 2001, which is not reflected in the accompanying consolidated statement of income, 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, 2001 and 2000, and total payments for the years were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Due within one year	¥ 525	¥ 576	$ 4,245
Due after one year	1,338	1,923	10,801
Total	¥1,864	¥2,499	$15,046

11. Commitments and contingent liabilities

Derivative Financial Instruments

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, and bond option contracts. The consolidated foreign subsidiary makes use of foreign exchange forward contracts. The Company and its subsidiaries enter into these contracts with major financial institutions in order to avoid credit loss in the event of nonperformance by counter parties of the contracts entered. Exposure to market risk is managed through position limits, approvals and monitoring procedures. Daily risk control consists of confirmation procedures and analysis conducted by the executive 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 independent from the executive section then performs daily analysis of the positions and the possible risk incurred in the transactions. 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 from the supervisory section to the Board of Directors.

b. The Company had the following derivatives contracts outstanding at March 31, 2001 and 2000.

	Millions of Yen						Thousands of U.S. Dollars		
	2001			2000			2001		
	Contract Amount	Market Value	Unrealized Gain (Loss)	Contract Amount	Market Value	Unrealized Gain (Loss)	Contract Amount	Market Value	Unrealized Gain (Loss)
Foreign exchange contracts									
– Forward:									
Selling U.S.$				¥33,439	¥33,617	¥(178)			
Selling Euro				102	96	5			
Selling STG£				162	160	1			
Buying Euro				97	97	—			
Buying STG£				164	165	0			
Total			Nil			¥(171)			Nil

The market values for forward exchange contracts shown above are evaluated at the forward exchange rate as of the year-end date.

	Millions of Yen						Thousands of U.S. Dollars		
	2001			2000			2001		
	Contract Amount	Market Value	Unrealized Gain (Loss)	Contract Amount	Market Value	Unrealized Gain (Loss)	Contract Amount	Market Value	Unrealized Gain (Loss)
Bond futures – Futures									
– Short position	¥17,415	¥17,376	¥ 39	¥32,554	¥32,842	¥(288)	$140,559	$140,244	$ 315
Interest rate swaps – Fixed rate									
receipt, floating rate payment	37,900	1,118	1,118	53,900	180	180	305,891	9,027	9,027

12. Deferred expenses under Article 113 of the Insurance Business Law

The unamortized expenses under Article 113 of the Insurance Business Law recorded on the subsidiaries book were ¥1,493 million ($12,056 thousand) and ¥2,360 million at March 31, 2001 and 2000, respectively, and were included in other assets.

13. Subsequent events

a. Merger

In accordance with the merger agreement approved at the shareholders meeting held on December 20, 2000, the Company was merged with The Chiyoda Fire and Marine Insurance Company, Ltd. ("Chiyoda Co.") on April 1, 2001. The Company acquired all assets and assumed all liabilities of Chiyoda Co. The Company then changed its name to Aioi Insurance Company, Ltd.

In connection with the merger, assets acquired and liabilities assumed were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Assets:		
Cash on hand and in banks	¥ 108,612	$ 876,614
Monetary claims bought	2,588	20,890
Money held in trust	10,532	85,006
Investment in securities	638,020	5,149,482
Loans	170,997	1,380,128
Property and equipment	89,381	721,400
Other assets	144,645	1,167,433
Deferred tax assets	79,857	644,528
Per contra acceptance and guarantees	11,226	90,611
Allowance for doubtful accounts	(10,334)	(83,408)
Total assets	¥1,245,528	$10,052,688
Liabilities:		
Underwriting reserves	¥ 970,982	$ 7,836,822
Convertible bonds	15,000	121,065
Other liabilities	82,010	661,907
Liability for employees' retirement benefit	16,794	135,548
Reserve for losses on sale of loans	106	861
Reserve for price fluctuation	5,682	45,863
Acceptance and guarantees	11,226	90,611
Total liabilities	¥1,101,803	$ 8,892,680
Acquired assets less liabilities assumed	¥ 143,724	$ 1,160,007

* Securities include treasury stocks of ¥346 million ($2,795 thousand). Other liabilities include cash dividends of ¥2,706 million ($21,840 thousand) payable to the shareholders of Chiyoda Co.

b. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2001 were approved at the Company's shareholders meeting held on June 28, 2001:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends		
¥7 ($0.05) per share	¥2,850	$23,002
Bonuses to directors and corporate auditors	47	379

14. Segment information

Segment information is not disclosed as the Company and consolidated subsidiaries do not operate significant business other than the insurance business, and foreign operations and sales to foreign customers are immaterial for the years ended March 31, 2001 and 2000.

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INDEPENDENT AUDITORS' REPORT

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

We have examined the consolidated balance sheets of Aioi Insurance Company, Limited (formerly The Dai-Tokyo Fire and Marine Insurance Company, Limited) and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Aioi Insurance Company, Limited (formerly The Dai-Tokyo Fire and Marine Insurance Company, Limited) and consolidated subsidiaries as of March 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period.

As mentioned in Note 13 to the consolidated financial statements, The Dai-Tokyo Fire and Marine Insurance Company, Limited merged with The Chiyoda Fire and Marine Insurance Company, Limited on April 1, 2001, and adopted the new business name of Aioi Insurance Company, Limited for the newly combined insurance enterprise.

As discussed in Note 2 to the consolidated financial statements, effective from April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for employees' retirement benefits and financial instruments.

Our examinations 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 2 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 28, 2001

CONSOLIDATED BALANCE SHEETS

Aioi Insurance Company, Limited (Formerly The Chiyoda Fire and Marine Insurance Company, Limited) and Consolidated Subsidiaries

March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
ASSETS			
Cash and cash items:			
Cash on hand and in banks	¥ 116,379	¥ 75,102	$ 939,304
Money trusts	10,532	8,380	85,006
Call loans	—	5,000	—
Monetary claims bought	7,588	3,600	61,247
Total cash and cash items	134,500	92,082	1,085,558
Securities (Notes 1 and 3)	771,275	702,722	6,224,980
Loans (Note 3)	173,077	237,280	1,396,916
Property and equipment, at cost	171,343	171,193	1,382,917
Accumulated depreciation (Note 1)	(73,726)	(70,968)	(595,045)
Property and equipment, net of accumulated Depreciation	97,617	100,224	787,872
Other assets	191,082	164,554	1,542,235
Deferred tax (Note 7)	25,895	67,280	209,004
Foreign currency translation adjustments (Note 1)	—	3,089	—
Per contra acceptances and guarantees	11,226	9,500	90,611
Reserve for bad debts (Note 1)	(10,527)	(15,441)	(84,966)
Total assets	¥1,394,148	¥1,361,295	$11,252,211
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Underwriting fund:			
Reserve for reported and estimated losses and claims (Note 4)	¥ 149,182	¥ 130,317	$ 1,204,058
Underwriting reserves	866,561	920,407	6,994,037
Total underwriting fund	1,015,744	1,050,725	8,198,096
Other liabilities	125,923	112,521	1,016,331
Reserves:			
Reserve for severance allowances and retirements (Notes 1 and 5)	10,854	14,711	87,609
Reserve for losses on sale of loans	106	89	861
Reserve for price fluctuation (Note 1)	5,721	5,082	46,178
Total Reserves	16,683	19,883	134,649
Deferred tax	1,151	—	9,292
Acceptance and guarantees	11,226	9,500	90,611
Total liabilities	1,170,728	1,192,631	9,448,981
Minority interest	0	19	1
Shareholders' equity:			
Common stock	42,664	42,664	344,349
Additional paid-in capital	31,149	31,149	251,407
Retained earnings	83,871	95,170	676,925
Revaluation reserve on available-for-sale securities (Note 1)	68,888	—	556,000
Foreign currency translation adjustments (Note 1)	(2,807)	—	(22,659)
Treasury stock	(346)	(340)	(2,795)
Total shareholders' equity	223,419	168,644	1,803,227
Total liabilities and shareholders' equity	¥1,394,148	¥1,361,295	$11,252,211

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Aioi Insurance Company, Limited (Formerly The Chiyoda Fire and Marine Insurance Company, Limited) and Consolidated Subsidiaries

Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
Ordinary income	¥567,176	¥562,796	$4,577,699
Underwriting income	509,159	513,315	4,109,435
Net premiums written	371,265	391,113	2,996,495
Deposit premiums by policyholders	53,399	71,314	430,986
Investment income on deposit premiums (Note 3)	12,509	14,823	100,960
Life insurance premiums	16,142	13,227	130,288
Reversal of underwriting reserve	53,814	22,675	434,337
Other underwriting income	2,027	161	16,367
Investment income	52,715	48,817	425,469
Interest and dividends (Note 3)	28,245	28,002	227,970
Realized gain on sales of securities	36,200	35,479	292,172
Other investment income	779	159	6,287
Transfer of investment income on deposit premiums (Note 3)	(12,509)	(14,823)	(100,960)
Other ordinary income	5,302	663	42,794
Ordinary expenses	565,412	556,515	4,563,462
Underwriting expenses	455,083	439,112	3,672,989
Net losses paid	231,173	218,793	1,865,805
Loss adjustment expenses	19,817	20,349	159,948
Commissions and brokerage	75,116	76,447	606,266
Maturity refunds and dividends to policyholders	108,217	115,433	873,424
Life insurance claims	2,241	1,630	18,089
Provision for outstanding claims	18,227	2,800	147,114
Other underwriting expenses	290	3,657	2,341
Investment expenses	11,589	22,882	93,539
Loss on sales of securities	1,358	1,679	10,966
Loss on revaluation of securities	7,659	18,315	61,823
Other investment expenses	2,570	2,887	20,748
Operating and general administrative expenses	82,515	82,995	665,986
Other ordinary expenses	16,224	11,525	130,947
Net ordinary income	1,764	6,281	14,237
Extraordinary income	35,001	15,898	282,495
Gain on sales of other properties	1,901	617	15,344
Other extraordinary income (Note 8)	33,099	15,281	267,150
Extraordinary loss	37,541	16,458	303,000
Loss on sales of other properties	2,196	533	17,727
Provision for reserve for price fluctuation	638	642	5,154
Other extraordinary loss (Note 8)	34,706	15,281	280,118
Net income (loss) before income taxes	(776)	5,722	(6,267)
Income taxes (Note 7)	2,039	7,151	16,459
Adjustments to deferred income taxes (Note 7)	3,568	(4,996)	28,802
Minority interest	(20)	(1)	(161)
Net income (loss)	¥ (6,364)	¥ 3,568	$ (51,367)

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Aioi Insurance Company, Limited (Formerly The Chiyoda Fire and Marine Insurance Company, Limited) and Consolidated Subsidiaries

Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
Common Stock:			
Balance at the beginning of the year	¥ 42,664	¥ 42,664	$ 344,349
Shares issued upon conversion of convertible bonds	—	—	—
Allocation of new shares to a third party	—	—	—
Balance at the end of the year	42,664	42,664	344,349
Additional paid-in capital:			
Balance at the beginning of the year	31,149	31,149	251,407
Shares issued upon conversion of convertible bonds	—	—	—
Allocation of new shares to a third party	—	—	—
Balance at the end of the year	31,149	31,149	251,407
Retained earnings:			
Balance at the beginning of the year	95,170	77,792	768,125
Adjustments from overseas accounting	507	—	4,093
Initial adjustments of tax effect adoption on reserves	—	(45,735)	—
Cumulative adjustments to deferred income taxes	—	62,284	—
Net income (loss) for the year	(6,364)	3,568	(51,367)
Cash dividends paid	(2,706)	(2,709)	(21,841)
Cash payments for merger	(2,706)	—	(21,840)
Directors' bonuses	(30)	(30)	(242)
Balance at the end of the year	83,871	95,170	676,925
Treasury stock:			
Balance at the beginning of the year	(340)	(319)	(2,745)
Increase (decrease) during the year	(6)	(20)	(50)
Balance at the end of the year	(346)	(340)	(2,795)
Total shareholders' equity	¥223,419	¥168,644	$1,803,227

See accompanying notes to financial statements.

Consolidated Statements of Cash Flows

Aioi Insurance Company, Limited (Formerly The Chiyoda Fire and Marine Insurance Company, Limited) and Consolidated Subsidiaries

Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
Cash flows from operating activities:			
Net income (loss) before income taxes	¥ (776)	¥ 5,722	$ (6,267)
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation	8,946	7,904	72,208
Increase (decrease) in outstanding claims	18,359	(2,700)	148,180
Increase (decrease) in underwriting reserves	(53,921)	(23,546)	(435,200)
Increase (decrease) in other provisions	(8,114)	(9,086)	(65,496)
Interest and dividend income, accrued	(28,245)	(28,002)	(227,970)
Net gain (loss) from investment securities	(60,852)	(31,201)	(491,140)
Interest payable, accrued	267	253	2,156
Net exchange gain (loss)	(604)	2,561	(4,878)
Net profit (loss) from sales of property and equipment	419	4,095	3,387
Increase (decrease) in other assets, net	(911)	5,421	(7,356)
Others, net	31,138	(3,361)	251,320
Subtotal	(94,294)	(71,940)	(761,057)
Interest and dividend income, actually received	27,864	27,203	224,895
Interest payable, actually paid	(276)	(241)	(2,234)
Income taxes, actually paid	(2,756)	(13,765)	(22,247)
Net cash flows from operating activities	(69,463)	(58,744)	(560,643)
Cash flows from investing activities:			
Net increase (decrease) in deposits	3,716	1,089	29,996
Purchases of monetary claims bought	(6,835)	(6,098)	(55,168)
Proceeds from sales or maturity of monetary claims bought	5,848	5,300	47,200
Purchases of money trusts	(3,000)	(2,031)	(24,213)
Proceeds from sales or maturity of money trusts	847	2,385	6,841
Purchases of investment securities	(155,307)	(189,756)	(1,253,492)
Proceeds from sales or maturity of investment securities	221,055	195,701	1,784,143
Loans made	(58,259)	(77,471)	(470,216)
Collection of loans	112,134	124,554	905,041
Purchases of property and equipments	(16,992)	(30,148)	(137,148)
Proceeds from sales or disposal of property and equipment	7,242	13,941	58,455
Net cash flows from investing activities	110,449	37,466	891,440
Cash flows from financing activities:			
Issuance (redemption) of commercial paper, debentures	(10,000)	(10,000)	(80,710)
Dividends paid	(2,706)	(2,709)	(21,841)
Other financing activities	(33)	(26)	(273)
Net cash flows from financing activities	(12,740)	(12,735)	(102,825)
Effect of exchange rate changes on cash and cash equivalents	(999)	(3,288)	(8,067)
Net change in cash and cash equivalents	(27,245)	(37,301)	(219,903)
Cash and cash equivalents at beginning of year	88,943	126,244	717,861
Cash and cash equivalents at end of year	¥116,189	¥ 88,943	$ 937,764

See accompanying notes to financial statements.

Notes to Consolidated Financial Statements

Aioi Insurance Company, Limited (Formerly The Chiyoda Fire and Marine Insurance Company, Limited) and Consolidated Subsidiaries

Years Ended March 31, 2001 and 2000

1. Summary of significant accounting policies

(1) Basis of presenting financial statements

The accompanying consolidated financial statements of The Chiyoda Fire and Marine Insurance Company, Limited (the "Company") and its subsidiaries have been translated from those prepared for the requirements of the Securities and Exchange Law of Japan, based on the accounting policies as described below.

The Company and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with the provisions set forth in the Insurance Business Law of Japan 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 Accounting Standards. Foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile. The consolidated financial statements are not intended to present the financial positions, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the domestic financial statements in order to present them in a form more familiar to readers outside Japan. In addition, the notes include information which are not required under generally accepted accounting principles in Japan but are presented herein as supplementary information.

Amounts of less than one million yen and one thousand dollars have been rounded off in the financial statements. Consequently, the total in yen and dollars shown herein do not necessarily agree with the sum of the individual amounts.

(2) Consolidation

The accompanying consolidated financial statements for the years ended March 31, 2000 and 2001 include the accounts of the Company and all significant companies controlled directly or indirectly by the Company. During the fiscal year ended March 31, 2001, the following 5 companies out of subsidiaries are included in consolidation.

Chiyodakasai EBISU Life Insurance Co., Ltd.
Chiyoda Underwriting Management Ltd.
Toyota Insurance Management Ltd.
The Chiyoda Fire & Marine Insurance Company (Europe) Ltd.
Hastings Insurance Service Ltd.

In addition to above, the Company includes Watershed Claims Services Ltd., COGERIFT S.A., affiliates of The Chiyoda Fire & Marine Insurance Company (Europe) Ltd. in consolidation by the equity method. All significant inter-company balances and transactions have been eliminated in consolidation.

(3) 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, debts purchased and money management funds (MMF). Money trusts and time deposits with original maturities exceeding three months have been excluded from cash equivalents.

(4) Valuation of Securities

Effective April 1, 2000, the Company and the consolidated subsidiaries adopted a new accounting standard for financial instruments including securities.

The standard requires all applicable securities to be classified and accounted for, depending on management's intents, as follows:

1) Held-to-maturity bonds, which are expected to be held to maturity with positive intent and ability, are reported at amortized cost.
2) Available-for-sale securities, which are stated at fair value, with unrealized gains and losses, net of applicable taxes, in a separate component of shareholders' equity as revaluation reserve on available-for-sale securities in the balance sheet.
3) Unlisted securities and stocks of subsidiaries are valued at the moving-average cost.
4) Listed securities in money trusts are stated at fair value.

(5) Property and equipment

Domestic property and equipment are stated at cost less accumulated depreciation. Depreciation for buildings acquired before April 1, 1998, furniture and fixtures is computed by the declining balance method. Depreciation for buildings acquired after April 1, 1998 and other depreciable assets of the Company is computed by the straight-line method.

Acquisition costs of property and equipment between ¥100 thousand and ¥200 thousand are depreciated at once.

(6) Foreign currency translation

Effective April 1, 2000, the Company and the consolidated domestic subsidiary adopted a revised accounting standard for foreign currency transaction. In accordance with the revised standard, all monetary receivables and payables 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 consolidated statements of operations.

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as at the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Effective April 1, 2000, differences arising from translations were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity in accordance with the revised accounting standard for foreign currency transactions.

(7) Reserve for bad debts

In accordance with the standards for self-assessment of assets, the Company maintains a reserve for bad debts, which consists of a specific provision and a general reserve. The reserve for bad debts is estimated against all receivables at amounts sufficient to cover possible losses on collection for doubtful receivables, and at amounts calculated by historical bad debt loss percentage for other receivables.

(8) Employees' Retirement Benefit and Pension Plan

Effective April 1, 2000, the Company and consolidated domestic subsidiary adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

The full amount of the transitional obligation of ¥25,319 million ($204,356 thousand) at the beginning of the year is charged to other extraordinary loss in the statements of operations. In September 2000, the Company contributed certain securities with a fair value to employee retirement benefit trust and recognized a non-cash gain ¥20,402 million ($164,672 thousand) as other extraordinary gain in the statements of operations.

Changes in the projected benefit obligation arising from modified actuarial assumptions are amortized by straight-line method over the average remaining service life of the employees and recognized as a expenses from the years after the changes.

(9) Reserve for price fluctuation

Pursuant to Article 115 of the Insurance Business Law, Japanese Insurance companies must set aside a reserve for future potential losses derived from depreciation or amortization of assets such as stocks or bonds, etc.

(10) Derivatives activities

Effective April 1, 2000 , the Company adopted a new accounting standard for derivative financial instruments and accounted all derivatives at fair value and recognized gains and losses on derivative transactions in the statements of operations.

(11) Net income per share

The computation of net income per share is based on the weighted average number of shares outstanding during each period.

2. U.S. dollar amount

The Company maintains its consolidated accounting records in Japanese yen. All dollar amounts in this report (including the pages other than Financial Section) represent the arithmetical result of translating Japanese yen to U.S. dollars on the basis of ¥123.90=US$1.00, the approximate prevailing rate as of March 31, 2001. The inclusion of such U.S. dollar amounts is solely for convenience of the reader and is not intended to imply that Japanese yen amounts have been or could be converted, realized or settled in U.S. dollars at that or any other rate.

3. Investments and Investment income

A summary of investments is as follows:

(1) Securities:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Domestic bonds	¥270,946	$2,186,815
Domestic stocks	324,328	2,617,661
Foreign securities	166,001	1,339,805
Other securities	9,998	80,697
Total	¥771,275	$6,224,980

(2) Loans:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Policy loans	¥ 5,587	$ 45,095
Others	167,490	1,351,821
Total	¥173,077	$1,396,916

Information regarding each category of the securities classified as trading, available-for-sale and held-to-maturity at March 31, 2001 was as follows:

	Millions of Yen			
	Aggregate Cost	Unrealized Gains	Unrealized Losses	Aggregate Market
Securities classified as:				
Trading				¥ —
Available-for-sale:				
Domestic bonds	¥251,269	¥16,898	¥ 3,065	¥265,102
Domestic stocks	228,756	89,954	3,251	315,459
Foreign securities	154,578	11,203	4,095	161,687
Other securities	7,485	288	259	7,514
Total	¥642,090	¥118,344	¥10,671	¥749,763
Held-to-maturity	¥ —	¥ —	¥ —	¥ —
Total	¥642,090	¥118,344	¥10,671	¥749,763

	Thousands of U.S. Dollars			
	Aggregate Cost	Unrealized Gains	Unrealized Losses	Aggregate Market
Securities classified as:				
Trading				$ —
Available-for-sale:				
Domestic bonds	$2,028,002	$136,384	$24,741	$2,139,645
Domestic stocks	1,846,299	726,021	26,240	2,546,080
Foreign securities	1,247,610	90,423	33,053	1,304,980
Other securities	60,412	2,331	2,094	60,649
Total	$5,182,324	$955,161	$86,129	$6,051,356
Held-to-maturity	$ —	$ —	$ —	$ —
Total	$5,182,324	$955,161	$86,129	$6,051,356

The figure of "Investment income" is broken down into two, i.e., one for investment income on deposited premiums (accruing from maturity refund type insurance, compulsory automobile liability insurance and earthquake insurance), and the other investment income (Interest and dividends received), the first figure to come under "Underwriting income" and the total "Investment income". In addition, total investment income includes interest accrued from not only invested assets but also non-invested assets (i.e. funds held by or deposited with ceding reinsurers, etc.).

Total investment income for the years ended March 31, 2001 is summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Interest on cash in banks	¥ 1,481	$ 11,960
Interest on money trusts	29	239
Interest on call loans	34	278
Interest on monetary claims bought	23	187
Interest and dividends on securities	19,144	154,519
Interest on loans	5,392	43,521
Income from real estate	885	7,145
Total income accrued from invested assets	26,991	217,850
Interest on other assets	480	3,881
Total investment income	¥27,472	$221,732

Loans as of March 31, 2001 included "Loans to bankrupt companies" or "Loans with interest in arrears (Non-performing loan)" on which accrued interest income had not been recognized, "Loans with interest to payments more than three months in arrears" and "Restructured loans".

A summary of those loans as of March 31, 2001 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Loans to bankrupt companies	¥2,875	$23,207
Loans with interest in arrears (Non-performing loan)	2,162	17,454
Loans with interest to payments more than three months in arrears	225	1,823
Restructured loans	258	2,082
	¥5,521	$44,567

4. Reserve for reported and estimated losses and claims

Outstanding claims for reported losses are required to be set aside by lines of insurance pursuant to the Insurance Business Law. In addition to the above, with respect to insurance policies such as all class of business excluding compulsory automobile liability insurance and earthquake insurance, outstanding claims for the losses incurred but not reported are provided.

5. Employees' Retirement Benefit and Pension plan

The Company and the domestic consolidated subsidiary have severance payment plans for employees. Effective April 1, 2000, the Company and the domestic consolidated subsidiary adopted a new accounting standard for employees' retirement benefits.

The liability for employees' retirement benefits at March 31, 2001 consists of the followings:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Projected benefit obligation	¥(95,323)	$(769,356)
Fair value of plan assets	78,524	633,770
Unrecognized actuarial loss	5,944	47,977
Net liability	¥(10,854)	$ (87,609)

The components of net periodic benefit costs for the year ended March 31, 2001 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2001	2001
Service cost	¥ 4,783	$ 38,604
Interest cost	2,837	22,900
Expected return on plan assets	(1,517)	(12,250)
Amortization of transitional obligation	25,319	204,357
Recognized actual loss	—	—
	¥31,422	$253,611

Assumptions used for the year ended March 31, 2001 are set forth as follows:

Discount rate	3.0%
Expected rate of return on plan assets	3.0%
Recognition period of actuarial gain/loss	15 years
Amortization period of transitional obligation	1 year

6. Long-term debt

On August 4, 1994, the Company issued 0.8 per cent. convertible bonds due 2003 in the principal amount of ¥15,000 million (US$121,065 thousand) and 0.7 per cent. convertible bonds due 2001 in the principal amount of ¥10,000 million (US$80,710 thousand).

Long-term debt as of March 31, 2000 and 2001 is included in "Other liabilities" on the consolidated balance sheet and consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Bonds:			
0.8% Convertible bonds due 2000	¥15,000	¥15,000	$121,065
0.7% Convertible bonds due 2001	—	10,000	—
Loans:			
2.85% to 7.20% loans from The Pension Welfare Service Public Corporation	236	264	1,904
Total	¥15,236	¥25,264	$122,970

Following is a summary of certain items of the convertible bonds:

	Aggregate Principal Amount Issued	Redeemable On or after	Redeemable Price range	Current Conversion price per share	Convertible Until
	(Millions of yen)		(%)		
0.8% convertible bonds due 2003	¥15,000	Sept. 1, 1994	103-100	¥685.7	Mar. 28, 2003

7. Income taxes and deferred tax

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, 2001 and 2000. The asset and liability method is applied to provide income taxes on all transactions recorded in the consolidated financial statements. The tax effects derived of significant temporary differences which result in deferred tax assets and liabilities at March 31, 2001 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred tax assets:			
Unearned premiums	¥42,790	¥45,152	$345,365
Liability for employees' allowances	5,997	—	48,406
Reserve for employees' allowances	—	3,557	—
Reserve for bad debts	2,582	5,269	20,839
Reserve for reported and estimated losses and claims	3,052	4,584	24,633
Reserve for price fluctuation	2,065	1,824	16,670
Others	8,880	7,514	71,676
Total	65,368	67,903	527,591
Valuation allowance	(749)	(265)	(6,050)
Deferred tax assets	64,619	67,637	521,541
Deferred tax liabilities:			
Revaluation reserve on available-for-sale securities	(38,967)	—	(314,512)
Others	(906)	(356)	(7,318)
Deferred tax liabilities	(39,874)	(356)	(321,830)
Net deferred tax assets	¥24,744	¥67,280	$199,711

Deferred tax assets and liabilities appearing on the consolidated balance sheets are net amounts among each consolidated entity while the figure above are gross amounts.

8. Extraordinary income and extraordinary loss

Other extraordinary loss (¥34,706 million for the year ended March 31, 2001) mainly represents ¥25,319 million as an amortization of transitional obligation for adopting a new accounting standard for employees' retirement benefits and ¥4,898 million as special additional severance allowances paid under the application of advanced retirement plan. Other extraordinary income (¥33,099 million for the year ended March 31, 2000) mainly represents gain on sales of investments in securities, and recognized a non-cash gain with a fair value of plan assets to employee retirement benefit trust, which are accounted in connection with the above extraordinary loss.

9. Subsequent event

Merger

In accordance with the merger agreement approved at the meeting of shareholders of the Company on December 20, 2000, the Company was merged with The Dai-Tokyo Fire and Marine Insurance Co., Ltd. on April 1, 2001 and then changed its name to Aioi Insurance Company, Limited.

Century Ota Showa & Co.

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Report of The Independent Certified Public Accountants

Mr. Akira Seshimo
President and Executive Director
Aioi Insurance Company, Limited (Formerly The Chiyoda Fire and Marine Insurance Company, Limited)

We have audited the consolidated balance sheets of Aioi Insurance Company, Limited (Formerly The Chiyoda Fire and Marine Insurance Company, Limited) and consolidated subsidiaries as of March 31, 2001 and 2000 and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended March 31, 2001, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Aioi Insurance Company, Limited (Formerly The Chiyoda Fire and Marine Insurance Company, Limited) and its consolidated subsidiaries at March 31,2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended March 31,2001 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 9, The Chiyoda Fire and Marine Insurance Company, Limited was merged with The Dai-Tokyo Fire and Marine Insurance Company, Limited on April 1,2001.

As described in Note 1 to the financial statements, Aioi Insurance Company, Limited (Formerly The Chiyoda Fire and Marine Insurance Company, Limited) and consolidated subsidiaries have adopted new accounting standards for financial instruments, employees' retirement benefits and revised accounting standards for foreign currency transactions in the preparation of its financial statements for the year ended March 31,2001.

The U.S dollar amounts in accompanying consolidated financial statements with respect to the year ended March 31,2001 are presented solely for convenience. Our audit also included the transaction of yen amounts into U.S dollars amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Tokyo, Japan
June 28, 2001

Century Ota Showa & Co.

Century Ota Showa & Co.

See note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Aioi Insurance Company, Limited (Formerly The Chiyoda Fire and Marine Insurance Company, Limited) under Japanese accounting principles and practice.