

Aioi Nissay Dowa Insurance Co., Ltd
New Zealand Branch

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2011

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BRANCH DIRECTORY

AS AT 31 MARCH 2011

Nature of Business Aioi Nissay Dowa Insurance Co., Limited – New Zealand Branch
Fire and General Insurers

Registered Office L1, Building C, 602 Great South Road
Greenlane, Auckland, New Zealand

Directors of Aioi Nissay Dowa Insurance Co. Limited

Full legal name: Hideto OZAKI

Residential Address: 1-8-1 Nijigaoka, Meito-ku, Nagoya-shi, Aichi, Japan

Appointment Date: 21 May 2009

Full legal name: Tadashi KODAMA

Residential Address: 4-2 Koyodai, Inagi-shi, Tokyo, Japan

Appointment Date: 21 May 2009

Full legal name: Hisahito SUZUKI

Residential Address: 29 Oimatsu-cho, Nishi-ku, Yokohama-shi, Kanagawa, Japan

Appointment Date: 21 May 2009

Full legal name: Hiroaki NAGASUE

Residential Address: 13-12-510 Ohara-cho, Itabashi-ku, Tokyo, Japan

Appointment Date: 21 May 2009

Full legal name: Masayoshi NAKAMURA

Residential Address: 3-14-39-106 Ichikawaminami, Ichikawa, Chiba, Japan,

Appointment Date: 21 May 2009

Full legal name: Takayoshi UMEMURA

Residential Address: 3-5-2-502 Funabashi Setagaya-ku, Tokyo, , Japan

Appointment Date: 21 May 2009

Full legal name: Ryusuke OONO

Residential Address: 5-2-5 Minami-cho, Nishitokyo-shi, Tokyo, Japan

Appointment Date: 21 May 2009

Full legal name: Takao SHIDA

Residential Address: 3-31-9-506 Kitazakae Urayasu, Chiba , Japan

Appointment Date: 25 Jun 2009

Full legal name: Katsuaki WATANABE

Residential Address: 2-53-6 Tanakacho, Toyota, Aichi , Japan

Appointment Date: 25 Jun 2009

Full legal name: Sadao KATO

Residential Address: 2-10-76 Mita, Meguro-ku, Tokyo, 153-0062 , Japan

Appointment Date: 01 Oct 2010

Full legal name: Shigeo KOTANI

Residential Address: 2-9-68-407 Nigawakita, Takarazuka-shi, Hyogo, 665-0061,
Japan

Appointment Date: 01 Oct 2010

Full legal name: Takashi MATSUKUBO

Residential Address: 5-3-1 P606 Minatomirai, Nishi-ku, Yokohama-shi,
Kanagawa, 220-0012 , Japan

Appointment Date: 01 Oct 2010

Full legal name: Hiroshi SAKAMOTO

Residential Address: 2-42-12 Maihama, Urayasu-shi, Chiba, 279-0031 , Japan

Appointment Date: 01 Oct 2010

Full legal name: Shuichiro SHUDO

Residential Address: 617 Shinagawa Prince Residence, 4-10-31 Takanawa,
Minato-ku, Tokyo , Japan

Appointment Date: 01 Oct 2010

Full legal name: Toshihiko TANAKA

Residential Address: 13-10-2806 Nakamaruko, Kawasaki-shi, Kanagawa, 2110012
, Japan

Appointment Date: 01 Oct 2010

Full legal name: Ichiro TATEYAMA

Residential Address: 1-42-3 Denenchofu, Ota-ku, Tokyo, 145-0071 , Japan

Appointment Date: 01 Oct 2010

Full legal name: Masahiro YAMADA

Residential Address: 7-5-42 Seijyo, Setagaya-ku, Tokyo , Japan

Appointment Date: 01 Oct 2010

Full legal name: Masanori YONEDA

Residential Address: 1-37-13 Asagayakita, Suginami-ku, Tokyo , Japan

Appointment Date: 01 Oct 2010

Auditor	Ernst & Young Auckland, New Zealand
Bankers	ANZ part of ANZ National Bank Ltd Westpac
Business Location	New Zealand

DIRECTOR'S REPORT

FOR THE YEAR ENDED 31 MARCH 2011

The Board of Directors have pleasure in presenting the annual report of Aioi Nissay Dowa Insurance Company Limited – New Zealand Branch, incorporating the financial statements and the auditor's report, for the year ended 31 March 2011.

With the unanimous agreement of all shareholders, the Company has taken advantage of the reporting concessions available to it under section 211(3) of the Companies Act 1993 and unanimously agree that these financial statements need not comply with any of paragraphs (a) and (e) to (j) of section 211 (1) of the Act.

The Board of Directors authorized these financial statements presented on pages 6 to 23 for issue on 30/8/2011.

For and on behalf of the Board

永末 祐明
Director *Hironaka Nagasue*

田中 敏彦
Director *Tashibiko Tanaka*

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2011

	Notes	2011 \$	2010 \$
Gross written premiums		7,051,950	7,301,784
Movements in unearned premiums	5	(161,948)	745,384
Gross earned premium		6,890,002	8,047,168
Reinsurance expense		(376,988)	(283,633)
Net premium revenue		6,513,014	7,763,535
Claims expense	6	(3,847,485)	(3,816,459)
Reinsurance recoveries		179,632	-
Net claims expense		(3,667,853)	(3,816,459)
Acquisition costs	7	(1,662,647)	(1,102,452)
Underwriting result		1,182,514	2,844,624
Operating expenses	8	(1,323,874)	(1,048,198)
Investment income		36,549	24,387
(Loss)/Profit before tax		(104,811)	1,820,813
Taxation expense	9	359,181	(195,171)
Profit and Total comprehensive income for the year		254,370	1,625,642
Total comprehensive income attributable to parent		254,370	1,625,642

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2011

	Head Office Account	Accumulated Deficit	Total
Balance at 1 April 2009	14,454	(4,014,071)	(3,999,617)
Head Office Account	554,413	-	554,413
Profit for this period	-	1,625,642	1,625,642
Other Comprehensive Income	-	-	-
Balance at 31 March 2010	568,867	(2,388,429)	(1,819,562)
Balance at 1 April 2010	568,867	(2,388,429)	(1,819,562)
Head Office Account	-	-	-
Profit for this period	-	254,370	254,370
Other Comprehensive Income	-	-	-
Balance at 31 March 2011	568,867	(2,134,059)	(1,565,192)

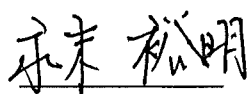
The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

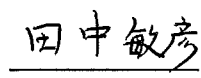
STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2011

	Notes	2011 \$	2010 \$
Assets			
Cash	10	1,344,102	1,400,315
Investments	11	523,595	534,808
Accrued interest		14,874	14,875
Premium receivables	12	1,661,536	1,529,533
Deferred acquisition costs	13	1,097,512	1,060,017
Taxation Receivable	14	164,010	-
Other assets		27,568	17,263
Total assets		4,833,197	4,556,811
Liabilities			
Accounts payable	15	190,526	157,064
Tax liability	16	-	359,181
Reinsurance payable	17	207,021	233,083
Outstanding claims liability	18	1,495,478	1,285,914
Unearned premium reserve	20	4,483,596	4,321,648
Other current liabilities		21,768	19,483
Total liabilities		6,398,389	6,376,373
Net liabilities		(1,565,192)	(1,819,562)
Equity			
Head Office Account		568,867	568,867
Deficit		(2,134,059)	(2,388,429)
Total Equity		(1,565,192)	(1,819,562)

The above Statement of Financial Position should be read in conjunction with the accompanying notes.


Director


Director

NOTES TO THE FINANCIAL STATEMENTSFOR THE YEAR ENDED 31 MARCH 2011

1. Corporate Information

The financial statements are for Aioi Nissay Dowa Insurance Company Limited - New Zealand Branch. The "Branch" is a Branch of Aioi Nissay Dowa Insurance Company Limited "the Company", a company incorporated in Japan and an overseas company registered under the Companies Act 1993. The Branch provides insurance both directly to other entities and through reinsurance arrangements. As a registered Branch, policyholders have direct recourse to Aioi Nissay Dowa Insurance Company Limited.

These Branch financial statements should be read in conjunction with the full financial statements of the overseas company.

The Branch has been registered in New Zealand as a Branch of the Company since May 2009.

In 2010, the Branch changed its legal name from Aioi Insurance Company Limited to Aioi Nissay Dowa Insurance Company Limited.

The financial statements of the Branch are for the year ended 31 March 2011. The financial statements were authorised for Issue by the Directors on 20 of August 2011.

2. Summary of Significant Policies**a) Basis of preparation**

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit-oriented entities that qualify for and apply differential reporting concessions.

The financial statements are presented in New Zealand dollars (\$). This is the Branch's functional and presentation currency.

The Branch qualifies for differential reporting as it is not publicly accountable and there is no separation between the owners and the governing body. The Branch has taken advantage of all available differential reporting exemptions, except for:

- the exemption available in NZIAS18 Revenue that permits qualifying entities to recognise revenue and expenses on a GST inclusive basis; and
- the exemption available in NZIAS21 The effects of changes in foreign exchange rates that permits qualifying entities to translate foreign currency transactions at the settlement date

NOTES TO THE FINANCIAL STATEMENTSFOR THE YEAR ENDED 31 MARCH 2011

b) Basis of measurement

The financial statements have been prepared on the historical cost basis, as modified by certain exceptions noted in the financial statements, with the principal exception being the measurement of investments at fair value and the measurement of the outstanding claims liability and related reinsurance recoveries as set out below.

c) Changes in accounting policies

The accounting policies have been consistently applied to all periods presented in these financial statements.

d) Insurance contracts

An Insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain insured event adversely affects the policyholder. The Insurance activities of the Branch all arise from general insurance contracts.

e) Revenue

Premium revenue comprises amounts charged to the policyholders excluding taxes and levies collected on behalf of third parties. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium on unclosed business is brought to account using estimates based on the proportion of proposed business that is expected to be closed.

f) Unearned premium

Unearned premium are those proportions of premiums written in a year that relate to periods of risk after the balance sheet date. Unearned premiums are calculated based on the pattern of risks underwritten. The proportion attributable to subsequent periods is deferred as a provision for unearned premium.

g) Outward reinsurance expense

Premium ceded to reinsurers is recognised as an expense from the date of attachment of risk over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk.

Reinsurance premium expense on catastrophe and single risk reinsurance is determined on a straight line basis over the financial year based upon a predetermined level of cover, which is periodically adjusted to reflect the actual level of cover.

NOTES TO THE FINANCIAL STATEMENTSFOR THE YEAR ENDED 31 MARCH 2011

h) Reinsurance commission income

Reinsurance commission income is earned on business ceded to reinsurers. Commission income is recognised as the service is performed.

i) Claims expense

Claims expense represents payments made on claims and the movement in the outstanding claims liability.

j) Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

k) Outstanding claims liability

The central estimate of outstanding claims liabilities is the best estimate of the present value of future projected claims payments and associated claim handling costs in respect of claims reported but not yet paid, claims incurred but not reported ("IBNR") and claims incurred but not enough reported ("IBNER").

Standard actuarial methods are applied to all classes of business to assess the central estimate of outstanding claims liabilities. Features and trends of claims experience including claim frequencies, average claim sizes and individual claim estimates are analysed and assumptions about the future are selected.

A risk margin is added to the central estimate in determining the outstanding claims liabilities. The risk margin is designed to increase the probability of the outstanding claims liabilities proving ultimately to be adequate.

NOTES TO THE FINANCIAL STATEMENTSFOR THE YEAR ENDED 31 MARCH 2011

l) Liability adequacy testing

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

A liability adequacy test is performed at each Statement of Financial Position date to assess whether there are any deficiencies in the unearned premium reserve due to expected future claims and claims costs. The amount of these expected future claims is estimated using the present value of future claims and expenses plus an additional risk margin to reflect the inherent uncertainty in those estimated cash flows. This is compared to the unearned premium reserve and deferred acquisition costs. Any deficiency is recognised in the Statement of Comprehensive Income after first writing down any deferred acquisition costs. Any shortfall after having written down acquisition costs is then recognised in the Statement of Comprehensive Income with the corresponding amount recognised in the Statement of Financial Position as an unexpired risk liability, included in the movement in unearned premium.

The liability adequacy test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio. The Liability Adequacy Test ("LAT") has resulted in a write off of deferred acquisition costs of \$108,615 (2010: Write back \$85,499) and additional unexpired risk liability of \$45,540 (2010: Reversal of excess unearned premium reserve \$1,466,446).

m) Reinsurance recoveries

Reinsurance recoveries are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, reinsurance recoveries are measured at cost less impairment. A reinsurance asset is impaired if there is objective evidence as a result of an event that occurred after initial recognition of the asset that the amounts due may not be received and the amount can be reliably measured. Any impairment is recognised in the Statement of Comprehensive Income.

n) Deferred Acquisition costs

Acquisition costs incurred in obtaining and recording insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Deferred acquisition costs are amortised in accordance with expected pattern of incidence of risk under the insurance contract to which they relate.

NOTES TO THE FINANCIAL STATEMENTSFOR THE YEAR ENDED 31 MARCH 2011

o) Tax

Income tax is accounted using the taxes payable method. The income tax expense recorded in the Statement of Comprehensive Income for the period represents the income tax payable for the period.

The current income tax asset or liability recognised on the Statement of Financial Position represents the current income tax balance due from or obligation to the Inland Revenue Department at balance date.

p) Goods and services tax (GST)

The Statement of Comprehensive Income has been prepared so that all components are stated exclusive of GST. All Items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST Invoiced.

q) Cash

Cash comprises cash balances on call at bank and cash deposits with an original maturity of ninety days or less.

r) Financial Assets

Financial assets have been classified as follows;

Asset	NZ IAS 39 Classification	Measurement basis
Investments	Designated Fair Value through Profit or Loss	Measured at fair value with changes recognised through the Statement of Comprehensive Income
Premium receivable	Loans and receivable	Amortised cost less impairment
Due from related parties	Loans and receivable	Amortised cost less impairment
Cash and cash equivalents	Loans and receivable	Amortised cost less impairment

Financial instruments are recognised when the Branch becomes a party to the contractual provisions of the Instrument. Financial assets are derecognised if the Branch's contractual rights to the cash flows from the financial assets expire or if the Branch transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset.

Both investments and deposits have been designated at fair value through profit and loss as they are held to match the average duration of a corresponding insurance liability as assets backing general insurance liabilities. Fair value of government stock is established by reference to quoted bid prices. Interest income is recognised in the Statement of Comprehensive Income using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTSFOR THE YEAR ENDED 31 MARCH 2011

s) Premium receivables

Premium receivables are amounts due from policyholders and intermediaries that are initially recognised at fair value being the amount due. They are subsequently measured at amortised cost which is approximated by taking the initially recognised amount and reducing it for impairment as appropriate.

A provision for impairment of receivable is established when there is objective evidence that the Branch will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets carrying amount and the present value of the estimated future cash flows.

t) Impairment

The carrying amounts of the Branch's assets are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the Statement of Comprehensive Income. The estimated recoverable amount of receivables is the present value of estimated future cash flows discounted at the original effective interest rate.

u) Financial Liabilities

Financial Liabilities comprise trade and other payables. Financial liabilities are measured at amortised cost.

Estimated recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

v) Head Office Account

The Branch equity in the form of a Head Office Account represents funds advanced to the Branch by Aioi Nissay Dowa Insurance Company Limited. As a Branch there are no externally imposed capital restrictions to which the Branch must adhere. Should additional capital requirements be imposed by the Reserve Bank of New Zealand in terms of the Insurance (Prudential Supervision) Act 2010, Aioi Nissay Dowa Insurance Company Limited will meet these capitalization requirements through additional funding to the Branch.

w) Assets Backing General Insurance Liabilities

As part of its investment strategy the Branch actively manages its investment portfolio to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

NOTES TO THE FINANCIAL STATEMENTSFOR THE YEAR ENDED 31 MARCH 2011

x) Accounts Payable

These amounts represent liabilities for goods and services provided to the Branch prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

y) Going Concern

The financial statements have been prepared on a going concern basis, the validity of which depends on the ability of the shareholder to recapitalise the NZ Branch. The NZ Branch has obtained the commitment of the shareholder that it will be recapitalised should additional capital requirements be imposed by the Reserve Bank of New Zealand in terms of the Insurance (Prudential Supervision) Act 2010.

The financial statements do not include any adjustments that would result from a failure to recapitalise the NZ Branch.

3. Actuarial Assumptions and Methods

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Payments Per Claim Incurred (PPCI) methods.

A key assumption underlying these techniques is that a Branch's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is analysed by class of business and split by accident and development month. Large claims are usually identified individually and a separate allowance made where necessary. Explicit allowance is made for future claims inflation with growth above inflation (i.e. superimposed inflation) based on the rates observed historically and implicit in the valuation assumptions.

A considerable component of the actuarial valuation is the application of qualitative judgment, which is used to assess the extent to which past trends may not apply in future (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures). The aim being to arrive at an estimated ultimate cost of claims that represents the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The actuarial reports for the current period were prepared by Daniel Smith, actuary and director of Taylor Fry Consulting Actuaries. Daniel Smith is a Fellow of the Institute of Actuaries of Australia (IAAust) and a Fellow of the New Zealand Society of Actuaries (NZSA). The Actuary has stated that Insurance Liabilities have been calculated in accordance with NZSA Professional Standard 4 – General Insurance Business and the IAAust Professional Standard 300 – Valuations of General Insurance Claims. After making appropriate checks, the Actuary was satisfied as to the reasonableness and consistency of the data from which the amount of the insurance liabilities has been determined.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

The following assumptions have been made in determining the net outstanding claims liabilities:

	2011	2010
Discount rate (average weighted by term)	3.50%	4.50%
Weighted average term to settlement (years)	0.19	0.28
Discounted mean term (years)	0.19	0.27
	35% to 200% (varies by class and loss period)	15% to 300% (varies by class and loss period)
Assumed net loss ratio		
Risk margin (overall diversified)	30.00%	19.15%
Claim handling expense ratio	6.00%	6.00%

Processes used to determine assumptions

The valuations included in the reported results are calculated using assumptions including:

Discount Rate

Outstanding claims liabilities for long tail claims were discounted to present value using a risk free rate based on gross yields to maturity of NZ Government Securities of appropriate terms at 31 March 2011.

Future settlement patterns and weighted average term to settlement

The weighted average term to settlement is an aggregate figure for all classes of business based on expected claims development patterns which are in turn derived from an analysis of historical claims patterns.

Inflation

Insurance costs are subject to inflationary pressures over time. Claim costs are generally related to the inflationary pressures of the materials and goods insured as well as labour costs to effect repairs. The liability classes in New Zealand do not cover weekly and permanent impairment benefits (that are typically indexed). Payments are related to losses suffered by claimants, although legal costs are subject to increases in the wages and disbursements of professionals in that field.

The actuarial valuation applies an explicit inflation assumption of 1.5% per annum, which is the same rate as adopted for the previous valuation. This is lower than projected wage inflation as a result of the partial linkage to wage growth in the benefit payments. Note that a doubling of the selected inflation rate would increase the liabilities by less than \$4,000.

NOTES TO THE FINANCIAL STATEMENTSFOR THE YEAR ENDED 31 MARCH 2011

Assumed loss ratios

Assumed loss ratios were determined from a consideration of observed loss ratios for historical loss months and previously adopted loss ratio assumptions.

Risk margin

The New Zealand business has been considered as a standalone portfolio for the purposes of determining the risk margin for this review. As such, the margin is considerably higher than that derived when the business is considered in combination with the Australian Branch. The adopted risk margin has been based on an industry report which sets out estimates of risk margins by class of business and portfolio size. Given the small size of the New Zealand portfolio, a diversification benefit has not been allowed for.

Expense allowance

An estimate of outstanding claims liabilities will typically incorporate an allowance for the future cost of administering the claims. This allowance was based on a high level company analysis of claim related expenses.

4. Insurance Contracts – Risk Management Policies and Procedures

The principal risk the Branch faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Branch is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Branch has a negative equity because it was not able to trade profitably during its growth years. The Company considers this to be an investment in the establishment of the NZ operation and now expects to return at least break-event results in future years.

The Branch purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure of the Group to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Branch's net exposure to catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Branch has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

5. Movement in Unearned Premiums

	2011	2010
	\$	\$
Movement in unearned premium reserves	(116,408)	(721,062)
Adjustment for unexpired risk	(45,540)	1,466,446
	<u>(161,948)</u>	<u>745,384</u>

6. Claims Expense

	2011	2010
	\$	\$
Settlements	4,943,207	4,973,511
Third Party Recoveries	(1,586,462)	(1,587,961)
Cost of settling claims	281,177	295,328
Movement in outstanding claims reserve	209,563	135,581
	<u>3,847,485</u>	<u>3,816,459</u>

7. Acquisition Costs

	2011	2010
	\$	\$
Gross acquisition costs	1,700,143	1,847,532
Expenses deferred current year	(1,125,888)	(1,231,606)
Amortisation of previously deferred expenses	979,777	572,025
Liability adequacy adjustment	108,615	(85,499)
	<u>1,662,647</u>	<u>1,102,452</u>

8. Operating Expense

	2011	2010
	\$	\$
Management fees	1,260,000	960,000
Head office charges	30,000	59,791
Other expenses	33,874	28,407
	<u>1,323,874</u>	<u>1,048,198</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

9. Taxation Expense

	2011	2010
	\$	\$
(i) Income Tax Expense		
Current income tax	-	-
Adjustment in respect of previous year	(359,181)	-
Overseas tax expense	-	195,171
Income Tax Expense	(359,181)	195,171
(ii) Numerical reconciliation between aggregate tax expense/(benefit) recognised in the statement of comprehensive income and tax expense calculated at statutory income tax rate:		
Accounting profit before tax	(104,811)	1,820,813
Tax at 30%	(31,443)	546,244
Other income in respect to tax	1,962	-
Expenses deductible for tax purposes	(11,249)	(221,623)
Adjustment in respect of previous year	(359,181)	-
Loss/(Write-back of prior year loss) previously not recognised	40,730	(324,621)
Overseas tax expense	-	195,171
Income Tax Expense	(359,181)	195,171

(iii) Explanatory information

In the previous financial year, the Branch applied for a binding ruling in regards to whether they had a fixed establishment in New Zealand and was therefore not subject to the non-resident insurer regime. The Branch accrued 10% of the earned premiums as overseas tax expense to ensure that whatever the result of the binding ruling, their tax accrual was sufficient.

In the current financial year, the Branch was successful in its binding ruling, determining that a fixed establishment did exist in New Zealand in regard to the Branch. As a result, the normal company tax regime was applied to the 2009, 2010 and 2011 accounts and the previously accrued overseas tax was reversed in the current year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

10. Cash

	2011 \$	2010 \$
Cash at bank	1,344,102	1,400,315
	<u>1,344,102</u>	<u>1,400,315</u>

11. Investments

	2011 \$	2010 \$
Government Bonds <i>Purchase Date 25 September 2009, Maturity Date 15 April 2013, Interest Rate 6.5%, Managed by Public Trust</i>	500,000	500,000
Premium paid on Government Bonds	39,939	39,939
Current year amortisation	<u>(16,344)</u>	<u>(5,131)</u>
	<u>523,595</u>	<u>534,808</u>

12. Premium Receivables

	2011 \$	2010 \$
Monthly instalment customers	1,520,193	1,415,081
Commercial customers	48,177	76,316
Written but not received provision	88,293	34,010
Other	4,873	4,126
	<u>1,661,536</u>	<u>1,529,533</u>

13. Deferred Acquisition Costs

	2011 \$	2010 \$
Opening Balance	1,060,017	314,937
Current year movement	1,125,888	1,231,606
Amortisation of previously deferred expenses	(979,777)	(572,025)
Liability adequacy adjustment	<u>(108,616)</u>	<u>85,499</u>
	<u>1,097,512</u>	<u>1,060,017</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

14. Tax Receivable

	2011 \$	2010 \$
Previous year tax refund on overpayment	164,010	-
	<u>164,010</u>	<u>-</u>

Tax of \$164,010 was paid to the Inland Revenue on 8 April 2010 to mitigate the imposition of use-of-money interest and late payment penalties in the event the binding ruling was unsuccessful. This amount is now due to the Branch.

15. Accounts Payable

	2011 \$	2010 \$
Claims	-	21,656
Commissions	150,136	96,668
Head Office	30,000	24,359
Other	10,390	14,381
	<u>190,526</u>	<u>157,064</u>

16. Tax Liability

	2011 \$	2010 \$
Current year tax expense	-	195,171
Previous year tax now payable	-	164,010
	<u>-</u>	<u>359,181</u>

17. Reinsurance Payable

	2011 \$	2010 \$
Current Year Expense	397,999	283,633
Less paid	(20,141)	(50,550)
Less Expected Recoveries	(170,837)	-
	<u>207,021</u>	<u>233,083</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

18. Outstanding Claims Liability

	2011	2010
	\$	\$
Gross outstanding claims liability	612,969	906,169
IBNR	451,690	120,700
Risk margin 30% (2010: 19.15%)	342,225	201,195
Claims handling expense 6% (2010: 6%)	88,594	57,850
	<u>1,495,478</u>	<u>1,285,914</u>

19. Claims Development Table

Loss Year:	2003	2004	2005	2006	2007	2008	2009	2010	2011
<u>Domestic</u>									
<u>Motor</u>									
same year	744,500	1,550,127	1,218,187	1,581,665	1,706,812	2,210,997	3,159,897	3,858,840	3,747,687
1 year	1,003,034	2,017,400	1,562,286	2,019,418	2,124,896	2,934,723	3,869,313	4,751,553	
2 years	1,007,711	2,037,324	1,586,975	2,023,924	2,133,400	2,938,898	3,877,884		
3 years	1,022,632	2,038,918	1,588,131	2,027,503	2,134,648	2,941,509			
4 years	1,022,930	2,039,364	1,588,741	2,028,106	2,134,648				
5 years	1,022,930	2,039,587	1,589,266	2,029,057					
<u>Commercial</u>									
<u>Motor</u>									
same year			794	25,812	14,890	108,149	205,407	292,429	380,874
1 year			794	28,434	32,915	196,188	266,319	329,468	
2 years			794	28,434	32,964	197,360	266,998		
3 years			794	28,434	34,515	197,360			
<u>Payment</u>									
<u>Protection</u>									
same year	39,594	74,681	46,008	58,195	50,845	80,701	116,456	91,613	69,256
1 year	84,447	118,123	89,918	132,614	82,861	177,599	203,284	147,712	
2 years	94,561	128,569	107,515	166,249	92,056	195,750	214,233		
3 years	96,215	128,569	128,154	173,420	102,313	214,587			
4 years	96,215	128,569	128,154	174,134	107,380				
5 years	96,215	128,569	128,154						
<u>Purchase</u>									
<u>Protection</u>									
same year								3,267	
<u>Industrial</u>									
<u>Special</u>									
<u>Risk</u>									
same year									3,308
<u>Legal Liability</u>									
same year									822
<u>Material Damage</u>									
same year									9,984

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

20. Unearned Premium Reserve

	2011	2010
	\$	\$
Opening balance	4,321,648	5,067,032
Movement in unearned premium reserves	116,408	721,062
Adjustment for Unexpired Risk	45,540	(1,466,446)
	<u>4,483,596</u>	<u>4,321,648</u>

21. Reconciliation of Net Premium Liabilities

	2011	2010
	\$	\$
Unearned Premium Reserve	4,483,596	4,321,648
Less Deferred Acquisition Costs	(1,097,512)	(1,060,017)
Less Surplus of UPR to PL not adjusted	(5,533)	(62,570)
Total Premium Liability per Actuarial Report	<u>3,380,551</u>	<u>3,199,061</u>

22. Capital Management

Management aims to maintain a capital structure that ensures the lowest cost of capital availability to the entity. The Branch is not subject to any externally imposed capital requirements. Should additional capital requirements be imposed by the Reserve Bank of New Zealand in terms of the Insurance (Prudential Supervision) Act 2010, Aioi Nissay Dowa Insurance Company Limited will meet these capitalization requirements through additional funding to the Branch.

23. Capital commitments

There are no capital commitments at balance date (2010: Nil).

24. Contingencies

As at 31 March 2011, the Branch had no contingent liabilities or contingent assets (2010: Nil)

25. Related party information

The Company paid management fees to Aioi Nissay Dowa Management NZ Ltd, a wholly owned subsidiary of the Company, as disclosed in Note 8.

26. Credit rating

Aioi Nissay Dowa Insurance Company Limited – NZ Branch has received an “A” credit rating from A.M. Best Company dated 16 November 2010. The credit rating is an indication of the Branch’s current and future claims paying ability.

Independent Auditor's Report**To the Shareholders of Aioi Nissay Dowa Insurance Co., Limited****Report on the Financial Statements**

We have audited the financial statements of the New Zealand branch of Aioi Nissay Dowa Insurance Co., Limited on pages 6 to 23, which comprise the statement of financial position of the New Zealand branch of Aioi Nissay Dowa Insurance Co., Limited as at 31 March 2011, and the statement of comprehensive income, and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with Section 19(3) of the Financial Reporting Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the New Zealand branch of the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements, in accordance with generally accepted accounting practice in New Zealand, and that give a true and fair view of the matters to which they relate and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the New Zealand branch of the company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the New Zealand branch of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Ernst & Young provides taxation services to the New Zealand branch of the company.

Partners and employees of our firm may deal with the New Zealand branch of the company on normal terms within the ordinary course of trading activities of the business of the New Zealand branch of the company.

Opinion

In our opinion, the financial statements on pages 6 to 23:

- ▶ comply with generally accepted accounting practice in New Zealand; and
- ▶ give a true and fair view of the financial position of the New Zealand branch of the company as at 31 March 2011 and its financial performance for the year then ended.

Emphasis of Matter

In our opinion unqualified opinion, we have considered the adequacy of the disclosures made in the financial statements regarding the reliance on the shareholder to provide additional capital. As stated in note 2, the financial statements have been prepared on the going concern basis, the validity of which depends upon the ability to obtain additional capital. The financial statements do not include any adjustments that would result from a failure to obtain additional capital and funding.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- ▶ We have obtained all the information and explanations that we have required.
- ▶ In our opinion proper accounting records have been kept by the New Zealand branch of Aioi Nissay Dowa Insurance Co., Limited as far as appears from our examination of those records.

A handwritten signature in cursive script that reads 'Ernst & Young'.

30 August 2011
Auckland

I have pleasure in presenting the annual audited reports of Aioi Nissay Dowa Insurance Company Limited of the year ended 31 March 2011.

Aioi Nissay Dowa Insurance Company Limited

<u>29/8/11</u>	<u>田中敏彦</u>
Date	Toshihiko Tanaka Managing Executive Officer, Director

AIOI NISSAY DOWA INSURANCE
COMPANY, LIMITED

Consolidated Financial Statements - March 31, 2010 and 2011
(With Independent Auditors' Report Thereon)



Independent Auditors' Report

The Board of Directors
Aioi Nissay Dowa Insurance Comapany, Limited

We have audited the accompanying consolidated balance sheet of Aioi Nissay Dowa Insurance Company, Limited ("the Company") and consolidated subsidiaries as of March 31, 2011, and the related consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and consolidated subsidiaries as of March 31, 2011, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

Other Matters

We draw attention to;

- Note to the accompanying consolidated financial statements, Basis of Presentation 8 (3), that discusses about the change in accounting principle for Deferred Acquisition Costs adopted by the Company's consolidated foreign subsidiaries, and
- The fact that we have not audited the accompanying consolidated balance sheet of the Company and consolidated subsidiaries as of March 31, 2010, the related consolidated statements of income, changes in net assets and cash flows for the year then ended, or any of the related notes and accordingly, we do not express an opinion on them.

KPMG AZSA LLC

Tokyo, Japan
June 17, 2011

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Consolidated Balance Sheets

As of March 31, 2010 and 2011

	2010	2011
	(Yen in millions)	
<u>Assets</u>		
Cash, deposits and savings	¥ 214,256	267,323
Call loans	-	554
Receivables under resale agreements	1,999	11,095
Receivables under securities borrowing transactions	-	26,535
Monetary claims bought	14,094	1,979
Money trusts	4,604	1,903
Investments in securities	1,743,660	2,450,718
Loans	336,728	338,039
Tangible fixed assets:		
Land	65,369	88,831
Buildings	73,359	100,756
Lease assets	208	136
Construction in progress	17	983
Other tangible fixed assets	<u>10,085</u>	<u>12,899</u>
Total tangible fixed assets	149,041	203,607
Intangible fixed assets:		
Software	5,757	4,435
Lease assets	359	12
Other intangible fixed assets	<u>997</u>	<u>1,901</u>
Total intangible fixed assets	7,114	6,350
Other assets	234,910	330,802
Deferred tax assets	147,939	243,529
Customers' liabilities under acceptances and guarantees	3,000	2,500
Bad debt reserve	<u>(1,924)</u>	<u>(2,550)</u>
Total assets	¥ 2,855,424	3,882,389

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Consolidated Balance Sheets (Continued)

	2010	2011
	(Yen in millions)	
<u>Liabilities and Net Assets</u>		
Underwriting funds:		
Outstanding claims	¥ 324,274	498,835
Underwriting reserve	<u>2,042,165</u>	<u>2,728,891</u>
Total underwriting funds	2,366,440	3,227,727
Other liabilities	111,224	166,987
Reserve for pension and retirement benefits	20,099	20,786
Reserve for retirement benefits for officers	111	25
Accrued bonuses for employees	4,642	6,741
Reserves under the special laws:		
Reserve for price fluctuation	<u>3,100</u>	<u>6,680</u>
Total reserve under the special laws	3,100	6,680
Acceptances and guarantees	<u>3,000</u>	<u>2,500</u>
Total liabilities	<u>2,508,619</u>	<u>3,431,449</u>
Common stock	100,005	100,005
Capital surplus	44,097	123,766
Retained earnings	176,693	215,669
Treasury stock	<u>(7,963)</u>	<u>-</u>
Total stockholders' equity	<u>312,833</u>	<u>439,440</u>
Net unrealized gains/losses on investments	37,100	18,625
Foreign currency translation adjustments	<u>(3,232)</u>	<u>(7,948)</u>
Total accumulated other comprehensive income	33,867	10,677
Minority interests	<u>104</u>	<u>821</u>
Total net assets	<u>346,804</u>	<u>450,939</u>
Total liabilities and net assets	¥ 2,855,424	3,882,389

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Consolidated Statements of Income

For the years ended March 31, 2010 and 2011

	2010	2011
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 811,455	967,903
Deposit premiums from policyholders	48,437	50,713
Investment income on deposit premiums from policyholders	18,377	20,854
Life insurance premiums	77,737	85,092
Reversal of underwriting reserve	13,045	37,949
Other underwriting income	<u>2,244</u>	<u>6,122</u>
Total underwriting income	971,297	1,168,636
Investment income:		
Interest and dividends received	57,440	66,930
Investment gains on money trusts	659	1
Gains on sales of securities	19,766	26,394
Gains on redemption of securities	151	687
Gains on derivative transactions	8,103	333
Other investment income	1,101	358
Transfer of investment income on deposit premiums from policyholders	<u>(18,377)</u>	<u>(20,854)</u>
Total investment income	68,844	73,850
Other ordinary income	<u>4,009</u>	<u>4,884</u>
Total ordinary income	1,044,151	1,247,371
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	501,786	608,269
Loss adjustment expenses	44,629	47,748
Commissions and collection expenses	154,417	185,289
Maturity refunds to policyholders	97,408	123,346
Dividends to policyholders	508	199
Life insurance claims	17,286	17,700
Provision for outstanding claims	10,799	38,995
Other underwriting expenses	<u>2,482</u>	<u>6,451</u>
Total underwriting expenses	829,319	1,028,000
Investment expenses:		
Investment losses on money trusts	-	0
Losses on trading securities	4	4
Losses on sales of securities	6,818	2,760
Losses on devaluation of securities	2,971	9,532
Losses on redemption of securities	875	1,803
Other investment expenses	<u>4,300</u>	<u>3,060</u>
Total investment expenses	14,970	17,162

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Consolidated Statements of Income (Continued)

	2010	2011
	(Yen in millions)	
Operating expenses and general and administrative expenses	¥ 162,795	193,165
Other ordinary expenses:		
Interest expenses	39	68
Provision for bad debt reserve	167	25
Losses on bad debts	59	74
Other ordinary expenses	<u>422</u>	<u>1,348</u>
Total other ordinary expenses	<u>688</u>	<u>1,516</u>
Total ordinary expenses	<u>1,007,774</u>	<u>1,239,845</u>
Ordinary profit	36,377	7,526
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sales of fixed assets	1,314	603
Other extraordinary income	<u>208</u>	<u>4,700</u>
Total extraordinary income	1,522	5,303
Extraordinary losses:		
Losses on sales of fixed assets	897	641
Impairment losses on fixed assets	696	2,122
Provision of reserves under the special laws:		
Provision of reserve for price fluctuation	<u>1,370</u>	<u>2,008</u>
Total provision of reserves under the special laws	<u>1,370</u>	<u>2,008</u>
Losses on reduction of real estate	140	44
Other extraordinary losses	<u>8,236</u>	<u>24,312</u>
Total extraordinary losses	<u>11,340</u>	<u>29,129</u>
Income (loss) before income taxes	26,558	(16,299)
Income taxes-current	2,079	2,472
Income taxes-deferred	<u>7,831</u>	<u>(9,474)</u>
Total income taxes	<u>9,911</u>	<u>(7,002)</u>
Income (loss) before minority interests	-	(9,297)
Minority interests	<u>7</u>	<u>(37)</u>
Net income (loss)	¥ <u>16,640</u>	<u>(9,259)</u>

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Consolidated Statement of Comprehensive Income

For the year ended March 31, 2011

		2011 (Yen in millions)
Loss before minority interests	¥	(9,297)
Other comprehensive income (loss):		
Net unrealized gains/losses on investments		(41,219)
Foreign currency translation adjustments		(2,798)
Total other comprehensive loss		(44,017)
Total comprehensive loss	¥	<u>(53,314)</u>
Allocation:		
Comprehensive loss attributable to shareholders of the parent	¥	(53,171)
Comprehensive loss attributable to minority interests		(143)

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Consolidated Statement of Changes in Net Assets

For the year ended March 31, 2010

(Yen in millions)

Stockholders' equity:		
Common stock:		
Ending balance as of March 31, 2009	¥	<u>100,005</u>
Ending balance as of March 31, 2010		<u>100,005</u>
Capital surplus:		
Ending balance as of March 31, 2009		44,092
Changes for the year:		
Disposition of treasury stock		<u>4</u>
Total changes for the year		<u>4</u>
Ending balance as of March 31, 2010		<u>44,097</u>
Retained earnings:		
Ending balance as of March 31, 2009		167,394
Changes for the year:		
Dividends paid		(7,341)
Net income		<u>16,640</u>
Total changes for the year		<u>9,299</u>
Ending balance as of March 31, 2010		<u>176,693</u>
Treasury stock:		
Ending balance as of March 31, 2009		(7,946)
Changes for the year:		
Repurchase of treasury stock		(26)
Disposition of treasury stock		<u>9</u>
Total changes for the year		<u>(16)</u>
Ending balance as of March 31, 2010		<u>(7,963)</u>
Total stockholders' equity:		
Ending balance as of March 31, 2009		303,545
Changes for the year:		
Dividends paid		(7,341)
Net income		16,640
Repurchase of treasury stock		(26)
Disposition of treasury stock		<u>14</u>
Total changes for the year		<u>9,287</u>
Ending balance as of March 31, 2010		<u>312,833</u>

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Consolidated Statement of Changes in Net Assets (Continued)

(Yen in millions)

Valuation and translation adjustments:

Net unrealized gains/losses on investments:

Ending balance as of March 31, 2009 ¥ (33,506)

Changes for the year:

Net changes of items other than stockholders' equity 70,606Total changes for the year 70,606Ending balance as of March 31, 2010 37,100

Foreign currency translation adjustments:

Ending balance as of March 31, 2009 (3,368)

Changes for the year:

Net changes of items other than stockholders' equity 136Total changes for the year 136Ending balance as of March 31, 2010 (3,232)

Total valuation and translation adjustments:

Ending balance as of March 31, 2009 (36,875)

Changes for the year:

Net changes of items other than stockholders' equity 70,742Total changes for the year 70,742Ending balance as of March 31, 2010 33,867

Stock acquisition rights:

Ending balance as of March 31, 2009 104

Changes for the year:

Net changes of items other than stockholders' equity (104)Total changes for the year (104)Ending balance as of March 31, 2010 -

Minority interests:

Ending balance as of March 31, 2009 93

Changes for the year:

Net changes of items other than stockholders' equity 10Total changes for the year 10Ending balance as of March 31, 2010 104

Total net assets:

Ending balance as of March 31, 2009 266,868

Changes for the year:

Dividends paid (7,341)

Net income 16,640

Repurchase of treasury stock (26)

Disposition of treasury stock 14

Net changes of items other than stockholders' equity 70,649Total changes for the year 79,936Ending balance as of March 31, 2010 ¥ 346,804

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Consolidated Statement of Changes in Net Assets

For the year ended March 31, 2011

(Yen in millions)

Stockholders' equity:		
Common stock:		
Ending balance as of March 31, 2010	¥	<u>100,005</u>
Ending balance as of March 31, 2011		<u>100,005</u>
Capital surplus:		
Ending balance as of March 31, 2010		44,097
Changes for the year:		
Retirement of treasury stock		(7,963)
Increase due to business combination		<u>87,632</u>
Total changes for the year		<u>79,669</u>
Ending balance as of March 31, 2011		<u>123,766</u>
Retained earnings:		
Ending balance as of March 31, 2010		176,693
Changes for the year:		
Dividends paid		(17,603)
Increase due to business combination		62,872
Changes in the scope of consolidation		2,966
Net loss		<u>(9,259)</u>
Total changes for the year		<u>38,975</u>
Ending balance as of March 31, 2011		<u>215,669</u>
Treasury stock:		
Ending balance as of March 31, 2010		(7,963)
Changes for the year:		
Retirement of treasury stock		<u>7,963</u>
Total changes for the year		<u>7,963</u>
Ending balance as of March 31, 2011		<u>-</u>
Total stockholders' equity:		
Ending balance as of March 31, 2010		312,833
Changes for the year:		
Increase due to business combination		150,504
Dividends paid		(17,603)
Changes in the scope of consolidation		2,966
Net loss		<u>(9,259)</u>
Total changes for the year		<u>126,607</u>
Ending balance as of March 31, 2011		<u>439,440</u>
Accumulated other comprehensive income:		
Net unrealized gains/losses on investments:		
Ending balance as of March 31, 2010		37,100
Changes for the year:		
Net changes of items other than stockholders' equity		<u>(18,474)</u>
Total changes for the year		<u>(18,474)</u>
Ending balance as of March 31, 2011		<u>18,625</u>

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Consolidated Statement of Changes in Net Assets (Continued)

	(Yen in millions)
Foreign currency translation adjustments:	
Ending balance as of March 31, 2010	¥ (3,232)
Changes for the year:	
Net changes of items other than stockholders' equity	<u>(4,715)</u>
Total changes for the year	<u>(4,715)</u>
Ending balance as of March 31, 2011	<u>(7,948)</u>
Total accumulated other comprehensive income:	
Ending balance as of March 31, 2010	33,867
Changes for the year:	
Net changes of items other than stockholders' equity	<u>(23,190)</u>
Total changes for the year	<u>(23,190)</u>
Ending balance as of March 31, 2011	<u>10,677</u>
Minority interests:	
Ending balance as of March 31, 2010	104
Changes for the year:	
Net changes of items other than stockholders' equity	<u>717</u>
Total changes for the year	<u>717</u>
Ending balance as of March 31, 2011	<u>821</u>
Total net assets:	
Ending balance as of March 31, 2010	346,804
Changes for the year:	
Increase due to business combination	150,504
Dividends paid	(17,603)
Changes in the scope of consolidation	2,966
Net loss	(9,259)
Net changes of items other than stockholders' equity	<u>(22,472)</u>
Total changes for the year	<u>104,134</u>
Ending balance as of March 31, 2011	¥ <u><u>450,939</u></u>

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Consolidated Statements of Cash Flows

For the years ended March 31, 2010 and 2011

	2010	2011
	(Yen in millions)	
I. Cash flows from operating activities:		
Income (loss) before income taxes	¥ 26,558	(16,299)
Depreciation	11,727	13,585
Impairment losses on fixed assets	696	2,122
Increase in outstanding claims	10,799	38,957
Decrease in underwriting reserves	(13,045)	(41,054)
Decrease in bad debt reserve	(372)	(110)
Increase (decrease) in reserve for pension and retirement benefits	(11)	188
Increase (decrease) in reserve for retirement benefits for officers	60	(86)
Increase (decrease) in accrued bonuses for employees	(69)	2,099
Increase in reserve for price fluctuation	1,370	2,008
Interest and dividends income	(57,440)	(66,930)
Investment related gains	(9,247)	(12,981)
Interest expenses	39	68
Foreign exchange losses (gains)	(942)	467
Losses on disposal of tangible fixed assets	259	84
Decrease (increase) in other assets	6,664	(7,075)
Increase (decrease) in other liabilities	(99)	5,781
Others, net	(6,186)	(549)
Subtotal	(29,239)	(79,723)
Interest and dividends received	57,320	63,081
Interest paid	(39)	(68)
Income taxes paid	(1,820)	(3,244)
Net cash provided by (used in) operating activities (a)	26,221	(19,955)

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Consolidated Statements of Cash Flows (Continued)

	2010	2011
	(Yen in millions)	
II. Cash flows from investing activities:		
Net decrease (increase) in deposits and savings	¥ 2,692	(2,385)
Purchase of monetary claims bought	(10)	-
Proceeds from sales and redemption of monetary claims bought	5,667	12,176
Purchase of money trusts	(2,301)	(2,200)
Proceeds from sales of money trusts	4,300	4,698
Purchase of securities	(576,028)	(400,688)
Proceeds from sales and redemption of securities	581,202	432,862
Investment in loans	(61,361)	(52,884)
Collection of loans	85,432	84,796
Net change in payables under securities borrowing and lending transactions	-	554
Others, net	(11,017)	(3,242)
Subtotal (b)	28,575	73,688
(a + b)	54,796	(53,733)
Acquisitions of tangible fixed assets	(9,244)	(10,865)
Proceeds from sales of tangible fixed assets	375	1,424
Others, net	119	(750)
Net cash provided by investing activities	19,825	63,495
III. Cash flows from financing activities:		
Proceeds from disposition of treasury stock	1	-
Repurchase of treasury stock	(26)	-
Dividends paid to shareholders	(7,341)	(17,381)
Others, net	(548)	(514)
Net cash used in financing activities	(7,914)	(17,895)
IV. Effect of exchange rate changes on cash and cash equivalents	861	(2,072)
V. Net change in cash and cash equivalents	(38,993)	23,572
VI. Cash and cash equivalents at beginning of year	163,919	202,912
VII. Effect of change in the scope of consolidation	-	2,457
VIII. Increase in cash and cash equivalents due to business combination	-	36,863
IX. Cash and cash equivalents at the end of year	¥ 202,912	265,806

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation

As of and for the years ended March 31, 2010 and 2011

March 31, 2010

1. Basis of presentation

The accompanying consolidated financial statements have been translated from the consolidated financial statements of Aioi Nissay Dowa Insurance Company, Limited ("the Company") prepared in accordance with the provisions set forth in the Corporate Accounting Regulations, the Enforcement Regulations of the Japanese Insurance Business Law and related rules and regulations applicable to the non-life insurance industry in general and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

March 31, 2011

1. Basis of presentation

The accompanying consolidated financial statements have been translated from the consolidated financial statements of Aioi Nissay Dowa Insurance Company, Limited ("the Company") prepared in accordance with the provisions set forth in the Corporate Accounting Regulations, the Enforcement Regulations of the Japanese Insurance Business Law and related rules and regulations applicable to the non-life insurance industry in general and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010March 31, 2011

2. Principles of consolidation

- (1) Number of consolidated subsidiaries
7 companies

Consolidated subsidiaries are as follows:

Aioi Life Insurance Company, Limited
Aioi Insurance CS-Desk Company, Limited
Aioi Motor and General Insurance
Company of Europe Limited
Aioi Insurance Management Limited
Toyota Insurance Management Limited
Aioi Life Insurance of Europe AG
Aioi Insurance Company (China) Limited

Aioi Insurance Company (China) Limited has been included in the scope of consolidation for the fiscal year ended March 31, 2010, because Tianjin branch of the Company was converted into a locally incorporated company and launched its operations on April 1, 2009.

(2) Major unconsolidated subsidiary

Major unconsolidated subsidiary is Aioi Insurance Claims Research Company, Limited.

2. Principles of consolidation

- (1) Number of consolidated subsidiaries
13 companies

Consolidated subsidiaries are as follows:

Aioi Life Insurance Company, Limited
CS-Desk Company, Limited
Aioi Nissay Dowa Insurance Company of Europe Limited
Toyota Insurance Management Limited
Aioi Nissay Dowa Insurance Management Limited
Aioi Nissay Dowa Life Insurance of Europe AG
Aioi Nissay Dowa Insurance Company (China) Limited
Aioi Nissay Dowa Insurance Company of America
DTRIC Insurance Company, Limited
DTRIC Insurance Underwriters, Limited
DRD LLP
HI-TECH INSURANCE SYSTEMS DEVELOPMENT LLP
Dowa Insurance Company (Europe) Limited

The following companies have been included in the scope of consolidation for the fiscal year ended March 31, 2011, due to increase in their materiality.

Aioi Nissay Dowa Insurance Company of America
DTRIC Insurance Company, Limited
DTRIC Insurance Underwriters, Limited
DRD LLP
HI-TECH INSURANCE SYSTEMS DEVELOPMENT LLP
Dowa Insurance Company (Europe) Limited

(2) Major unconsolidated subsidiary

Major unconsolidated subsidiary is Aioi Nissay Dowa Insurance Claims Research Company, Limited.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010

Unconsolidated subsidiaries have not been included in the scope of consolidation due to their immaterial effects that would not affect reasonable judgment on the Company's financial position and results of operations, in view of the size of their total assets, ordinary income, as well as net income and retained earnings attributable to the Company.

3. Equity method

Other affiliate companies including unconsolidated subsidiaries (e.g. Toyota Asset Management Company, Limited) are not accounted for under the equity method because their effects on consolidated net income and retained earnings are immaterial individually and in aggregate.

4. Fiscal year of consolidated subsidiaries

Although the fiscal year end of 5 foreign consolidated subsidiaries is December 31 which is different from that of the Company, the Company uses their financial statements as of their most current fiscal year-end for consolidation purposes because the time lag does not exceed a three-month period.

The Company makes necessary adjustments to incorporate significant transactions occurred during the intervening period that materially affect the consolidated financial statements.

5. Amortization of goodwill

Neither goodwill nor negative goodwill arose.

March 31, 2011

Unconsolidated subsidiaries have not been included in the scope of consolidation due to their immaterial effects that would not affect reasonable judgment on the Company's financial position and results of operations, in view of the size of their total assets, ordinary income, as well as net income and retained earnings attributable to the Company.

3. Equity method

Other affiliate companies including unconsolidated subsidiaries (e.g. MS&AD Loan Services Company, Limited), are not accounted for under the equity method because their effects on consolidated net income and retained earnings are immaterial individually and in aggregate.

4. Fiscal year of consolidated subsidiaries

Although the fiscal year end of 11 foreign consolidated subsidiaries is December 31 which is different from that of the Company, the Company uses their financial statements as of their most current fiscal year-end for consolidation purposes because the time lag does not exceed a three-month period.

The Company makes necessary adjustments to incorporate significant transactions occurred during the intervening period that materially affect the consolidated financial statements.

5. Amortization of goodwill

Neither goodwill nor negative goodwill arose.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010March 31, 2011

6. Accounting policies

(1) Valuation policies and methods of securities

Valuation policies and methods of securities are as follows:

- (i) Trading securities are valued at fair value, and cost of sale is calculated using the moving average method.
- (ii) Securities held to maturity are valued at amortized cost (straight-line method).
- (iii) Available for sale securities for which fair value is available are valued at fair value as of March 31, 2010. Net unrealized gains/losses are reported as a separate component of net assets, and cost of sales securities is calculated using the moving average method.
- (iv) Available for sale securities for which fair value is deemed to be impracticable to determine are valued at cost using the moving average method.
- (v) Securities earmarked for policy reserve are valued at amortized cost using the moving average method pursuant to Industry Audit Committee Report No.21 "Temporary Treatment of Accounting and Auditing Concerning Securities Earmarked for Policy Reserve in Insurance Industry" (issued by The Japanese Institute of Certified Public Accountants on November 16, 2000).

The outline of risk management policies of the Company and Aioi Life Insurance Company, Limited ("ALP") for securities earmarked for policy reserve is as follows:

6. Accounting policies

(1) Valuation policies and methods of securities

Valuation policies and methods of securities are as follows:

- (i) Securities held to maturity are valued at amortized cost (straight-line method).
- (ii) Available for sale securities for which fair value is available are valued at fair value as of March 31, 2011. Net unrealized gains/losses are reported as a separate component of net assets, and cost of sales securities is calculated using the moving average method.
- (iii) Available for sale securities for which fair value is deemed to be impracticable to determine are valued at cost using the moving average method.
- (iv) Securities earmarked for policy reserve are valued at amortized cost using the moving average method pursuant to Industry Audit Committee Report No.21 "Temporary Treatment of Accounting and Auditing Concerning Securities Earmarked for Policy Reserve in Insurance Industry" (issued by The Japanese Institute of Certified Public Accountants on November 16, 2000).

The outline of risk management policies of the Company and Aioi Life Insurance Company, Limited ("ALP") for securities earmarked for policy reserve is as follows:

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010

In order to control risks of interest rate variability arising in assets and liabilities, the Company segregates “savings type traffic accident insurance denominated in U.S. dollars” block as a sub-segment, and applies the investment policies which enable the Company to maintain the durations of the securities earmarked for policy reserve and the policy reserve for the segregated block within a certain definite range.

In order to control the duration of assets and liabilities and hedge the risks of interest rate variability arising in assets and liabilities, ALI segregates “non participating individual insurance” block, “participating individual insurance” block, “individual annuities” block, “single premium endowment insurance” block, and “individual annuities denominated in foreign currency” block as sub-segments, taking their product characteristics into consideration. ALI applies the investment policies which enable it to maintain the durations of the securities earmarked for policy reserve and the policy reserve for each segregated block within a certain definite range and monitors whether these durations are within a certain definite range periodically. As for “nonparticipating individual insurance” block, “participating individual insurance” block, and “individual annuities” block, ALI projects future cash inflows and outflows derived from insurance policies within next twenty years and maintains the durations of the securities earmarked for policy reserve and the policy reserve for each block based on the method stated in the appendix of Industry Audit Committee Report No.21 mentioned above (the method that takes durations based on

March 31, 2011

In order to control risks of interest rate variability arising in assets and liabilities, the Company segregates “savings type traffic accident insurance denominated in U.S. dollars” block as a sub-segment, and applies the investment policies which enable the Company to maintain the durations of the securities earmarked for policy reserve and the policy reserve for the segregated block within a certain definite range.

In order to control the duration of assets and liabilities and hedge the risks of interest rate variability arising in assets and liabilities, ALI segregates “non participating individual insurance” block, “participating individual insurance” block, “individual annuities” block, “single premium endowment insurance” block, and “individual annuities denominated in foreign currency” block as sub-segments, taking their product characteristics into consideration. ALI applies the investment policies which enable it to maintain the durations of the securities earmarked for policy reserve and the policy reserve for each segregated block within a certain definite range and monitors whether these durations are within a certain definite range periodically. As for “nonparticipating individual insurance” block, “participating individual insurance” block, and “individual annuities” block, ALI projects future cash inflows and outflows derived from insurance policies within next twenty years and maintains the durations of the securities earmarked for policy reserve and the policy reserve for each block based on the method stated in the appendix of Industry Audit Committee Report No.21 mentioned above (the method that takes durations based on

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010

future cash inflows and outflows derived from insurance policies within a certain period into consideration), in order to control the risks of interest rate variability. As a result, the average duration of these blocks is 7.9 years for insurance expenditures such as claims payments and administrative expenses, and 5.6 years for insurance revenue such as premiums, while the average duration of securities earmarked for policy reserve is 11.9 years. As for the "single premium endowment insurance" block, ALI controls the durations of the securities earmarked for policy reserve and the policy reserve for all policies segregated into its block. As for the "individual annuities denominated in foreign currency" block, ALI controls the durations of the securities earmarked for policy reserve and the policy reserve for the annuity policies which are in deferred periods and denominated in US dollars.

(2) Valuation policies and methods of money trusts

Securities managed as a major component of trust assets in the money trust are valued at fair value.

Securities managed as trust assets in the money trusts which are not classified as trading securities or held to maturity bonds are valued based on the same method as that for available for sale securities.

(3) Valuation policies and methods of derivative financial instruments

Derivative financial instruments are valued at fair value.

March 31, 2011

future cash inflows and outflows derived from insurance policies within a certain period into consideration), in order to control the risks of interest rate variability. As a result, the average duration of these blocks is 7.8 years for insurance expenditures such as claims payments and administrative expenses, and 5.4 years for insurance revenue such as premiums, while the average duration of securities earmarked for policy reserve is 11.2 years. As for the "single premium endowment insurance" block, ALI controls the durations of the securities earmarked for policy reserve and the policy reserve for all policies segregated into its block. As for the "individual annuities denominated in foreign currency" block, ALI controls the durations of the securities earmarked for policy reserve and the policy reserve for the annuity policies which are in deferred periods and denominated in US dollars.

(2) Valuation policies and methods of money trusts

Securities managed as a major component of trust assets in the money trust are valued at fair value.

Securities managed as trust assets in the money trusts which are not classified as trading securities or held to maturity bonds are valued based on the same method as that for available for sale securities.

(3) Valuation policies and methods of derivative financial instruments

Derivative financial instruments are valued at fair value. Foreign exchange contracts that meet certain criteria are accounted for under exceptional methods, as permitted in the related accounting standards, as if the foreign exchange rates under those

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010March 31, 2011

contracts were originally applied to the underlying financial instruments.

- (4) Depreciation methods of tangible fixed assets (excluding lease assets)

Depreciation of tangible fixed assets (excluding lease assets) held by the Company and the domestic consolidated subsidiaries is computed using the declining-balance method, except for buildings (excluding fixtures) acquired on or after April 1, 1998, to which the straight-line method is applied.

- (5) Depreciation methods of intangible fixed assets (excluding lease assets)

Depreciation of intangible fixed assets (excluding lease assets) held by the Company and the domestic consolidated subsidiaries is computed using the straight-line method. Capitalized software (excluding lease assets) for internal use is amortized by using the straight-line method based on estimated useful lives (5 years).

- (6) Translation of foreign currency assets and liabilities

Foreign currency assets and liabilities are translated into Japanese yen using the spot exchange rate prevailing at the year-end, and gains and losses resulting from the translation are recognized currently in earnings. Assets, liabilities, income and expenses of the foreign consolidated subsidiaries are translated into Japanese yen using the spot exchange rate prevailing at their respective year-ends, and translation differences are included in Foreign currency translation adjustments and Minority interests.

- (4) Depreciation methods of tangible fixed assets (excluding lease assets)

Depreciation of tangible fixed assets (excluding lease assets) held by the Company and the domestic consolidated subsidiaries is computed using the declining-balance method, except for buildings (excluding fixtures) acquired on or after April 1, 1998, to which the straight-line method is applied.

- (5) Depreciation methods of intangible fixed assets (excluding lease assets)

Depreciation of intangible fixed assets (excluding lease assets) held by the Company and the domestic consolidated subsidiaries is computed using the straight-line method. Capitalized software (excluding lease assets) for internal use is amortized by using the straight-line method based on estimated useful lives (5 years).

- (6) Translation of foreign currency assets and liabilities

Foreign currency assets and liabilities are translated into Japanese yen using the spot exchange rate prevailing at the year-end, and gains and losses resulting from the translation are recognized currently in earnings. Assets and liabilities of the foreign consolidated subsidiaries are translated into Japanese yen using the spot exchange rate prevailing at their respective year-ends, and income and expenses are translated into Japanese yen using the average exchange rate during the year and translation differences are included in Foreign currency translation adjustments and Minority interests.

The Company changed the exchange rate used for the translation of income and

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010March 31, 2011

expenses in foreign consolidated subsidiaries from the spot exchange rate prevailing at year-end to the average exchange rate during the year in the fiscal year ended March 31, 2011 in order to ensure consistency with MS&AD Group accounting policies in relation to the business integration with Mitsui Sumitomo Insurance Group Holdings, Inc on April 1, 2010. As a result, ordinary profit decreased by ¥105 million, and loss before income taxes increased by ¥105 million, respectively.

(7) Bad debt reserve

As for the Company and ALI, the bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision. A reserve for bad debts for loans to debtors who are legally deemed to be experiencing financial difficulties such as bankruptcy, special liquidation or whose notes are under suspension at clearing houses, and loans for debtors who are substantially deemed to be experiencing financial difficulties are provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible through guarantees. A bad debt reserve for loans to debtors who likely experience financial difficulties in the future is provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible from guarantees considering the debtor's ability to repay the entire outstanding debt.

For loans other than those described above, a bad debt reserve is calculated at an amount of the outstanding balances multiplied by actual historical bad debt ratios.

All loans and receivables are provided for based on the assessment under the internal standard for self-assessment of assets.

(7) Bad debt reserve

As for the Company and ALI, the bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision. A reserve for bad debts for loans to debtors who are legally deemed to be experiencing financial difficulties such as bankruptcy, special liquidation or whose notes are under suspension at clearing houses, and loans for debtors who are substantially deemed to be experiencing financial difficulties are provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible through guarantees. A bad debt reserve for loans to debtors who likely experience financial difficulties in the future is provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible from guarantees considering the debtor's ability to repay the entire outstanding debt.

For loans other than those described above, a bad debt reserve is calculated at an amount of the outstanding balances multiplied by actual historical bad debt ratios.

All loans and receivables are provided for based on the assessment under the internal standard for self-assessment of assets.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010

The assessment was performed by the departments which are responsible for respective assets. The independent internal audit departments reviewed those results.

As for foreign consolidated subsidiaries, the bad debt reserve is established based on the assessment of collectability of individual receivables.

(8) Reserve for pension and retirement benefit

As for the Company and ALI, Reserve for pension and retirement benefits is established to provide for future retirement benefits based on the estimated retirement benefit obligation and plan assets as of March 31, 2010.

Unrecognized prior service costs are expensed as incurred.

Unrecognized actuarial gains and losses are amortized from the year following the year in which those gains and losses arise using the straight-line method over certain periods within the estimated average remaining service years of employees (12years).

(9) Reserve for retirement benefits for officers

In order to provide for future retirement benefits for directors of the Company in relation to the acquisition of rights to purchase new shares without consideration, the estimated amounts to be paid at the end of the fiscal year are recorded as Reserves for retirement benefits for officers. In order to provide for future retirement benefits for officers of ALI, the estimated amounts to be paid at the end of the fiscal year which are calculated based on internal rules are recorded as Reserves for

March 31, 2011

The assessment was performed by the departments which are responsible for respective assets. The independent internal audit departments reviewed those results.

As for foreign consolidated subsidiaries, the bad debt reserve is established based on the assessment of collectability of individual receivables.

(8) Reserve for pension and retirement benefit

As for the Company and ALI, Reserve for pension and retirement benefits is established to provide for future retirement benefits based on the estimated retirement benefit obligation and plan assets as of March 31, 2011.

Unrecognized prior service costs are amortized using the straight-line method over certain periods within the estimated average remaining service years of employees (4 years).

Unrecognized actuarial gains and losses are amortized from the year following the year in which those gains and losses arise using the straight-line method over certain periods within the estimated average remaining service years of employees (11 or 12 years).

(9) Reserve for retirement benefits for officers

In order to provide for future retirement benefits for officers of ALI, the estimated amounts to be paid at the end of the fiscal year which are calculated based on internal rules are recorded as Reserves for retirement benefits for officers.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010March 31, 2011

retirement benefits for officers.

(10) Accrued bonuses for employees

In order to provide for payment of bonuses to employees, the Company and domestic consolidated subsidiaries account for Accrued bonuses for employees based on the estimated amounts to be paid.

(10) Accrued bonuses for employees

In order to provide for payment of bonuses to employees, the Company and domestic consolidated subsidiaries account for Accrued bonuses for employees based on the estimated amounts to be paid.

(11) Reserve for price fluctuation

As for the Company and ALI, Reserve for price fluctuation is recognized under Article 115 of the Insurance Business Law to provide for possible losses arising from price fluctuations of investment securities.

(11) Reserve for price fluctuation

As for the Company and ALI, Reserve for price fluctuation is recognized under Article 115 of the Insurance Business Law to provide for possible losses arising from price fluctuations of investment securities.

(12) Accounting for lease transactions

Finance lease transactions that do not transfer ownership are accounted for in a similar manner with ordinary sale and purchase transactions.

(12) Accounting for lease transactions

Finance lease transactions that do not transfer ownership are accounted for in a similar manner with ordinary sale and purchase transactions.

(13) Hedge accounting

The Company has primarily applied the fair value hedge accounting method to forward exchange contracts used for hedging risks of variability in foreign currency.

Foreign exchange contracts that meet certain criteria are accounted for under exceptional methods, as permitted in the related accounting standards, as if the foreign exchange rates under those contracts were originally applied to the underlying financial instruments.

When the fair value hedge is applied to foreign currency debt securities, individual securities are specified as the hedged item to apply the hedge individually.

The Company does not perform an assessment of hedge effectiveness, because material terms relating to hedged items and

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010March 31, 2011

hedging instruments are substantially identical and such hedging transactions are deemed highly and clearly interrelated.

(13) Accounting for consumption taxes

Consumption taxes are accounted for under the “Zei Nuki” (tax exclusive) method except for those relating to loss adjustment expenses, operating expenses and general and administrative expenses, which are accounted for under the “Zei Komi” (tax inclusive) method. Non-deductible consumption taxes relating to assets are included in suspense payments and amortized in equal installments over a period of five years.

7. Deferred assets

Deferred inaugural costs of Aioi Insurance CS-Desk Company, Limited are amortized in equal installments over five years.

8. Valuation methods for assets and liabilities of the consolidated subsidiaries

All assets and liabilities of the consolidated subsidiaries are valued at fair value.

9. Changes in accounting principles or accounting procedures

(1) Adoption of “Accounting Standard for Financial Instruments”

The Company has adopted “Accounting Standard for Financial Instruments” (ASBJ Statement No.10, March 10, 2008) from the fiscal year ended March 31, 2010. As a result, the scope of securities measured at fair value has been changed. This change resulted in ¥1,474 million increase in Investments in securities, ¥942 million increase in Net unrealized gains/losses on

(14) Accounting for consumption taxes

Consumption taxes are accounted for under the “Zei Nuki” (tax exclusive) method except for those relating to loss adjustment expenses, operating expenses and general and administrative expenses, which are accounted for under the “Zei Komi” (tax inclusive) method. Non-deductible consumption taxes relating to assets are included in suspense payments and amortized in equal installments over a period of five years.

7. Deferred assets

Deferred inaugural costs of CS-Desk Company, Limited were fully amortized in the fiscal year ended March 31, 2011 due to its decreased materiality. The effect on the consolidated financial statements was immaterial.

8. Changes in accounting principles or accounting procedures

(1) Adoption of “Accounting Standard for Asset Retirement Obligations”

The Company adopted “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No.18, March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No.21, March 31, 2008) in the fiscal year ended March 31, 2011. As a result of the adoption of the standard and guidance, ordinary profit decreased by ¥38

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010

investments, and ¥532 million decrease in Deferred tax assets, respectively.

- (2) Adoption of “Partial Amendments to Accounting Standard for Retirement Benefits”

The Company adopted “Partial Amendments to Accounting Standard for Retirement Benefits (ASBJ Statement No.19, July 31, 2008)” in the fiscal year ended March 31, 2010. The adoption had no effect on the consolidated financial statements, because it resulted in the use of the same discounted rates as before.

March 31, 2011

million, and loss before income taxes increased by ¥84 million, respectively. The adoption of the standard and guidance resulted in ¥ 420 million increase in asset retirement obligations at the adoption date.

- (2) Adoption of “Accounting Standard for Business Combinations” and related matters

The Company adopted “Accounting Standard for Business Combinations” (ASBJ Statement No.21, December 26, 2008), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, December 26, 2008) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, December 26, 2008) in the fiscal year ended March 31, 2011.

- (3) Deferred acquisition costs

Although the acquisition costs in foreign consolidated subsidiaries were expensed as incurred in previous years, these costs are deferred as an asset in the fiscal year ended March 31, 2011, in order to ensure consistency with MS&AD Group accounting policies in relation to the business integration with Mitsui Sumitomo Insurance Group Holdings, Inc on April 1, 2010. As a result, ordinary profit increased by ¥208 million, and loss before income taxes decreased by ¥4,908 million, respectively.

9. Additional information

The Company adopted “Accounting Standard for Presentation of Comprehensive Income” (Accounting Standard Board of Japan (“ASBJ”) Statement No.25 on June 30, 2010) in the fiscal year ended March 31, 2011. The amounts of “Accumulated other

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010March 31, 2011

comprehensive income” and “Total accumulated other comprehensive income” for the year ended March 31, 2010 represent amounts of “Valuation and translation adjustments” and “Total valuation and translation adjustments”, respectively.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets

As of March 31, 2010 and 2011

March 31, 2010

March 31, 2011

1. Financial instruments

1. Financial instruments

(1) Qualitative information

(1) Qualitative information

(i) Policy on financial instruments

(i) Policy on financial instruments

The Company runs non-life insurance and life insurance business and manages money arising from insurance premiums and other investment assets. The Company invests in securities, loans, real estates, and other investment assets focusing on enhancing profitability, while maintaining well-liquidity and securing investment returns stably in order to provide for payment of the insurance liabilities such as claims and maturity-refunds. The Company strives to establish an optimal investment portfolio, which allows the Company to generate sustainable investment returns, by changing asset allocation flexibly corresponding to the outlook for investment environment or by improving the efficiency of investment assets.

As for the investment management relating to saving type insurance, long-term fire insurance and care insurance, the Company strives to secure sustainable investment returns by investing in the assets with high liquidity and credibility based on Asset Liability Management ("ALM").

The Company utilizes derivative transactions represented by interest rate swaps and forward exchange contracts for the purpose of hedging market risks such as fluctuations of interest rates and foreign exchange rates.

As for the investment management for the general account excluding the special account which is prescribed in Article 118, paragraph 1 of the Japanese Insurance Business Law, ALI places emphasis on ALM. Consequently, ALI strives to establish

The Company runs non-life insurance and life insurance business and manages money arising from insurance premiums and other investment assets. The Company invests in securities, loans, real estates, and other investment assets focusing on enhancing profitability, while maintaining well-liquidity and securing investment returns stably in order to provide for payment of the insurance liabilities such as claims and maturity-refunds. The Company strives to establish an optimal investment portfolio, which allows the Company to generate sustainable investment returns, by changing asset allocation flexibly corresponding to the outlook for investment environment or by improving the efficiency of investment assets.

As for the investment management relating to saving type insurance, long-term fire insurance and care insurance, the Company strives to secure sustainable investment returns by investing in the assets with high liquidity and credibility based on Asset Liability Management ("ALM").

The Company utilizes derivative transactions represented by interest rate swaps and forward exchange contracts for the purpose of hedging market risks such as fluctuations of interest rates and foreign exchange rates.

As for the investment management for the general account excluding the special account which is prescribed in Article 118, paragraph 1 of the Japanese Insurance Business Law, ALI places emphasis on ALM. Consequently, ALI strives to establish

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2010

an optimal investment portfolio which allows ALI to generate sustainable investment returns for the purpose of controlling the overall effects of fluctuation in interest rates on ALI by mitigating interest rate risks derived from insurance liabilities. ALI also utilizes derivative transactions as a means for hedging the risk of the investment portfolio, and these transactions are used for hedging purpose only.

(ii) Details of financial instruments and associated risks

The Company's financial assets mainly consist of securities including bonds and stocks and foreign securities.

The securities held by the Company at the end of this fiscal year mainly consist of bonds, stocks and investment trust which are intended for portfolio investments and the business development including business and capital alliances. These securities are exposed to credit risks of issuers, and the market risks which arise from fluctuation in interest rates and fair market value, respectively. Foreign securities are also exposed to the risks which arise from fluctuation in foreign exchange rates.

Loans are exposed to credit risks of suffering losses at the time when the value of loans declines or is lost due to the deterioration in the financial condition of the counterparty. The fixed rate loans are also exposed to the risk arisen from fluctuation in interest rates.

The Company utilized derivative transactions such as forward exchange contracts, interest rate swaps, and credit derivatives during the year ended March 31, 2010. The Company utilizes derivative transactions mainly in order to hedge market risks arisen

March 31, 2011

an optimal investment portfolio which allows ALI to generate sustainable investment returns for the purpose of controlling the overall effects of fluctuation in interest rates on ALI by mitigating interest rate risks derived from insurance liabilities. ALI also utilizes derivative transactions as a means for hedging the risk of the investment portfolio, and these transactions are used for hedging purpose only.

(ii) Details of financial instruments and associated risks

The Company's financial assets mainly consist of securities including bonds and stocks and foreign securities.

The securities held by the Company at the end of this fiscal year mainly consist of bonds, stocks and investment trust which are intended for portfolio investments and the business development including business and capital alliances. These securities are exposed to credit risks of issuers, and the market risks which arise from fluctuation in interest rates and fair market value, respectively. Foreign securities are also exposed to the risks which arise from fluctuation in foreign exchange rates.

Loans are exposed to credit risks of suffering losses at the time when the value of loans declines or is lost due to the deterioration in the financial condition of the counterparty. The fixed rate loans are also exposed to the risk arisen from fluctuation in interest rates.

The Company utilized derivative transactions such as forward exchange contracts, interest rate swaps, equity index options, stock index futures, bond futures, and credit derivatives during the year ended March 31, 2011. The Company utilizes derivative

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

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from fluctuation in foreign exchange rates, stock prices and interest rates in view of overall assets, liabilities and derivative positions, their risk amounts, and fair values.

Forward exchange contracts and interest rate swaps are exposed to risks from fluctuation in foreign exchange rates and interest rates, respectively. Credit derivatives are exposed to the credit risks of the reference entities. The derivative transactions are also exposed to the market liquidity risks that the preferred transactions cannot be executed at fair values due to the deterioration of market liquidity.

The securities held by ALI mainly consist of domestic bonds and derivative transactions that ALI utilized during the year ended March 31, 2010 are forward exchange contracts, both of which are exposed to the market risks and credit risks.

(iii) Risk management structure relating to financial instrument

The Company establishes a basic policy regarding investment risks and an investment risk management policy that prescribes the definition of risks and risk management methodologies, which are resolved by the Board of Directors. The Company also maintains checks and balances by the risk management department which is independent from front-office and back-office.

The risk management department measures the risks, such as interest rates, foreign exchange rates, and market prices, based on the assets and liabilities positions (including derivative positions) using unified

March 31, 2011

transactions mainly in order to hedge market risks arisen from fluctuation in foreign exchange rates, stock prices and interest rates in view of overall assets, liabilities and derivative positions, their risk amounts, and fair values.

Forward exchange contracts, interest rate swaps, and equity index options are exposed to risks from fluctuation in foreign exchange rates, interest rates, and market price of stocks, respectively. Credit derivatives are exposed to the credit risks of the reference entities. The derivative transactions are also exposed to the market liquidity risks that the preferred transactions cannot be executed at fair values due to the deterioration of market liquidity.

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AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2010

criteria (VaR, Value-at-Risk) to monitor whether risk amounts are within limits of risk capital resolved by the Board of Directors. The risk management department also performs sensitivity analysis addressing changes in market environments, such as interest rates, foreign currency rates, and market prices.

Financial instruments including securities are traded and managed based on the investment guideline and the investment plan which are resolved by the Board of Directors.

The risk management department reports investment risks, including the evaluation of compliance with the specified risk limits, to the investment committee on a monthly basis, and to the management committee and the Board of Directors on a quarterly basis. Investment planning department reports status of investment management including derivative transactions to the investment committee on a monthly basis, and to the management committee and the Board of Directors on a quarterly basis.

In addition to VaR and sensitivity analysis, the Company establishes the following controls in order to manage various risks relating to financial instruments:

A. Market risk management

a. Interest rate risk management

The Company manages the risk arising from fluctuation of interest rates by Asset Liability Management (ALM). The investment management plans including policy pertaining to ALM are to be resolved at the Board of Directors. The investment committee and Board of Directors monitor status of investment and their risks, and

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AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2010

discuss future investment strategies.

b. Foreign exchange rate risk management:

The Company strives to hedge the risk arising from fluctuations of foreign exchange rates using forward exchange contracts.

c. Price volatility risk management

The Company manages the risk arising from the market price volatility by setting loss cut rules and other methods such as stress tests. In addition, the Company manages purchases of securities intended for portfolio investments by preliminary review of transactions, setting position limit, and other continuous monitoring processes in order to reduce price volatility risk. As for the securities intended for business development including business and capital alliances, the Company monitors market environment and financial conditions of investees.

d. Derivative transactions

The Company executes derivative transactions based on the authorization policy that provides procedures for settlement of derivative transactions. As for regular derivative transactions, the investment administration management department, which is independent of the investment management department, confirms details of the transactions by reconciling trade tickets forwarded from the investment management department with trade confirmations sent directly by financial institutions and securities companies.

March 31, 2011

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Notes to Consolidated Balance Sheets (Continued)

March 31, 2010

B. Credit risk management

The Company manages financial instruments with credit risks including derivatives under the credit management structure that provides rules for credit limit, credit exposure management, and regular monitoring of borrowers, and the clarified policy for credit screening. In addition, derivative instruments are entered into with selected counterparties with high credit quality and transactions are diversified across them in order to avoid credit risks by nonperformance.

C. Liquidity risk management relating to financing

The Company conducts appropriate treasury management of cash position by holding substantial amount of liquid assets and seeking accurate understanding of cash inflows and outflows. The Company strives to prevent market liquidity risk from arising by an appropriate risk management both qualitatively and quantitatively.

ALI manages market risk by understanding of sensitivities to changes in market environment, and setting position limits and loss cut rule. ALI also manages credit risk through setting credit limit based on credit ratings assigned by rating companies.

(iv) Supplementary explanation of matters relating to fair value of financial instruments and other information

The fair value of financial instruments is determined based on market price and by reasonable estimate with certain assumptions when market price is not available.

March 31, 2011

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AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

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(2) Fair value of financial instruments

The following table summarizes the carrying amount in the consolidated balance sheet and the fair value of financial instruments as of March 31, 2010, together with their differences. Note that the following table does not include certain securities for which determination of fair value is impracticable (see Note 2).

	Consolidated balance sheet amount	Fair Value	Difference
		(Yen in millions)	
(i) Cash, deposits & savings	¥ 214,256	214,260	4
(ii) Monetary claims bought	13,544	13,544	-
(iii) Money trusts	4,604	4,604	-
(iv) Securities	1,710,949	1,719,863	8,914
(v) Loans	336,728		
Bad debt reserve (*1)	(733)		
	<u>335,995</u>	<u>336,414</u>	<u>419</u>
Derivative transaction (*2)			
Hedge accounting not applied	¥ (9,968)	(9,968)	-

(*1) Reserve for bad debts earmarked for loans are deducted from the carrying amount.

(*2) Derivative transactions recorded in Other assets and Other liabilities are shown together. Assets and liabilities derived from derivative transactions are presented on a net basis and net credit position is

March 31, 2011

(2) Fair value of financial instruments

The following table summarizes the carrying amount in the consolidated balance sheet and the fair value of financial instruments as of March 31, 2011, together with their differences. Note that the following table does not include certain securities for which determination of fair value is impracticable (see Note 2)

	Consolidated balance sheet amount	Fair Value	Difference
		(Yen in millions)	
(i) Cash, deposits & savings	¥ 267,323	267,323	-
(ii) Monetary claims bought	1,430	1,430	-
(iii) Money trusts	1,903	1,903	-
(iv) Securities			
Securities held to maturities	8	8	0
Bonds earmarked for policy reserves	345,584	358,794	13,210
Available for sale securities	2,051,899	2,051,899	-
(v) Loans	338,039		
Bad debt reserve (*1)	(943)		
	<u>337,096</u>	<u>340,110</u>	<u>3,014</u>
Total assets	¥ <u>3,005,246</u>	<u>3,021,471</u>	<u>16,224</u>
Derivative transaction (*2)			
Hedge accounting not applied	¥ 999	999	-
Hedge accounting applied	(7,070)	(7,070)	-
Total derivative transaction	¥ <u>(6,070)</u>	<u>(6,070)</u>	<u>-</u>

(*1) Reserve for bad debts earmarked for loans are deducted from the carrying amount.

(*2) Derivative transactions recorded in Other assets and Other liabilities are shown together. Assets and liabilities derived from derivative transactions are presented on a net basis and net credit position is

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2010March 31, 2011

shown with ().

shown with ().

(Note 1) Determination of fair value of financial instruments

(Note 1) Determination of fair value of financial instruments

Assets

Assets

(i) Cash, deposits & savings

With regard to deposits & savings, fair value is measured as the present value of future estimated cash flows for each category of deposits & savings based on duration, discounted at interest rates applicable to same type of new deposits & savings. With regard to deposits & savings without maturity and short-term deposits & savings, the book value is deemed as the fair value since the book value approximates the fair value.

(i) Cash, deposits & savings

With regard to deposits & savings, the book value is deemed as the fair value since the book value approximates the fair value.

(ii) Monetary claims bought

With regard to monetary claims bought, the price quoted by the counterparty financial institutions is deemed as the fair value.

(ii) Monetary claims bought

With regard to monetary claims bought, the price quoted by the counterparty financial institutions is deemed as the fair value.

(iii) Money trusts

With regard to Money trusts, total amount of the fair value of assets held in the trusts is deemed as the fair value.

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With regard to Money trusts, total amount of the fair value of assets held in the trusts is deemed as the fair value.

(iv) Securities

The fair value of equity securities is determined based on the quoted market price and the fair value of bonds is determined based on the price quoted by the exchange, the information vender or the counterparty financial institutions.

The fair value of investment trusts is determined based on the public standard price or the price quoted by the counterparty financial institutions. With regard to investments in partnerships, the Company's share in the net assets of the partnerships (after measuring the assets held by the

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AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2010

partnerships at fair value where possible) is deemed as the fair value of the investments.

(v) Loans

With regard to floating rate loans, the book value is deemed as the fair value so long as no significant changes in credit risk arise, because interest rate changes will be timely reflected in the future cash flows and the book value approximates the fair value.

With respect to fixed rate loans, for each category of loans based on types of loans, duration and credit ratings, the fair value is measured as the present value of estimated future cash flows, discounted at interest rate applicable to the same type of new loans.

For loans to doubtful debtors, the carrying amount less bad debt reserve is deemed as the fair value, because bad debt reserve is determined individually by discounting the estimated future cash flows or based on appraisal value of underlying collateral where appropriate.

For loans to debtors in legal or de-facto bankruptcy, the carrying amount less bad debt reserve is deemed as the fair value, because bad debt reserve is determined individually based on appraisal value of underlying collateral where appropriate.

With regard to loans with limited amount within surrender value and no contractual maturity, the book value is deemed as the fair value since the book value approximates the fair value given their estimated repayment period and interest rate terms.

(vi) Derivative transaction

(Hedge accounting not applied)

With regard to foreign exchange contract, the fair value is based on futures market price at the end of year.

March 31, 2011

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With regard to floating rate loans, the book value is deemed as the fair value so long as no significant changes in credit risk arise, because interest rate changes will be timely reflected in the future cash flows and the book value approximates the fair value.

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Derivative transaction

(i) Hedge accounting not applied

With regard to foreign exchange contract, the fair value is based on futures market price at the end of year.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2010

With regard to the other derivative transactions, the fair value is based on the price quoted by counterparty financial institutions.

(Note 2)

The following financial instruments held as of March 31, 2010 are not included in the above table, because determination of their fair values is impracticable.

Unlisted stocks and investments in silent partnerships (carrying amount on the consolidated balance sheet: ¥33,261 million) are not included in the scope of fair value disclosure, because there is no market price for those financial instruments and it is impracticable to project future cash flows.

2. Investment and leasing property

(1) Matters related to investment and leasing property

The Company and certain consolidated subsidiaries own rental office (including those for internal use) and residential properties and idle real estates in major cities in Japan.

(2) Fair value of Investment and Rental Property as of March 31, 2011

Carrying amount ¥36,659 million
Fair value ¥50,075 million

(Note)

(i) Carrying amount represents the cost of acquisition less accumulated depreciation.

(ii) Fair value as of March 31, 2010 is primarily based on appraisals by

March 31, 2011

With regard to the other derivative transactions, the fair value is based on the price quoted by counterparty financial institutions.

(ii) Hedge accounting applied

With regard to foreign exchange contract, the fair value is based on the futures market price at the end of year.

(Note 2)

The following financial instruments held as of March 31, 2011 are not included in the above table, because determination of their fair values is impracticable.

Unlisted stocks and investments in silent partnership (Carrying amount on the consolidated balance sheet: ¥53,775 million) are not included in the scope of fair value disclosure, because there is no market price for those financial instruments and it is impracticable to project future cash flows.

2. Investment and leasing property

(1) Matters related to investment and leasing property

The Company and certain consolidated subsidiaries own rental office (including those for internal use) and residential properties and idle real estates in major cities in Japan.

(2) Fair value of Investment and Rental Property as of March 31, 2011

Carrying amount ¥45,112 million
Fair value ¥56,019 million

(Note)

(i) Carrying amount represents the cost of acquisition less accumulated depreciation.

(ii) Fair value as of March 31, 2011 is primarily based on appraisals by

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Notes to Consolidated Balance Sheets (Continued)

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qualified external values. With respect to the investment and leasing properties with no substantial changes in their appraisal values or indices in which market prices are reflected appropriately since the most recent appraisals, fair value is determined based on these appraisal values or the values adjusted by these indices.

March 31, 2011

qualified external valuers. With respect to the investment and leasing properties with no substantial changes in their appraisal values or indices in which market prices are reflected appropriately since the most recent appraisals, fair value is determined based on these appraisal values or the values adjusted by these indices.

(Additional information)

The Company has adopted "Accounting Standard for Disclosure about Fair Value of Investment Property and Rental Property" (ASBJ Statement No.20, November 28, 2008) and "Guidance on Accounting Standard for Disclosure about Fair Value of Investment Property and Rental Property" (ASBJ Guidance No.23, November 28, 2008) from the fiscal year ended March 31, 2010.

3. Delinquent loans

- (1) Loans to financially impaired parties and overdue loans amounted to ¥47 million and ¥1,475 million, respectively.

Loans to financially impaired parties represent those loans, excluding the portion of the loans that were written off, on which accrued interest receivable is not recognized because repayments of principal or interest were overdue for considerable periods and they were regarded uncollectible and which meet the conditions prescribed in Article 96, Section 1-3 and 1-4 of the Corporation Tax Law Enforcement Ordinance (1965 Cabinet Order No.97). Hereafter, this last category is referred to as "Loans not accruing interest".

Overdue loans represent loans not accruing interest excluding (a) loans to financially impaired parties and (b) loans that have been granted grace for interest payments for

3. Delinquent loans

- (1) Loans to financially impaired parties and overdue loans amount to ¥13 million and ¥1,773 million, respectively.

Loans to financially impaired parties represent those loans, excluding the portion of the loans that were written off, on which accrued interest receivable is not recognized because repayments of principal or interest are overdue for considerable periods and they were regarded uncollectible and which meet the conditions prescribed in Article 96, Section 1-3 and 1-4 of the Corporation Tax Law Enforcement Ordinance (1965 Cabinet Order No.97). Hereafter, this last category is referred to as "Loans not accruing interest".

Overdue loans represent loans not accruing interest excluding (a) loans to financially impaired parties and (b) loans that have been granted grace for interest payments for

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2010

the purpose of restructuring of, or support to debtors in financial difficulty.

- (2) Loans overdue for 3 months or more amounted to ¥1,057 million.

Loans overdue for 3 months or more represent loans for which principal or interest is past due for 3 months or more after the contractual due date for repayment of principal or interest and excludes loans to financially impaired parties and overdue loans.

- (3) Restructured loans amounted to ¥1,570 million.

Restructured loans are those loans which have granted favorable terms for the benefit of debtors such as interest exemption or reduction, grace on interest payments, grace on principal repayments, or forgiveness of debts for the purpose of restructuring of or support to the debtors in financial difficulty. Loans to financially impaired parties, overdue loans and loans overdue for 3 months or more are excluded from this category.

- (4) The total of delinquent loans amounts to ¥4,151 million.

4. Accumulated depreciation and reduction entry of tangible fixed assets amount to ¥179,102 million and ¥7,486 million, respectively. The reduction entry of ¥140 million was deducted from the acquisition costs for the tangible fixed assets acquired using government and other subsidies during the year ended March 31, 2010.

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the purpose of restructuring of, or support to debtors in financial difficulty.

- (2) Loans overdue for 3 months or more amounted to ¥602 million.

Loans overdue for 3 months or more represent loans for which principal or interest is past due for 3 months or more after the contractual due date for repayment of principal or interest and excludes loans to financially impaired parties and overdue loans.

- (3) Restructured loans amounted to ¥2,184 million.

Restructured loans are those loans which have granted favorable terms for the benefit of debtors such as interest exemption or reduction, grace on interest payments, grace on principal repayments, or forgiveness of debts for the purpose of restructuring of or support to the debtors in financial difficulty. Loans to financially impaired parties, overdue loans and loans overdue for 3 months or more are excluded from this category.

- (4) The total of delinquent loans amounts to ¥4,573 million.

4. Accumulated depreciation and reduction entry of tangible fixed assets amount to ¥244,740 million and ¥12,064 million, respectively. The reduction entry of ¥44 million was deducted from the acquisition costs for the tangible fixed assets acquired using government and other subsidies during the year ended March 31, 2011.

5. As for ALL, change in reserve for policyholder dividends is as follows (Yen in millions):

Balance at beginning of period	¥3,694
Policyholder dividends	2,660
Increase in interest	1

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

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Provision for reserve for policyholder dividends	¥2,541
Balance at end of period	3,577

- | | |
|---|--|
| <p>5. Investments in subsidiaries and affiliates amounted to ¥12,337 million</p> <p>6. Securities in the amount of ¥35,411 million, money trusts in the amount of ¥1,905 million are pledged as collateral for loan payable in the amount of ¥43 million, for letter of credit issued and for overseas operations.</p> <p>7. The Company provides guarantees to the underwriting transactions of Aioi Insurance Company of America in the amount of ¥2,258 million.</p> <p>8. The Company executes a net worth maintenance agreement on behalf of DTRIC Insurance Company, Limited ("DTRIC"), which is a subsidiary of the Company. Under this agreement, the Company's funding and other obligations are triggered if DTRIC falls under a situation that its net worth falls short of a predetermined level or it does not maintain adequate liquidity for payment for its obligations. This agreement does not provide any guarantees for payment for its obligations.
DTRIC was not in the triggering situation stated above as of March 31, 2010. The aggregated amount of liabilities and assets of DTRIC as of March 31, 2010 were ¥4,452 million and ¥7,224 million, respectively.</p> <p>9. Net assets per share as of March 31, 2010 are ¥472.27. Minority interests in the amount of ¥104 million are deducted from net assets of ¥346,804 million in its</p> | <p>6. Investments in subsidiaries and affiliates amount to ¥11,131 million.</p> <p>7. Securities in the amount of ¥20,089 million, money trusts in the amount of ¥1,703 million and cash, deposits and savings in the amount of ¥202 million are pledged as collateral for loan payables in the amount of ¥37 million, for letter of credit issued and for overseas operations.</p> <p>8. Investments in securities include those that were loaned under securities lending agreements in the amount of ¥25,899 million.</p> <p>9. Net assets per share as of March 31, 2011 are ¥613.15. Minority interests in the amount of ¥821 million are deducted from net assets of ¥450,939 million in its</p> |
|---|--|

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

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computation. Outstanding common shares used for computing net assets per share as of March 31, 2010 were 734,101 thousand shares.

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computation. Outstanding common shares as of March 31, 2011 were 734,101 thousand shares.

10. The Company merged with Nissay Dowa General Insurance Company, Limited on October 1, 2010 and the Company's name was changed to Aioi Nissay Dowa Insurance Company, Limited. Matters regarding the merger are as follows:

(1) Outlines of the business combination

- (i) Name and business of combined entities

(a) Combining company

Company name: Aioi Insurance Company, Limited

Description of business: Non-life insurance

(b) Combined company

Company name: Nissay Dowa General Insurance Company, Limited

Description of business: Non-life insurance

- (ii) Date of business combination
October 1, 2010

- (iii) Legal form of the business combination
Merger by absorption of Nissay Dowa General Insurance Company, Limited by Aioi Insurance Company, Limited as surviving company

- (iv) Name of the Company after business combination
Aioi Nissay Dowa Insurance Company, Limited

- (v) Outline and purpose of the transaction
The Company seeks to enhance the group's enterprise value as a main non-life insurance company of MS&AD Insurance Group, through the merger with Nissay Dowa General Insurance Company, Limited.

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Notes to Consolidated Balance Sheets (Continued)

March 31, 2010March 31, 2011

(2) Outline of the accounting treatment adopted

This merger was accounted for as a transaction under common control, in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No.21 issued on December 26, 2008), and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10 issued on December 26, 2008).

10. The event occurring subsequent to the balance sheet date which would have a material effect on the financial position, the results of operations of the Company and its consolidated subsidiaries for the future periods is as follows:

On September 30, 2009, the Company and Nissay Dowa General Insurance Company, Limited ("NDGI") entered into share-for-share exchange agreement (the "Share Exchange Agreement") with and between Mitsui Sumitomo Insurance Group (Mitsui Sumitomo Insurance Group Holdings, Inc. ("MSIGH") (Current company name MS&AD Insurance Group Holdings Inc. ("MSAD"))) and Mitsui Sumitomo Insurance Company, Limited ("MSI")), through which MSIGH would become the parent owning the entire shares of the Company and NDGI.

The Company entered into a merger agreement (the "Merger Agreement") with and between NDGI.

Following the approval of the Share Exchange Agreement at each extraordinary shareholders' meeting held on December 22, 2009 and obtaining permissions and other approvals from relevant authorities, the three parties completed the respective share exchange transactions (collectively, the "Share Exchange") on April 1, 2010. Consequently, the Company became a wholly owned subsidiary of MSAD.

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Notes to Consolidated Balance Sheets (Continued)

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Following the approval of the Merger Agreement at each extraordinary shareholders' meeting held on December 22, 2009 and obtaining permissions and other approvals from relevant authorities, the merger between the Company and NDGI will take effect on October 1, 2010.

11. Unutilized portion of commitment lines given to third parties amounted to ¥12,648 million.

A commitment line is a contract whereby a specified amount of loan will be made available by the Company to the counterparty as long as there is no violation of the terms specified under the agreement.

12. Of the assets received under resale agreements and securities borrowed with cash collateral, the Company has the right to sell or pledge commercial paper in the amount of ¥11,095 million and securities in the amount of ¥15,121 million, and all of them are held by the Company.

11. Stock Options

- (1) Stock based compensation expenses recorded in Operating expenses and general and administrative expenses was ¥117 million for the fiscal years ended March 31, 2010.
- (2) Gains on forfeiture of stock acquisition rights were ¥208 million for the fiscal years ended March 31, 20

- (3) Types and number of stock option and movement during the year ended March 31,

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2010March 31, 2011

2010

(i) Types of stock option

Resolution Date	June 26, 2008	June 25, 2009
Number of grantees	11 Directors of the Company 23 Operating Officers of the Company	11 Directors of the Company 23 Operating Officers of the Company
Number of stock options (Note)	Common stock: 235,000 shares	Common Stock: 307,000 shares
Grant date	July 28, 2008	July 10, 2009
Vesting conditions	<p>Stock acquisition rights are vested on grant date.</p> <p>In the case where directors or operating officers lose their position by the end of June 2009, they shall continuously have a stock acquisition rights, whose amounts are determined by the following formula (Rounded up to 1):</p> <p>Amounts of the granted stock acquisition rights * Incumbency (months) served as directors or operating officers from July 2008 / 12</p> <p>The remaining rights become unexercisable from when directors or operating officers lose their position, and they shall abandon their rights.</p>	<p>Stock acquisition rights are vested on grant date.</p> <p>In the case where directors or operating officers lose their position by the end of June 2010, they shall continuously have a stock acquisition rights, whose amounts are determined by the following formula (Rounded up to 1):</p> <p>Amounts of the granted stock acquisition rights * Incumbency (months) served as directors or operating officers from July 2009 / 12</p> <p>The remaining rights become unexercisable from when directors or operating officers lose their position, and they shall abandon their rights.</p>
Requisite service period	No definite requisite service period	No definite requisite service period
Exercise period	<p>From July 29, 2008 to July 28, 2038</p> <p>The directors or operating officer shall exercise their stock acquisition rights within 10 days after when they lose their position. Notwithstanding of the matter stated above, the directors or operating officer shall exercise their stock acquisition rights within 30days after the date of the approval on the following matters at the stockholder's meeting or the Board of Directors:</p>	<p>From July 11, 2009 to July 10, 2039</p> <p>The directors or operating officer shall exercise their stock acquisition rights within 10 days after when they lose their position. Notwithstanding of the matter stated above, the directors or operating officer shall exercise their stock acquisition rights within 30days after the date of the approval on the following matters at the stockholder's meeting or the Board of Directors:</p>

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2010March 31, 2011

	A business combination agreement that lead the Company to an absorbed company	A business combination agreement that lead the Company to an absorbed company
	A share transfer agreement or a bill regarding share transfer plan that lead the Company to a wholly owned subsidiary	A share transfer agreement or a bill regarding share transfer plan that lead the Company to a wholly owned subsidiary

Note: The number of stock options is converted into share numbers.

- (ii) Number of stock option and movement during the year ended March 31, 2010
- a. Number of stock option (Note)

	Stock Option (July 28, 2008)	Stock Option (July 10, 2009)
Stock options before vested (Converted into the number of stock)		
Number at the beginning of the year	43,000	-
Granted	-	307,000
Forfeited	3,000	71,000
Vested	40,000	236,000
Unvested	-	-
Exercisable stock options (Converted into stock numbers)		
Number at the beginning of the year	192,000	-
Vested	40,000	236,000
Exercised	24,000	-
Forfeited	208,000	236,000
Outstanding	-	-

Note: The number of stock options is converted into share numbers.

b. Price information

	Stock Option (July 28, 2008)	Stock Option (July 10, 2009)
Exercise price	¥ 1	¥ 1
Average stock price at exercise	¥ 416	-
Fair value at	¥ 542	¥ 404

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2010March 31, 2011

the grant date		
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(4) Valuation method for fair value of stock option

The details of valuation method used for estimating the fair value of stock options vested during the year ended March 31, 2010 are as follows:

(i) Valuation technique: Black-Scholes Model

(ii) Assumptions and valuation method:

Expected volatility (Note 1)	54.745 %
Expected remaining periods (Note 2)	3.178 years
Expected dividend yield (Note 3)	2.294 %
Risk-free interest rate (Note 4)	0.406 %

(Note)

1. Computed based on the stock prices from May 6, 2006 to July 10 2009 (3.178 years).
2. Computed based on the average period of service of directors and operating officers.
3. Computed based on the amount of dividends paid during the year ended March 31, 2009 (¥ 10.00 per share).
4. Applied interest rates of Japanese government bonds corresponding to the expected remaining periods.

As for the stock acquisition rights, the Company acquired and retired all the stock acquisition rights that remained on March 31, 2010, in accordance with the resolution at the Board of directors held on February 26, 2010, under the Share Exchange Agreement with and between MSIGH (Current company name MS&AD), which was approved at the extraordinary shareholder's meeting held on December

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2010March 31, 2011

22, 2009.

12. Retirement of treasury stock

The details of treasury stocks whose retirement procedures after the resolution of the Board of Directors have not been completed as of March 31, 2010 are as follows:

Carrying amount of treasury stocks to be retired: ¥ 7,963million

Class of shares stocks to be retired:
Common stock

Number of shares stocks to be retired:
22,100 thousand shares

On April 1, 2010, the Company retired the treasury stocks in accordance with the resolution at the Board of the directors held on February 26, 2010.

13. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

13. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Statements of Income

As of and for the years ended March 31, 2010 and 2011

March 31, 2010

March 31, 2011

1. Business expenses mainly consist of:

Commission expenses ¥139,637 million
Salary 77,029 million

Business expenses represent the aggregate amount of loss adjustment expenses, operating expenses and general and administrative expenses and commissions and collection expenses presented in the statement of income.

2. Consolidated net income per share for the year ended March 31, 2010 is ¥22.66.
Earnings per share after adjustment for dilutive effect of shares for the year ended March 31, 2010 is ¥ 22.65.

Consolidated net income per share is computed based on the following figures: Consolidated net income and Consolidated net income available to common stockholders, ¥16,640 million; and Average outstanding common shares during the year, 734,129 thousand shares.

Earnings per share after adjustment for dilutive effect of shares is computed based on the following figures: effect of dilutive warrants during the year, 379 thousand shares.

3. Other extraordinary income includes gains on change in accounting for gains on reversal of stock acquisition rights in the amount of ¥208 million.
4. Other extraordinary losses include business integration costs in the amount of ¥ 8,236 million.

1. Consolidated net loss per share for the year ended March 31, 2011 is ¥12.61.
Earnings per share after adjustment for dilutive effect of shares is not presented as no dilutive securities exist.

Consolidated net loss per share is computed based on the following figures: Consolidated net loss and Consolidated net loss available to common stockholders, ¥9,259 million; and Average outstanding common shares during the year, 734,101 thousand shares.

2. Other underwriting expenses include losses on derivatives to reduce the currency risk of reinsurance transactions in foreign currency in the amount of ¥4,105 million.
3. Other extraordinary income includes gains on change in accounting for deferred acquisition costs arisen from foreign subsidiary in the amount of ¥ 4,700 million.
4. Other extraordinary losses include business integration costs in the amount of ¥24,001 million.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Statements of Income (Continued)

March 31, 2010March 31, 2011

5. Changes in presentation

As a result of the adoption of the format in the exhibit of the "Enforcement Regulations of the Insurance Business Law" (Ordinance of the Ministry of Finance No.5 in 1996) revised by the "Cabinet Office Ordinance for Partial Amendment to the Enforcement Ordinance of the Banking Law, etc." (Cabinet Office Ordinance No.41, September 21, 2010), "Loss before minority interests" started to be presented.

- | | |
|--|--|
| 5. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise. | 6. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise. |
|--|--|

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Statement of Comprehensive Income

For the year ended March 31, 2011

March 31, 2010

March 31, 2011

1. Comprehensive income for the fiscal year ended March 31, 2011 (Yen in millions)

Comprehensive income attributable to shareholders of the parent	¥ 87,383
Comprehensive income attributable to minority interests	10
Total	<u>¥ 87,393</u>

2. Other comprehensive income for the fiscal year ended March 31, 2011 (Yen in millions)

Net unrealized gains on investments	¥ 70,606
Foreign currency translation adjustments	138
Total	<u>¥ 70,745</u>

3. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2010 and 2011

March 31, 2010

1. Type and number of shares issued and treasury stock

(Thousand of shares)			
	March 31, 2009	Increase	Decrease
Issued:			
Common			
shares	756,201	-	-
Total	756,201	-	-
Treasury			
stock:			
Common			
shares	22,067	58	26
Total	22,067	58	26

Note 1: The increase in the number of common treasury stocks during the year was due to repurchase of fractional shares (58 thousand shares).

Note 2: The decrease in the number of common treasury stocks during the year (26 thousand shares) was due to the exercise of subscription rights to shares (24 thousand shares) and additional purchase of fractional shares (2 thousand shares).

March 31, 2011

1. Type and number of shares issued and treasury stock

(Thousand of shares)			
	March 31, 2010	Increase	Decrease
Issued:			
Common			
shares	756,201	-	22,100
Total	756,201	-	22,100
Treasury			
stock:			
Common			
shares	22,100	-	22,100
Total	22,100	-	22,100

Note 1: The decrease in the number of common treasury stocks during the year (22,100 thousand shares) was due to retirement of these shares.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Statements of Changes in Net Assets (Continued)

March 31, 2010March 31, 2011

2. Dividends

(1) Dividends paid (Yen in millions, except for dividend per share in Yen)

<u>Resolution</u>	<u>Type of share</u>	<u>Aggregate amount of dividends</u>	<u>Dividend per share</u>	<u>Date of record</u>	<u>Effective date</u>
General meeting of stockholders held on June 25, 2009	Common shares	¥ 7,341	¥10.00	March 31, 2009	June 26, 2009

2. Dividends

(1) Dividends paid (Yen in millions, except for dividend per share in Yen)

<u>Resolution</u>	<u>Type of share</u>	<u>Aggregate amount of dividends</u>	<u>Dividend per share</u>	<u>Date of record</u>	<u>Effective date</u>
General meeting of stockholders held on June 29, 2010	Common shares	¥ 7,341	¥10.00	March 31, 2010	June 30, 2010
Meeting of the Board of Directors held on June 29, 2010	Common shares	¥ 300	¥ 0.40	-	July 2, 2010
Meeting of the Board of Directors held on August 12, 2010	Common shares	¥2,750	¥3.74	-	August 13, 2010
Meeting of the Board of Directors held on November 18, 2010	Common shares	¥ 6,990	¥ 9.52	-	December 1, 2010

<u>Resolution</u>	<u>Type of share</u>	<u>Type of assets for dividends and book value</u>	<u>Dividend per share</u>	<u>Date of record</u>	<u>Effective date</u>
Meeting of the Board of Directors held on August 12, 2010	Common shares	Common shares of MS&AD Research Institute Company, Limited Inter Risk Research Institute and Consulting, Inc. and MS&AD Staffing Service Company, Limited	¥ 222	¥0.30	-
					October 1, 2010

(2) Dividends to be made effective in the following year for which the date of record is in the current reporting period (Yen in millions, except for dividend per share in Yen)

(2) Dividends to be made effective in the following year for which the date of record is in the current reporting period (Yen in millions, except for dividend per share in Yen)

<u>Resolution</u>	<u>Type of share</u>	<u>Aggregate amount of dividends</u>	<u>Source of dividend</u>	<u>Dividend per share</u>	<u>Date of record</u>	<u>Effective date</u>
General meeting of stockholders held on June 29, 2010	Common share	¥ 7,341	Retained earnings	¥10.00	- March 31, 2011	July 30, 2010

<u>Resolution</u>	<u>Type of share</u>	<u>Type of assets for dividends and book value</u>	<u>Source of dividend</u>	<u>Dividend per share</u>	<u>Date of record</u>	<u>Effective date</u>
Meeting of the Board of Directors held on May 18, 2011	Common share	Treasury Discount Bills (115 th)	Retained earnings	¥ 7.62	March 31, 2011	June 9, 2011

3. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

3. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Consolidated Statements of Cash Flows

For the years ended March 31, 2010 and 2011

March 31, 2010

1. In preparing the consolidated statement of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with original maturities not exceeding three months constitute cash and cash equivalents.
2. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

March 31, 2011

1. In preparing the consolidated statement of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with original maturities not exceeding three months constitute cash and cash equivalents.
2. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

**AIOI NISSAY DOWA INSURANCE
COMPANY, LIMITED**

Financial Statements - March 31, 2010 and 2011

(With Independent Auditors' Report Thereon)



Independent Auditors' Report

The Board of Directors
Aioi Nissay Dowa Insurance Company, Limited

We have audited the accompanying balance sheet of Aioi Nissay Dowa Insurance Company, Limited ("the Company") as of March 31, 2011, and the related statements of income and changes in net assets for the year then ended expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2011, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in Japan.

Other matters

We draw attention to the fact that we have not audited the accompanying balance sheet of the Company as of March 31, 2010, the statements of income and changes in net assets for the year then ended, or any of the related notes and accordingly, we do not express an opinion on them.

KPMG AZSA LLC

Tokyo, Japan
May 13, 2011

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Balance Sheets

As of March 31, 2010 and 2011

	2010	2011
	(Yen in millions)	
<u>Assets</u>		
Cash, deposits and savings:		
Cash on hand	¥ 33	51
Deposits in banks	176,595	247,618
Total cash, deposits and savings	176,629	247,669
Monetary claims bought	14,094	1,979
Money trusts	4,604	1,903
Investments in securities:		
Government bonds	185,730	312,303
Municipal bonds	41,883	43,060
Corporate bonds	211,579	295,574
Stocks	414,731	662,605
Foreign securities	452,294	635,214
Other investments in securities	80,071	84,529
Total investments in securities	1,386,289	2,033,286
Loans:		
Policy loans	5,212	6,222
General loans	318,946	318,915
Total loans	324,158	325,137
Tangible fixed assets:		
Land	65,362	88,826
Buildings	73,292	100,653
Lease assets	208	103
Construction in progress	17	983
Other tangible fixed assets	9,101	12,003
Total tangible fixed assets	147,982	202,570
Intangible fixed assets:		
Software	3,547	2,346
Other intangible fixed assets	978	1,240
Total intangible fixed assets	4,525	3,587

See accompanying notes to financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2010	2011
	(Yen in millions)	
Other assets:		
Premiums receivable	¥ 9,113	2,791
Due from agents	20,791	45,070
Due from foreign agents	1,722	1,274
Co-insurance business receivable	2,929	2,956
Reinsurance business receivable	43,450	61,044
Foreign reinsurance business receivable	8,625	14,845
Other receivables	15,667	21,019
Accrued income	5,847	9,562
Guarantee deposits	7,094	9,942
Deposits with the Japan Earthquake Reinsurance Company	40,081	63,828
Suspense payments	21,439	30,578
Initial margins of futures trading	805	-
Assets related to derivative transactions	1,750	1,046
Prepaid pension cost	40,209	44,708
Other assets	<u>444</u>	<u>687</u>
Total other assets	219,970	309,356
Deferred tax assets	143,849	238,750
Customers' liabilities under acceptances and guarantees	3,000	2,500
Bad debt reserve	<u>(1,811)</u>	<u>(2,433)</u>
Total assets	¥ <u>2,423,293</u>	<u>3,364,309</u>

See accompanying notes to financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2010	2011
	(Yen in millions)	
<u>Liabilities and Net Assets</u>		
Underwriting funds:		
Outstanding claims	¥ 312,860	483,006
Underwriting reserve	<u>1,604,752</u>	<u>2,238,870</u>
Total underwriting funds	1,917,613	2,721,876
Other liabilities:		
Co-insurance business payable	1,141	4,087
Reinsurance business payable	28,518	44,608
Foreign reinsurance business payable	6,206	10,331
Borrowings	43	37
Income taxes payable	1,790	2,610
Guarantee money	3,194	3,349
Advance received	2,695	56
Other payables	17,241	17,902
Suspense receipts	29,846	39,469
Liabilities related to derivative transactions	11,720	7,110
Lease obligations	130	54
Asset retirement obligation	-	647
Other liabilities	<u>-</u>	<u>0</u>
Total other liabilities	102,529	130,265
Reserve for pension and retirement benefits	19,893	20,544
Reserve for retirement benefits for officers	84	-
Accrued bonuses for employees	4,362	6,424
Reserves under the special laws:		
Reserve for price fluctuation	<u>2,541</u>	<u>6,023</u>
Total reserves under the special laws	2,541	6,023
Acceptances and guarantees	<u>3,000</u>	<u>2,500</u>
Total liabilities	<u>2,050,024</u>	<u>2,887,634</u>

See accompanying notes to financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Balance Sheets (Continued)

	2010 (Yen in millions)	2011 (Yen in millions)
Common stock	¥ 100,005	100,005
Capital surplus:		
Additional paid-in capital	44,081	44,081
Other capital surplus	<u>15</u>	<u>79,684</u>
Total capital surplus	44,097	123,766
Retained earnings:		
Legal earned reserve	35,464	38,984
Other retained earnings:		
Reserve for dividends	31,298	-
Special reserve for insurance contract obligations	25,070	-
Reserve for advanced depreciation	3,867	4,891
Special reserve	75,434	184,802
Retained earnings brought forward	<u>30,186</u>	<u>7,845</u>
Total other retained earnings	<u>165,857</u>	<u>197,539</u>
Total retained earnings	201,321	236,524
Treasury stock	(7,963)	-
Total stockholders' equity	337,460	460,296
Net unrealized gains/losses on investments	<u>35,808</u>	<u>16,378</u>
Total valuation and translation adjustments	<u>35,808</u>	<u>16,378</u>
Total net assets	<u>373,268</u>	<u>476,674</u>
Total liabilities and net assets	¥ <u>2,423,293</u>	<u>3,364,309</u>

See accompanying notes to financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Statements of Income

For the years ended March 31, 2010 and 2011

	2010	2011
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 794,050	946,378
Deposit premiums from policyholders	48,437	50,713
Investment income on deposit premiums from policyholders	18,377	20,854
Reversal of underwriting reserve	60,189	93,481
Other underwriting income	1,436	5,088
Total underwriting income	922,490	1,116,516
Investment income:		
Interest and dividends received	48,729	57,293
Investment gains on money trusts	659	1
Gains on sale of securities	19,044	25,442
Gains on redemption of securities	30	687
Gains on derivative transactions	8,102	316
Foreign exchange gains	947	-
Other investment income	192	293
Transfer of investment income on deposit premiums from policyholders	(18,377)	(20,854)
Total investment income	59,328	63,180
Other ordinary income	3,282	2,495
Total ordinary income	985,102	1,182,192
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	490,574	595,543
Loss adjustment expenses	43,754	46,474
Commissions and collection expenses	140,076	169,215
Maturity refunds to policyholders	97,408	123,346
Dividends to policyholders	508	199
Provision for outstanding claims	9,407	37,085
Foreign exchange losses	1,153	328
Other underwriting expenses	876	5,671
Total underwriting expenses	783,760	977,864
Investment expenses:		
Investment losses on money trusts	-	0
Losses on trading securities	4	4
Losses on sale of securities	5,902	2,589
Losses on devaluation of securities	2,971	10,174
Losses on redemption of securities	875	1,723
Foreign exchange losses	-	171
Other investment expenses	4,298	2,349

See accompanying notes to financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Statements of Income (Continued)

	2010 (Yen in millions)	201 (Yen in millions)
Total investment expenses	¥ 14,052	17,013
Operating expenses and general and administrative expenses	149,246	177,172
Other ordinary expenses:		
Interest expenses	1	1
Provision for bad debt reserve	224	-
Loss on bad debts	1	2
Other ordinary expenses	433	626
Total other ordinary expenses	661	630
Total ordinary expenses	947,722	1,172,680
Ordinary profit	37,380	9,511
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sale of fixed assets	261	602
Other extraordinary income	208	-
Total extraordinary income	469	602
Extraordinary losses:		
Losses on sale of fixed assets	890	629
Impairment losses on fixed assets	282	1,699
Provision of reserves under the special laws:		
Provision of reserve for price fluctuation	1,278	1,910
Total provision of reserves under the special laws	1,278	1,910
Losses on reduction of real estate	140	44
Other extraordinary losses	8,236	21,975
Total extraordinary losses	10,828	26,259
Income (loss) before income taxes	27,021	(16,145)
Income taxes-current	580	2,298
Income taxes-deferred	8,274	(8,377)
Total income taxes	8,854	(6,079)
Net income (loss)	¥ 18,166	(10,065)

See accompanying notes to financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Statement of Changes in Net Assets

For the year ended March 31, 2010

(Yen in millions)

Stockholders' equity:

Common stock:

Ending balance as of March 31, 2009	¥	<u>100,005</u>
Ending balance as of March 31, 2010		<u>100,005</u>

Capital surplus:

Additional paid-in capital:

Ending balance as of March 31, 2009	<u>44,081</u>
Ending balance as of March 31, 2010	<u>44,081</u>

Other capital surplus:

Ending balance as of March 31, 2009	11
Changes for the year:	
Disposition of treasury stock	<u>4</u>
Total changes for the year	<u>4</u>
Ending balance as of March 31, 2010	<u>15</u>

Total capital surplus

Ending balance as of March 31, 2009	44,092
Changes for the year:	
Disposition of treasury stock	<u>4</u>
Total changes for the year	<u>4</u>
Ending balance as of March 31, 2010	<u>44,097</u>

Retained earnings:

Legal earned reserve:

Ending balance as of March 31, 2009	33,995
Changes for the year:	
Dividends paid	<u>1,468</u>
Total changes for the year	<u>1,468</u>
Ending balance as of March 31, 2010	<u>35,464</u>

Other retained earnings:

Reserve for dividends:

Ending balance as of March 31, 2009	38,640
Changes for the year:	
Reversal of reserve for dividends	<u>(7,341)</u>
Total changes for the year	<u>(7,341)</u>
Ending balance as of March 31, 2010	<u>31,298</u>

Special reserve for insurance contract obligations:

Ending balance as of March 31, 2009	<u>25,070</u>
Ending balance as of March 31, 2010	<u>25,070</u>

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Statement of Changes in Net Assets (Continued)

(Yen in millions)

Reserve for advanced depreciation:		
Ending balance as of March 31, 2009	¥	3,896
Changes for the year:		
Provision for reserve for advanced depreciation		28
Reversal of advanced depreciation		<u>(58)</u>
Total changes for the year		<u>(29)</u>
Ending balance as of March 31, 2010		<u>3,867</u>
Special reserve:		
Ending balance as of March 31, 2009		84,985
Changes for the year:		
Reversal of special reserve		<u>(9,550)</u>
Total changes for the year		<u>(9,550)</u>
Ending balance as of March 31, 2010		<u>75,434</u>
Retained earnings brought forward:		
Ending balance as of March 31, 2009		3,908
Changes for the year:		
Dividends paid		(8,809)
Reversal of reserve for dividends		7,341
Provision for reserve for advanced depreciation		(28)
Reversal of reserve for advanced depreciation		58
Reversal of special reserve		9,550
Net income		<u>18,166</u>
Total changes for the year		<u>26,278</u>
Ending balance as of March 31, 2010		<u>30,186</u>
Total retained earnings:		
Ending balance as of March 31, 2009		190,496
Changes for the year:		
Dividends paid		(7,341)
Net income		<u>18,166</u>
Total changes for the year		<u>10,825</u>
Ending balance as of March 31, 2010		<u>201,321</u>

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Statement of Changes in Net Assets (Continued)

(Yen in millions)

Treasury stock:		
Ending balance as of March 31, 2009	¥	(7,946)
Changes for the year:		
Repurchase of treasury stock		(26)
Disposition of treasury stock		<u>9</u>
Total changes for the year		<u>(16)</u>
Ending balance as of March 31, 2010		<u>(7,963)</u>
Total stockholders' equity:		
Ending balance as of March 31, 2009		326,647
Changes for the year:		
Dividends paid		(7,341)
Net income		18,166
Repurchase of treasury stock		(26)
Disposition of treasury stock		<u>14</u>
Total changes for the year		<u>10,813</u>
Ending balance as of March 31, 2010		<u>337,460</u>
Valuation and translation adjustments:		
Net unrealized gain/losses on investments:		
Ending balance as of March 31, 2009		(35,023)
Changes for the year:		
Net changes of items other than stockholders' equity		<u>70,832</u>
Total changes for the year		<u>70,832</u>
Ending balance as of March 31, 2010		<u>35,808</u>
Total valuation and translation adjustments:		
Ending balance as of March 31, 2009		(35,023)
Changes for the year:		
Net changes of items other than stockholders' equity		<u>70,832</u>
Total changes for the year		<u>70,832</u>
Ending balance as of March 31, 2010		<u>35,808</u>
Stock acquisition rights:		
Ending balance as of March 31, 2009		104
Changes for the year:		
Net changes of items other than stockholders' equity		<u>(104)</u>
Total changes for the year		<u>(104)</u>
Ending balance as of March 31, 2010		<u>-</u>
Total net assets:		
Ending balance as of March 31, 2009		291,727
Changes for the year:		
Dividend paid		(7,341)
Net income		18,166
Repurchase of treasury stock		(26)
Disposition of treasury stock		<u>14</u>
Net changes of items other than stockholders' equity		<u>70,728</u>
Total changes for the year		<u>81,541</u>
Ending balance as of March 31, 2010	¥	<u>373,268</u>

See accompanying notes to financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Statement of Changes in Net Assets

For the year ended March 31, 2011

(Yen in millions)

Stockholders' equity:

Common stock:

Ending balance as of March 31, 2010	¥	<u>100,005</u>
Ending balance as of March 31, 2011		<u>100,005</u>

Capital surplus:

Additional paid-in capital:

Ending balance as of March 31, 2010	<u>44,081</u>
Ending balance as of March 31, 2011	<u>44,081</u>

Other capital surplus:

Ending balance as of March 31, 2010	15
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Changes for the year:

Retirement of treasury stock	(7,963)
Increase due to business combination	<u>87,632</u>
Total changes for the year	<u>79,669</u>

Ending balance as of March 31, 2011	<u>79,684</u>
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Total capital surplus

Ending balance as of March 31, 2010	44,097
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Changes for the year:

Retirement of treasury stock	(7,963)
Increase due to business combination	<u>87,632</u>
Total changes for the year	<u>79,669</u>

Ending balance as of March 31, 2011	<u>123,766</u>
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Retained earnings:

Legal earned reserve:

Ending balance as of March 31, 2010	35,464
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Changes for the year:

Dividends paid	<u>3,520</u>
Total changes for the year	<u>3,520</u>

Ending balance as of March 31, 2011	<u>38,984</u>
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Other retained earnings:

Reserve for dividends:

Ending balance as of March 31, 2010	31,298
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Changes for the year:

Reversal of reserve for dividends	<u>(31,298)</u>
Total changes for the year	<u>(31,298)</u>

Ending balance as of March 31, 2011	<u>-</u>
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Special reserve for insurance contract obligations:

Ending balance as of March 31, 2010	25,070
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Changes for the year:

Reversal of special reserve for insurance contract obligations	<u>(25,070)</u>
Total changes for the year	<u>(25,070)</u>

Ending balance as of March 31, 2011	<u>-</u>
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AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Statement of Changes in Net Assets (Continued)

(Yen in millions)

Reserve for advanced depreciation:		
Ending balance as of March 31, 2010	¥	3,867
Changes for the year:		
Provision for reserve for advanced depreciation		9
Reversal of reserve for advanced depreciation		(67)
Increase due to business combination		<u>1,082</u>
Total changes for the year		<u>1,024</u>
Ending balance as of March 31, 2011		<u>4,891</u>
Special reserve:		
Ending balance as of March 31, 2010		75,434
Changes for the year:		
Provision for special reserve		56,368
Increase due to business combination		<u>53,000</u>
Total changes for the year		<u>109,368</u>
Ending balance as of March 31, 2011		<u>184,802</u>
Retained earnings brought forward:		
Ending balance as of March 31, 2010		30,186
Changes for the year:		
Dividends paid		(21,124)
Reversal of reserve for dividends		31,298
Reversal of special reserve for insurance contract obligations		25,070
Provision for reserve for advanced depreciation		(9)
Reversal of reserve for advanced depreciation		67
Provision for special reserve		(56,368)
Net loss		(10,065)
Increase due to business combination		<u>8,790</u>
Total changes for the year		<u>(22,341)</u>
Ending balance as of March 31, 2011		<u>7,845</u>
Total retained earnings:		
Ending balance as of March 31, 2010		201,321
Changes for the year:		
Dividends paid		(17,603)
Net loss		(10,065)
Increase due to business combination		<u>62,872</u>
Total changes for the year		<u>35,203</u>
Ending balance as of March 31, 2011		<u>236,524</u>

See accompanying notes to financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Statement of Changes in Net Assets (Continued)

(Yen in millions)

Treasury stock:		
Ending balance as of March 31, 2010	¥	(7,963)
Changes for the year:		
Retirement of treasury stock		<u>7,963</u>
Total changes for the year		<u>7,963</u>
Ending balance as of March 31, 2011		<u>-</u>
Total stockholders' equity:		
Ending balance as of March 31, 2010		337,460
Changes for the year:		
Dividends paid		(17,603)
Net loss		(10,065)
Increase due to business combination		<u>150,504</u>
Total changes for the year		<u>122,835</u>
Ending balance as of March 31, 2011		<u>460,296</u>
Valuation and translation adjustments:		
Net unrealized gains/losses on investments:		
Ending balance as of March 31, 2010		35,808
Changes for the year:		
Net changes of items other than stockholders' equity		<u>(19,429)</u>
Total changes for the year		<u>(19,429)</u>
Ending balance as of March 31, 2011		<u>16,378</u>
Total valuation and translation adjustments:		
Ending balance as of March 31, 2010		35,808
Changes for the year:		
Net changes of items other than stockholders' equity		<u>(19,429)</u>
Total changes for the year		<u>(19,429)</u>
Ending balance as of March 31, 2011		<u>16,378</u>
Total net assets:		
Ending balance as of March 31, 2010		373,268
Changes for the year:		
Dividend paid		(17,603)
Net loss		(10,065)
Increase due to business combination		150,504
Net changes of items other than stockholders' equity		<u>(19,429)</u>
Total changes for the year		<u>103,405</u>
Ending balance as of March 31, 2011	¥	<u><u>476,674</u></u>

See accompanying notes to financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation

As of and for the years ended March 31, 2010 and 2011

March 31, 2010

1. Basis of presentation

The accompanying non-consolidated financial statements have been translated from the non-consolidated financial statements of Aioi Insurance Company, Limited ("the Company") prepared in accordance with the provisions set forth in the Corporate Accounting Regulations, the Enforcement Regulations of the Japanese Insurance Business Law and related rules and regulations applicable to the non-life insurance industry in general and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

March 31, 2011

1. Basis of presentation

The accompanying non-consolidated financial statements have been translated from the non-consolidated financial statements of Aioi Nissay Dowa Insurance Company, Limited ("the Company") prepared in accordance with the provisions set forth in the Corporate Accounting Regulations, the Enforcement Regulations of the Japanese Insurance Business Law and related rules and regulations applicable to the non-life insurance industry in general and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010

2. Valuation policies and methods of securities are as follows:

- (1) Trading securities are valued at fair value, and cost of sale is calculated using the moving average method.
- (2) Securities held to maturity are valued at amortized cost (straight-line method).
- (3) Stocks of subsidiaries and affiliates are valued at cost determined by the moving average method.
- (4) Available for sale securities for which fair value is available are valued at fair value as of March 31, 2010. Net unrealized gains/losses are reported as a separate component of net assets, and cost of sales securities is calculated using the moving average method.
- (5) Available for sale securities for which fair value is deemed to be impracticable to determine are valued at cost using the moving average method.
- (6) Securities earmarked for policy reserve are valued at amortized cost using the moving average method pursuant to Industry Audit Committee Report No.21 "Temporary Treatment of Accounting and Auditing Concerning Securities Earmarked for Policy Reserve in Insurance Industry" (issued by The Japanese Institute of Certified Public Accountants on November 16, 2000).
The outline of the risk management policy of the Company for securities earmarked for policy reserve is as follows:
In order to control risks of interest rate variability arising in assets and liabilities, the Company segregates "savings type traffic accident insurance denominated in U.S. dollars" block as a sub-segment. And applies the investment policies which enable it to maintain the durations of the securities earmarked for policy reserve and the policy reserve for the segregated block within a

March 31, 2011

2. Valuation policies and methods of securities are as follows:

- (1) Securities held to maturity are valued at amortized cost (straight-line method).
- (2) Stocks of subsidiaries and affiliates are valued at cost determined by the moving average method.
- (3) Available for sale securities for which fair value is available are valued at fair value as of March 31, 2011. Net unrealized gains/losses are reported as a separate component of net assets, and cost of sales securities is calculated using the moving average method.
- (4) Available for sale securities for which fair value is deemed to be impracticable to determine are valued at cost using the moving average method.
- (5) Securities earmarked for policy reserve are valued at amortized cost using the moving average method pursuant to Industry Audit Committee Report No.21 "Temporary Treatment of Accounting and Auditing Concerning Securities Earmarked for Policy Reserve in Insurance Industry" (issued by The Japanese Institute of Certified Public Accountants on November 16, 2000).
The outline of the risk management policy of the Company for securities earmarked for policy reserve is as follows:
In order to control risks of interest rate variability arising in assets and liabilities, the Company segregates "savings type traffic accident insurance denominated in U.S. dollars" block as a sub-segment. And applies the investment policies which enable it to maintain the durations of the securities earmarked for policy reserve and the policy reserve for the segregated block within a

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010

certain definite range.

3. Securities managed as a major component of trust assets in the money trust are valued at fair value.

Securities managed as trust assets in the money trusts which are not classified as trading securities or held to maturity bonds are valued based on the same method as that for available for sales securities.

4. Derivative financial instruments are valued at fair value.

5. Depreciation of tangible fixed assets (excluding lease assets) held by the Company is computed using the declining-balance method, except for buildings (excluding fixtures) acquired on or after April 1, 1998, to which the straight-line method is applied.

6. Depreciation of intangible fixed assets (excluding lease assets) held by the Company is computed using the straight-line method. Capitalized software (excluding lease assets) for internal use is amortized by using the straight-line method based on estimated useful lives (5 years).

7. Translation of foreign currency assets and liabilities into Japanese yen complies with the provisions of the Accounting Standard for Foreign Currency Transactions.

8.
 - (1) The bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision. A reserve for bad debts for loans to debtors who are legally deemed to be

March 31, 2011

certain definite range.

3. Securities managed as a major component of trust assets in the money trust are valued at fair value.

Securities managed as trust assets in the money trusts which are not classified as trading securities or held to maturity bonds are valued based on the same method as that for available for sales securities.

4. Derivative financial instruments are valued at fair value. Foreign exchange contracts that meet certain criteria are accounted for under exceptional methods, as permitted in the related accounting standards, as if the foreign exchange rates under those contracts were originally applied to the underlying financial instruments.

5. Depreciation of tangible fixed assets (excluding lease assets) held by the Company is computed using the declining-balance method, except for buildings (excluding fixtures) acquired on or after April 1, 1998, to which the straight-line method is applied.

6. Depreciation of intangible fixed assets (excluding lease assets) held by the Company is computed using the straight-line method. Capitalized software (excluding lease assets) for internal use is amortized by using the straight-line method based on estimated useful lives (5 years).

7. Translation of foreign currency assets and liabilities into Japanese yen complies with the provisions of the Accounting Standard for Foreign Currency Transactions.

8.
 - (1) The bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision. A reserve for bad debts for loans to debtors who are legally deemed to be

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010

experiencing financial difficulties such as bankruptcy, special liquidation or whose notes are under suspension at clearing houses, and loans for debtors who are substantially deemed to be experiencing financial difficulties are provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible through guarantees. A bad debt reserve for loans to debtors who likely experience financial difficulties in the future is provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible from guarantees considering the debtor's ability to repay the entire outstanding debt.

For loans other than those described above, a bad debt reserve is calculated at an amount of the outstanding balances multiplied by actual historical bad debt ratios. All loans and receivables are provided for based on the assessment under the internal standard for self-assessment of assets. The assessment was performed by the departments which are responsible for respective assets. Financial Instruments Audit Department reviews those results.

- (2) Reserve for pension and retirement benefits is established to provide for future retirement benefits based on the estimated retirement benefit obligation and plan assets as of March 31, 2010.

Unrecognized prior service costs are expensed as incurred.

Unrecognized actuarial gains and losses are amortized from the year following the year in which those gains and losses arise using the straight-line method over certain periods within the estimated average remaining service years of employees (12 years).

March 31, 2011

experiencing financial difficulties such as bankruptcy, special liquidation or whose notes are under suspension at clearing houses, and loans for debtors who are substantially deemed to be experiencing financial difficulties are provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible through guarantees. A bad debt reserve for loans to debtors who likely experience financial difficulties in the future is provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible from guarantees considering the debtor's ability to repay the entire outstanding debt.

For loans other than those described above, a bad debt reserve is calculated at an amount of the outstanding balances multiplied by actual historical bad debt ratios. All loans and receivables are provided for based on the assessment under the internal standard for self-assessment of assets. The assessment was performed by the departments which are responsible for respective assets. Investment Risk Management Department reviews those results.

- (2) Reserve for pension and retirement benefits is established to provide for future retirement benefits based on the estimated retirement benefit obligation and plan assets as of March 31, 2011.

Unrecognized prior service costs are amortized using the straight-line method over certain periods within the estimated average remaining service years of employees (4 years).

Unrecognized actuarial gains and losses are amortized from the year following the year in which those gains and losses arise using the straight-line method over certain periods within the estimated average remaining service years of employees (11 or 12 years).

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010March 31, 2011

- (3) In order to provide for future retirement benefits for directors of the Company in relation to the acquisition of rights to purchase new shares without consideration, the estimated amounts to be paid at the end of the fiscal year are recorded as Reserves for retirement benefits for officers.
- (4) In order to provide for payment of bonuses to employees, the Company accounts for Accrued bonuses for employees based on the estimated amounts to be paid.
- (5) Reserve for price fluctuation is recognized under Article 115 of the Insurance Business Law to provide for possible losses arising from price fluctuations of investment securities.
9. Finance lease transactions that do not transfer ownership are accounted for in a similar manner with ordinary sale and purchase transactions.
- (3) In order to provide for payment of bonuses to employees, the Company accounts for Accrued bonuses for employees based on the estimated amounts to be paid.
- (4) Reserve for price fluctuation is recognized under Article 115 of the Insurance Business Law to provide for possible losses arising from price fluctuations of investment securities.
9. Finance lease transactions that do not transfer ownership are accounted for in a similar manner with ordinary sale and purchase transactions.
10. The Company has primarily applied the fair value hedge accounting method to forward exchange contracts used for hedging risks of variability in foreign currency. Foreign exchange contracts that meet certain criteria are accounted for under exceptional methods, as permitted in the related accounting standards, as if the foreign exchange rates under those contracts were originally applied to the underlying financial instruments. When the fair value hedge is applied, to foreign currency debt securities, individual securities are specified as the hedged item to apply the hedge individually. The Company does not perform an assessment of hedge effectiveness, because material terms relating to hedged items and hedging instruments are substantially identical and such hedging transactions are deemed highly and clearly interrelated.
10. Consumption taxes are accounted for under
11. Consumption taxes are accounted for under

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2010

the “Zei Nuki” (tax exclusive) method except for those relating to loss adjustment expenses, operating expenses and general and administrative expenses, which are accounted for under the “Zei Komi” (tax inclusive) method. Non-deductible consumption taxes relating to assets are included in suspense payments and amortized in equal installments over a period of five years.

11.

- (1) The Company has adopted “Accounting Standard for Financial Instruments” (ASBJ Statement No.10, March 10, 2008) in the fiscal year ended March 31, 2010. As a result of the adoption of the standard, the scope of securities measured at fair value has been changed. This change resulted in ¥1,474 million increase in Investments in securities, ¥942 million increase in Net unrealized gains/losses on investments, and ¥532 million decrease in Deferred tax assets, respectively.

- (2) The Company adopted “Partial Amendments to Accounting Standard for Retirement Benefits (ASBJ Statement No.19, July 31, 2008)” in the fiscal year ended March 31, 2010. The adoption had no effect on the financial statements, because it resulted in the use of the same discounted rates as before.

March 31, 2011

the “Zei Nuki” (tax exclusive) method except for those relating to loss adjustment expenses, operating expenses and general and administrative expenses, which are accounted for under the “Zei Komi” (tax inclusive) method. Non-deductible consumption taxes relating to assets are included in suspense payments and amortized in equal installments over a period of five years.

12.

- (1) The Company adopted “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No.18, March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No.21, March 31, 2008) in the fiscal year ended March 31, 2011. As a result of the adoption of the standard and guidance, ordinary profit decreased by ¥29 million, and loss before income taxes increased by ¥73 million, respectively.

- (2) The Company adopted “Accounting Standard for Business Combinations” (ASBJ Statement No.21, December 26, 2008) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No.10, December 26, 2008) in the fiscal year ended March 31, 2011.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets

As of and for the years ended March 31, 2010 and 2011

March 31, 2010

March 31, 2011

1.

(1) Qualitative information on financial instruments

(i) Policy on financial instruments

The Company runs non-life insurance business and manages money arising from insurance premiums and other investment assets.

The Company invests in securities, loans, real estates, and other investment assets focusing on enhancing profitability, while maintaining well-liquidity and securing investment returns stably in order to provide for payment of the insurance liabilities such as claims and maturity-refunds. The Company strives to establish an optimal investment portfolio, which allows the Company to generate sustainable investment returns, by changing asset allocation flexibly corresponding to the outlook for investment environment or by improving the efficiency of investment assets.

As for the investment management relating to saving type insurance, long-term fire insurance and care insurance, the Company strives to secure sustainable investment returns by investing in the assets with high liquidity and credibility based on Asset Liability Management ("ALM").

The Company utilizes derivative transactions represented by interest rate swaps and forward exchange contracts for the purpose of hedging market risks such as fluctuations of interest rates and foreign exchange rates.

(ii) Details of financial instruments and associated risks

The Company's financial assets mainly consist of securities including bonds and stocks and foreign securities.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010March 31, 2011

The securities held by the Company at the end of this fiscal year mainly consist of bonds, stocks and investment trust which are intended for portfolio investments and the business development including business and capital alliances. These securities are exposed to credit risks of issuers, and the market risks which arise from fluctuation in interest rates and fair market value, respectively. Foreign securities are also exposed to the risks which arise from fluctuation in foreign exchange rates.

Loans are exposed to credit risks of suffering losses at the time when the value of loans declines or is lost due to the deterioration in the financial condition of the counterparty. The fixed rate loans are also exposed to the risk arisen from fluctuation in interest rates.

The Company utilized derivative transactions such as forward exchange contracts, interest rate swaps, equity index options, stock index futures, bond futures, and credit derivatives during the year ended March 31, 2011. The Company utilizes derivative transactions mainly in order to hedge market risks arisen from fluctuation in foreign exchange rates, stock prices and interest rates in view of overall assets, liabilities and derivative positions, their risk amounts, and fair values.

Forward exchange contracts, interest rate swaps, and equity index options are exposed to risks from fluctuation in foreign exchange rates, interest rates, and market price of stocks, respectively. Credit derivatives are exposed to the credit risks of the reference entities. The derivative transactions are also exposed to the market liquidity risks that the preferred transactions cannot be executed at fair values due to the deterioration of market liquidity.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010March 31, 2011

(iii) Risk management structure relating to financial instruments

The Company establishes a basic policy regarding investment risks and an investment risk management policy that prescribes the definition of risks and risk management methodologies, which are resolved by the Board of Directors. The Company also maintains checks and balances by the risk management department which is independent from front-office and back-office.

The risk management department measures the risks, such as interest rates, foreign exchange rates, and market prices, based on the assets and liabilities positions (including derivative positions) using unified criteria (VaR, Value-at-Risk) to monitor whether risk amounts are within limits of risk capital resolved by the Board of Directors. The risk management department also performs sensitivity analysis addressing changes in market environments, such as interest rates, foreign currency rates, and market prices.

Financial instruments including securities are traded and managed based on the investment guideline and the investment plan which are resolved by the Board of Directors.

The risk management department reports investment risks, including the evaluation of compliance with the specified risk limits, to the investment committee on a monthly basis, and to the management committee and the Board of Directors on a quarterly basis. Investment planning department reports status of investment management including derivative transactions to the investment committee on a monthly basis, and to the management committee and the Board of Directors on a quarterly basis.

In addition to VaR and sensitivity

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010March 31, 2011

analysis, the Company establishes the following controls in order to manage various risks relating to financial instruments:

A. Market risk management

a. Interest rate risk management

The Company manages the risk arising from fluctuation of interest rates by Asset Liability Management (ALM). The investment management plans including policy pertaining to ALM are to be resolved at the Board of Directors. The investment committee and Board of Directors monitor status of investment and their risks, and discuss future investment strategies.

b Foreign exchange rate risk management

The Company strives to hedge the risk arising from fluctuations of foreign exchange rates using forward exchange contracts.

c. Price volatility risk management

The Company manages the risk arising from the market price volatility by setting loss cut rules and other methods such as stress tests. In addition, the Company manages purchases of securities intended for portfolio investments by preliminary review of transactions, setting position limit, and other continuous monitoring processes in order to reduce price volatility risk. As for the securities intended for business development including business and capital alliances, the Company monitors market environment and financial conditions of investees.

d. Derivative transactions

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010March 31, 2011

The Company executes derivative transactions based on the authorization policy that provides procedures for settlement of derivative transactions. As for regular derivative transactions, the investment administration management department, which is independent of the investment management department, confirms details of the transactions by reconciling trade tickets forwarded from the investment management department with trade confirmations sent directly by financial institutions and securities companies.

B. Credit risk management

The Company manages financial instruments with credit risks including derivatives under the credit management structure that provides rules for credit limit, credit exposure management, and regular monitoring of borrowers, and the clarified policy for credit screening. In addition, derivative instruments are entered into with selected counterparties with high credit quality and transactions are diversified across them in order to avoid credit risks by nonperformance.

C. Liquidity risk management relating to financing

The Company conducts appropriate treasury management of cash position by holding substantial amount of liquid assets and seeking accurate understanding of cash inflows and outflows. The Company strives to prevent market liquidity risk from arising by an appropriate risk management both qualitatively and quantitatively.

- (iv) Supplementary explanation of matters relating to fair value of financial

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010March 31, 2011

instruments and other information

The fair value of financial instruments is determined based on market price and by reasonable estimate with certain assumptions when market price is not available.

(2) Fair value of financial instruments

The following table summarizes the carrying amount in the balance sheet and the fair value of financial instruments as of March 31, 2011, together with their differences. Note that the following table does not include certain securities for which determination of fair value is deemed to be impracticable. (see Note 2)

	<u>Balance sheet</u>		
	<u>amount</u>	<u>Fair Value</u>	<u>Difference</u>
	(Yen in millions)		
(i) Cash, deposits & savings	¥ 247,669	247,669	
(ii) Monetary claims bought	1,430	1,430	-
(iii) Money trusts	1,903	1,903	-
(iv) Securities			
Securities held to maturities	8	8	0
Bonds earmarked for policy reserves	15	16	0
Available for sale securities	1,895,377	1,895,377	-
(v) Loans	325,137		
Bad debt reserve (*1)	(943)		
	<u>324,194</u>	<u>327,208</u>	<u>3,014</u>
Total assets	<u>¥ 2,470,600</u>	<u>2,473,615</u>	<u>3,015</u>
Derivative transaction (*2)			
Hedge accounting not applied	¥ 1,005	1,005	-
Hedge accounting applied	(7,070)	(7,070)	-
Total derivative transaction	<u>¥ (6,064)</u>	<u>(6,064)</u>	<u>-</u>

(*1) Reserve for bad debts earmarked for loans are deducted from the carrying amount.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010March 31, 2011

- (*2) Derivative transactions recorded in Other assets and Other liabilities are shown together. Assets and liabilities derived from derivative transactions are presented on a net basis and net credit position is shown with ().

(Note 1) Determination of fair value of financial instruments

Assets

- (i) Cash, deposits & savings
With regard to deposits & savings, the book value is deemed as the fair value since the book value approximates the fair value.

- (ii) Monetary claims bought

With regard to monetary claims bought, the price quoted by the counterparty financial institutions is deemed as the fair value.

- (iii) Money trusts

With regard to Money trusts, total amount of the fair value of assets held in the trusts is deemed as the fair value.

- (iv) Securities

The fair value of equity securities is determined based on the quoted market price and the fair value of bonds is determined based on the price quoted by the exchange, the information vender or the counterparty financial institutions.

The fair value of investment trusts is determined based on the public standard price or the price quoted by the counterparty financial institutions. With regard to investments in partnerships, the Company's share in the net assets of the partnerships (after

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010March 31, 2011

measuring the assets held by the partnerships at fair value where possible) is deemed as the fair value of the investments.

(v) Loans

With regard to floating rate loans, the book value is deemed as the fair value so long as no significant changes in credit risk arise, because interest rate changes will be timely reflected in the future cash flows and the book value approximates the fair value.

With respect to fixed rate loans, for each category of loans based on types of loans, duration and credit ratings, the fair value is measured as the present value of estimated future cash flows, discounted at interest rate applicable to the same type of new loans.

For loans to doubtful debtors, the carrying amount less bad debt reserve is deemed as the fair value, because bad debt reserve is determined individually by discounting the estimated future cash flows or based on appraisal value of underlying collateral where appropriate.

For loans to debtors in legal or de-facto bankruptcy, the carrying amount less bad debt reserve is deemed as the fair value, because bad debt reserve is determined individually based on appraisal value of underlying collateral where appropriate.

With regard to loans with limited amount within surrender value and no contractual maturity, the book value is deemed as the fair value since the book value approximates the fair value given their estimated repayment period and interest rate terms.

Derivative transaction

(i) Hedge accounting not applied

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010March 31, 2011

With regard to foreign exchange contract, the fair value is based on futures market price at the end of year.

With regard to the other derivative transactions, the fair value is based on the price quoted by counterparty financial institutions.

(ii) Hedge accounting applied

With regard to foreign exchange contract, the fair value is based on the futures' market price at the end of year.

(Note 2)

The following financial instruments held as of March 31, 2011 are not included in the above table, because determination of their fair values is deemed to be impracticable.

Unlisted stocks and investments in silent partnership (Carrying amount on the balance sheet: ¥138,433 million) are not included in the scope of fair value disclosure, because there is no market price for those financial instruments and it is impracticable to project future cash flows.

2.

(1) Matters related to investment and leasing property

The Company owns rental office (including those for internal use) and residential properties and idle real estates in major cities in Japan.

(2) Fair value of Investment and Rental Property as of March 31, 2011

Carrying amount	¥48,455 million
Fair value	66,383 million

(Note 1)

Carrying amount represents the cost of acquisition less accumulated depreciation.

(Note 2)

Fair value as of March 31, 2011 is primarily

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010March 31, 2011

based on appraisals by qualified external valuers. With respect to the investment and leasing properties with no substantial changes in their appraisal values or indices in which market prices are reflected appropriately since the most recent appraisals, fair value is determined based on these appraisal values or the values adjusted by these indices.

1.
(1) Loans to financially impaired parties and overdue loans amount to ¥47 million and ¥1,475 million, respectively.

Loans to financially impaired parties represent those loans, excluding the portion of the loans that were written off, on which accrued interest receivable is not recognized because repayments of principal or interest are overdue for considerable periods and they were regarded uncollectible and which meet the conditions prescribed in Article 96, Section 1-3 and 1-4 of the Corporation Tax Law Enforcement Ordinance (1965 Cabinet Order No.97). Hereafter, this last category is referred to as "Loans not accruing interest".

Overdue loans represent loans not accruing interest excluding (a) loans to financially impaired parties and (b) loans that have been granted grace for interest payments for the purpose of restructuring of, or support to debtors in financial difficulty.

- (2) Loans overdue for 3 months or more amounted to ¥1,057 million.

Loans overdue for 3 months or more represent loans for which principal or interest is past due for 3 months or more after the contractual due date for repayment of principal or interest and excludes loans to financially impaired parties and overdue loans.

- (3) Restructured loans amounted to ¥1,570

3.
(1) Loans to financially impaired parties and overdue loans amount to ¥13 million and ¥1,773 million, respectively.

Loans to financially impaired parties represent those loans, excluding the portion of the loans that were written off, on which accrued interest receivable is not recognized because repayments of principal or interest are overdue for considerable periods and they were regarded uncollectible and which meet the conditions prescribed in Article 96, Section 1-3 and 1-4 of the Corporation Tax Law Enforcement Ordinance (1965 Cabinet Order No.97). Hereafter, this last category is referred to as "Loans not accruing interest".

Overdue loans represent loans not accruing interest excluding (a) loans to financially impaired parties and (b) loans that have been granted grace for interest payments for the purpose of restructuring of, or support to debtors in financial difficulty.

- (2) Loans overdue for 3 months or more amounted to ¥602 million.

Loans overdue for 3 months or more represent loans for which principal or interest is past due for 3 months or more after the contractual due date for repayment of principal or interest and excludes loans to financially impaired parties and overdue loans.

- (3) Restructured loans amounted to ¥2,184

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010

million.

Restructured loans are those loans which have granted favorable terms for the benefit of debtors such as interest exemption or reduction, grace on interest payments, grace on principal repayments, or forgiveness of debts for the purpose of restructuring of or support to the debtors in financial difficulty. Loans to financially impaired parties, overdue loans and loans overdue for 3 months or more are excluded from this category.

- (4) The total of delinquent loans amounts to ¥4,151 million.

2. Accumulated depreciation and reduction entry of tangible fixed assets amount to ¥176,860 million and ¥7,486 million, respectively. The reduction entry of ¥140 million was deducted from the acquisition costs for the tangible fixed assets acquired using government and other subsidies during the year ended March 31, 2010.

3. The total amounts receivable from and payable to affiliated companies amounted to ¥9,969 million and ¥1,864 million, respectively.

4. The total amounts of deferred tax assets and deferred tax liabilities amounted to ¥165,272 million and ¥12,662 million, respectively. The amount deducted from deferred tax assets as valuation allowance was ¥8,760 million.

Significant components of deferred tax assets are underwriting reserve of ¥107,982 million, investment in securities of ¥13,614 million, depreciation of ¥11,028 million, asset of retirement benefit trust of ¥10,995 million and reserve for employee retirement benefits of 7,181 million.

Significant component of deferred tax liabilities is unrealized gains on investments of ¥10,446 million.

March 31, 2011

million.

Restructured loans are those loans which have granted favorable terms for the benefit of debtors such as interest exemption or reduction, grace on interest payments, grace on principal repayments, or forgiveness of debts for the purpose of restructuring of or support to the debtors in financial difficulty. Loans to financially impaired parties, overdue loans and loans overdue for 3 months or more are excluded from this category.

- (4) The total of delinquent loans amounts to ¥4,573 million.

4. Accumulated depreciation and reduction entry of tangible fixed assets amount to ¥242,898 million and ¥12,064 million, respectively. The reduction entry of ¥44 million was deducted from the acquisition costs for the tangible fixed assets acquired using government and other subsidies during the year ended March 31, 2011.

5. The total amounts receivable from and payable to affiliated companies amounted to ¥13,556 million and ¥4,447 million, respectively.

6. The total amounts of deferred tax assets and deferred tax liabilities amounted to ¥262,756 million and ¥12,035 million, respectively. The amount deducted from deferred tax assets as valuation allowance was ¥11,970 million.

Significant components of deferred tax assets are underwriting reserve of ¥149,255 million, loss carried forward of ¥32,161 million, investment in securities of ¥27,729 million, depreciation of ¥18,970 million and asset of retirement benefit trust of ¥14,090 million.

Significant component of deferred tax liabilities is unrealized gains on investments of ¥9,252 million.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010

5. Investments in subsidiaries and affiliates amount to ¥89,147 million.

6. Securities in the amount of ¥35,411 million, money trusts in the amount of ¥1,905 million are pledged as collateral for loan payables in the amount of ¥43 million, for letter of credit issued, for derivative transactions and for overseas operations.

7. Details of outstanding claims are as follows (Yen in millions):

Gross outstanding claims (except for (a))	¥	299,289
Reinsurance recoverable on unpaid losses		<u>(21,977)</u>
Net		277,311
Outstanding claims relating to earthquake and compulsory automobile liability insurance (a)		<u>35,549</u>
Total	¥	<u>312,860</u>

8. Details of underwriting reserve are as follows (Yen in millions):

Gross ordinary underwriting reserves	¥	592,198
Reinsurance recoverable on underwriting reserves		<u>(8,398)</u>
Net		583,800
Other underwriting reserves		<u>1,020,951</u>
Total	¥	<u>1,604,752</u>

9. Net assets per share as of March 31, 2010 were ¥508.47. Total net assets for both all shares and common shares were ¥373,268 million, outstanding common shares were 734,101 thousand shares as of March 31, 2010.

March 31, 2011

7. Investments in subsidiaries and affiliates amount to ¥95,773 million.

8. Securities in the amount of ¥19,859 million, money trusts in the amount of ¥1,703 million are pledged as collateral for loan payables in the amount of ¥37 million, for letter of credit issued and for overseas operations.

9. Details of outstanding claims are as follows (Yen in millions):

Gross outstanding claims (except for (a))	¥	527,339
Reinsurance recoverable on unpaid losses		<u>(99,875)</u>
Net		427,463
Outstanding claims relating to earthquake and compulsory automobile liability insurance (a)		<u>55,542</u>
Total	¥	<u>483,006</u>

10. Details of underwriting reserve are as follows (Yen in millions):

Gross ordinary underwriting reserves	¥	895,211
Reinsurance recoverable on underwriting reserves		<u>(34,828)</u>
Net		860,382
Refund reserve		718,072
Reinsurance recoverable on refund reserve		<u>(0)</u>
Net		718,072
Other underwriting reserves		<u>660,415</u>
Total	¥	<u>2,238,870</u>

11. Net assets per share as of March 31, 2011 were ¥649.33. Total net assets for both all shares and common shares were ¥476,674 million, outstanding common shares were 734,101 thousand shares as of March 31, 2011.

12. The Company merged with Nissay Dowa

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010March 31, 2011

General Insurance Company, Limited on October 1, 2010 and the Company's name was changed to Aioi Nissay Dowa Insurance Company, Limited. Matters regarding the merger are as follows:

(1) Outlines of the business combination

(i) Name and business of combined entities

A Combining company

Company name: Aioi Insurance Company, Limited

Description of business: Non-life insurance

B Combined company

Company name: Nissay Dowa General Insurance Company, Limited

Description of business: Non-life insurance

(ii) Date of business combination

October 1, 2010

(iii) Legal form of the business combination

Merger by absorption of Nissay Dowa General Insurance Company, Limited by Aioi Insurance Company, Limited as surviving company

(iv) Name of the Company after business combination

Aioi Nissay Dowa Insurance Company, Limited

(v) Outline and purpose of the transaction

The Company seeks to enhance the group's enterprise value as a main non-life insurance company of MS&AD Insurance Group, through the merger with Nissay Dowa General Insurance Company, Limited.

(2) Outline of the accounting treatment adopted

This merger was accounted for as a transaction under common control, in accordance with "Accounting Standard for

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010March 31, 2011

Business Combinations" (ASBJ Statement No.21 issued on December 26, 2008), and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10 issued on December 26, 2008).

10. The event occurring subsequent to the balance sheet date which would have a material effect on the financial position, the results of operations of the Company for the future periods is as follows:

On September 30, 2009, the Company and Nissay Dowa General Insurance Company, Limited ("NDGI") entered into share-for-share exchange agreement (the "Share Exchange Agreement") with and between Mitsui Sumitomo Insurance Group (Mitsui Sumitomo Insurance Group Holdings, Inc. ("MSIGH") (Current company name MS&AD Insurance Group Holdings Inc. ("MSAD")) and Mitsui Sumitomo Insurance Company, Limited ("MSI")), through which MSIGH would become the parent owning the entire shares of the Company and NDGI.

The Company entered into a merger agreement (the "Merger Agreement") with and between NDGI.

Following the approval of the Share Exchange Agreement at each extraordinary shareholders' meeting held on December 22, 2009 and obtaining permissions and other approvals from relevant authorities, the three parties completed the respective share exchange transactions (collectively, the "Share Exchange") on April 1, 2010. Consequently, the Company became a wholly owned subsidiary of MSAD.

Following the approval of the Merger Agreement at each extraordinary shareholders' meeting held on December 22, 2009 and obtaining permissions and other approvals from relevant authorities, the merger between the Company and NDGI will take effect on October 1, 2010.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010March 31, 2011

11. Guarantees and similar arrangements are as follows:

(Guarantees)

The Company provides guarantees to the underwriting transactions of the following companies: (Yen in millions)

Aioi Motor and General Insurance Company of Europe Limited	¥17,656
Aioi Insurance Company of America	2,258
Total	<u>¥19,914</u>

(Arrangements similar to guarantee)

The Company executes a net worth maintenance agreement on behalf of its subsidiary, DTRIC Insurance Company, Limited ("DTRIC"). Under this agreement, the Company's funding and other obligations are triggered if DTRIC falls under a situation that its net worth falls short of a predetermined level or it does not maintain adequate liquidity for payment for its obligations. This agreement does not provide any guarantees for payment for its obligations.

DTRIC was not in the triggering situation stated above as of March 31, 2010. The aggregated amount of liabilities and assets of DTRIC as of March 31, 2010 were ¥4,452 million and ¥7,224 million, respectively.

12. Unutilized portion of commitment lines given to third parties amounted to ¥11,765 million.

A commitment line is a contract whereby a

13. Guarantees and similar arrangements are as follows:

(Guarantees)

The Company provides guarantees to the underwriting transactions of the following companies: (Yen in millions)

Aioi Nissay Dowa Insurance Company of Europe Limited	¥17,144
Dowa Insurance Company (Europe) Limited	11
Aioi Nissay Dowa Insurance Company of America	1,933
Total	<u>¥19,089</u>

(Arrangements similar to guarantee)

The Company executes a net worth maintenance agreement on behalf of its subsidiary, DTRIC Insurance Company, Limited ("DTRIC"). Under this agreement, the Company's funding and other obligations are triggered if DTRIC falls under a situation that its net worth falls short of a predetermined level or it does not maintain adequate liquidity for payment for its obligations. This agreement does not provide any guarantees for payment for its obligations.

DTRIC was not in the triggering situation stated above as of March 31, 2011. The aggregated amount of liabilities and assets of DTRIC as of March 31, 2011 were ¥4,315 million and ¥6,904 million, respectively.

14. Unutilized portion of commitment lines given to third parties amounted to ¥12,648 million.

A commitment line is a contract whereby a

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010

specified amount of loan will be made available by the Company to the counterparty as long as there is no violation of the terms specified under the agreement.

13. Matters regarding retirement benefits are as follows (Yen in millions):

(1) Details of retirement benefit obligation:

Projected retirement benefit obligation	¥	126,392
Plan assets		<u>(131,346)</u>
Unfunded obligation		4,953
Unrecognized actuarial losses		<u>(15,362)</u>
Balance sheet amount (net)		(20,315)
Prepaid pension expense		<u>(40,209)</u>
Reserve for pension and retirement benefits	¥	<u><u>19,893</u></u>

(2) Actuarial assumptions for calculation of projected retirement benefit obligation, etc.

Attribution method of retirement benefits over service period	The benefit years of service method
Discount rate	2.0 %
Expected rate of return on plan assets	
Corporate Pension Fund and Qualified Pension Plan	2.0 %
Retirement benefit trust	0.0 %
Amortization period for prior service costs	1 year
Amortization period for unrecognized actuarial gains and losses	12 years

March 31, 2011

specified amount of loan will be made available by the Company to the counterparty as long as there is no violation of the terms specified under the agreement.

15. Matters regarding retirement benefits are as follows (Yen in millions):

(1) Details of retirement benefit obligation:

Projected retirement benefit obligation	¥	179,114
Plan assets		<u>(177,988)</u>
Unfunded obligation		1,126
Unrecognized actuarial losses		(25,392)
Unrecognized prior service cost		<u>102</u>
Balance sheet amount (net)		(24,163)
Prepaid pension expense		<u>(44,708)</u>
Reserve for pension and retirement benefits	¥	<u><u>20,544</u></u>

(2) Actuarial assumptions for calculation of projected retirement benefit obligation, etc.

Attribution method of retirement benefits over service period	The benefit years of service method
Discount rate	2.0 %
Expected rate of return on plan assets	
Defined Benefit Corporate Pension Plan (Fund Type)	2.0 %
Defined Benefit Corporate Pension Plan (Contract Type)	1.5 %
Retirement benefit trust	0.0 %
Amortization period for prior service costs	4 years
Amortization period for unrecognized actuarial gains and losses	11 or 12 years

14. The details of treasury stocks whose retirement procedures after the resolution of

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets (Continued)

March 31, 2010March 31, 2011

the Board of Directors have not been completed as of March 31, 2010 are as follows:

Carrying amount of treasury stocks to be retired: ¥ 7,963million

Class of shares stocks to be retired:
Common stock

Number of shares stocks to be retired:
22,100 thousand shares

On April 1, 2010, the Company retired the treasury stocks in accordance with the resolution at the Board of the Directors held on February 26, 2010.

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| <p>15. "Subsidiary" and "affiliated company" appearing elsewhere in this balance sheet and notes thereto refer to those defined in Article 2 of the Corporate Accounting Regulations.</p> <p>16. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.</p> | <p>16. "Subsidiary" and "affiliated company" appearing elsewhere in this balance sheet and notes thereto refer to those defined in Article 2 of the Corporate Accounting Regulations.</p> <p>17. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.</p> |
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AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Statements of Income

For the years ended March 31, 2010 and 2011

March 31, 2010

1. The aggregate amounts of income and expenses resulting from transactions with affiliated companies amounted to ¥26,206 million and ¥44,652 million, respectively.

2.

(1) Details of net premiums written are as follows (Yen in millions):

Gross premiums written	¥	922,480
Reinsurance premiums ceded		<u>128,429</u>
Net	¥	<u>794,050</u>

(2) Details of net claims paid are as follows (Yen in millions):

Gross claims paid	¥	616,546
Claim recoveries from ceded reinsurance		<u>125,971</u>
Net	¥	<u>490,574</u>

(3) Details of commissions and collection expenses are as follows (Yen in millions):

Commissions and collection expenses paid	¥	147,229
Reinsurance commissions received		<u>7,152</u>
Net	¥	<u>140,076</u>

(4) Details of provision for (reversal of) outstanding claims are as follows (Yen in millions):

Gross provision for (reversal of) outstanding claims (except for (a))	¥	10,069
Less reinsurance recoverable on unpaid losses		<u>48</u>
Net		10,020
Provision for (reversal of) outstanding claims relating to earthquake and compulsory automobile liability insurance (a)		<u>(613)</u>
Total	¥	<u>9,407</u>

March 31, 2011

1. The aggregate amounts of income and expenses resulting from transactions with affiliated companies amounted to ¥24,525 million and ¥50,431 million, respectively.

2.

(1) Details of net premiums written are as follows (Yen in millions):

Gross premiums written	¥	1,112,267
Reinsurance premiums ceded		<u>165,889</u>
Net	¥	<u>946,378</u>

(2) Details of net claims paid are as follows (Yen in millions):

Gross claims paid	¥	749,054
Claim recoveries from ceded reinsurance		<u>153,510</u>
Net	¥	<u>595,543</u>

(3) Details of commissions and collection expenses are as follows (Yen in millions):

Commissions and collection expenses paid	¥	180,986
Reinsurance commissions received		<u>11,770</u>
Net	¥	<u>169,215</u>

(4) Details of provision for (reversal of) outstanding claims are as follows (Yen in millions):

Gross provision for (reversal of) outstanding claims (except for (a))	¥	89,713
Less reinsurance recoverable on unpaid losses		<u>(63,022)</u>
Net		26,691
Provision for (reversal of) outstanding claims relating to earthquake and compulsory automobile liability insurance (a)		<u>10,393</u>
Total	¥	<u>37,085</u>

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

March 31, 2010

- (5) Details of reversal of (provision for) underwriting reserve are as follows (Yen in millions):

Gross reversal of (provision for) ordinary underwriting reserves	¥	(13,547)
Less reinsurance recoverable on underwriting reserves		<u>5,257</u>
Net		(18,804)

Reversal of (provision for) other underwriting reserves		<u>78,994</u>
Total	¥	<u><u>60,189</u></u>

March 31, 2011

- (5) Details of reversal of (provision for) underwriting reserve are as follows (Yen in millions):

Gross reversal of (provision for) ordinary underwriting reserves	¥	(21,445)
Less reinsurance recoverable on underwriting reserves		<u>(8,305)</u>
Net		(13,139)

Reversal of (provision for) refund reserve		54,354
Less reinsurance recoverable on refund reserve		<u>(0)</u>
Net		54,353

Reversal of (provision for) other underwriting reserves		<u>52,266</u>
Total	¥	<u><u>93,481</u></u>

- (6) Details of interest and dividends received are as follows (Yen in millions):

Interest on deposits and savings	¥	197
Interest on monetary claims bought		341
Interest and dividends on investments in securities		35,998
Interest on loans		6,576
Rental income on properties		5,062
Other interest and dividends		<u>553</u>
Total	¥	<u><u>48,729</u></u>

- (6) Details of interest and dividends received are as follows (Yen in millions):

Interest on deposits and savings	¥	332
Interest on monetary claims bought		89
Interest and dividends on investments in securities		44,977
Interest on loans		5,912
Rental income on properties		5,285
Other interest and dividends		<u>696</u>
Total	¥	<u><u>57,293</u></u>

3. Interest and dividends received do not arise in Losses on trading securities. The total of valuation gains and losses on sale is a loss in the amount of ¥4 million. The total of gains and losses on devaluation is a loss in the amount of ¥0 million.

4. Gains and losses on devaluation do not arise in the investment gains and losses on money trust. The total of valuation gains and losses included in the gains on derivative transactions is a gain in the amount of ¥19,164 million.

5. Net income per share for the year ended

3. Either interest and dividends received or gains and losses on sale do not arise in Losses on trading securities. The total of valuation gains and losses on devaluation is a gain in the amount of ¥7 million.

4. Gains and losses on devaluation do not arise in the investment gains and losses on money trust. The total of valuation gains and losses included in the gains on derivative transactions is a gain in the amount of ¥10,883 million.

5. Net loss per share for the year ended March

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

March 31, 2010

March 31, 2010 is ¥24.74.

Earnings per share after adjustment for dilutive effect of shares for the year ended March 31, 2010 is ¥24.73.

Net income per share is computed based on the following figures: Net income and Net income available to common stockholders, ¥18,166 million; and Average outstanding common shares during the year, 734,129 thousand shares.

Net income per share after adjustment for dilutive effect of shares is computed based on the following figures: effect of dilutive warrants during the year, 379 thousand shares.

6. Other extraordinary income includes gains on change in accounting for gains on reversal of stock acquisition rights in the amount of ¥208 million.
7. Other extraordinary losses include business integration costs in the amount of ¥ 8,236 million.
8. Costs for retirement benefits included in loss adjustment expenses, operating expenses and general and administrative expenses are as follows (Yen in millions):

Service costs	¥	3,437
Interest cost		2,517
Expected return on plan assets		(1,455)
Amortization of unrecognized actuarial losses		<u>3,414</u>
Net periodic pension cost		7,913
Contributions paid to defined contribution plan		<u>671</u>
Total	¥	<u>8,585</u>

March 31, 2011

31, 2011 is ¥13.71.

Earnings per share after adjustment for dilutive effect of shares is not presented as no dilutive securities exist.

Net loss per share is computed based on the following figures: Net loss and Net loss available to common stockholders, ¥10,065 million; and Average outstanding common shares during the year, 734,101 thousand shares.

6. Other underwriting expenses include losses on derivatives to reduce the currency risk of reinsurance transactions in foreign currency in the amount of ¥4,105 million.
7. Other extraordinary losses include business integration costs (¥ 21,666 million) and losses on cumulative adjustment for the adoption of "Accounting Standard for Asset Retirement Obligations" (¥ 308 million).
8. Costs for retirement benefits included in loss adjustment expenses, operating expenses and general and administrative expenses are as follows (Yen in millions):

Service costs	¥	4,704
Interest cost		3,016
Expected return on plan assets		(1,945)
Amortization of unrecognized actuarial losses		<u>1,864</u>
Amortization of unrecognized prior service costs		<u>(14)</u>
Net periodic pension cost		7,624
Contributions paid to defined contribution plan		<u>685</u>
Total	¥	<u>8,309</u>

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Statements of Income (Continued)

March 31, 2010March 31, 2011

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| 9. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise. | 9. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise. |
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AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Statements of Changes in Net Assets

For the years ended March 31, 2010 and 2011

March 31, 2010

1. Type and number of treasury stock

	<u>March</u> <u>31,</u> <u>2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>March</u> <u>31,</u> <u>2010</u>
Common shares	22,067	58	26	22,100

Note 1 The increase in the number of common treasury stocks during the year was due to repurchase of fractional shares (58 thousand shares).

Note 2 The decrease in the number of common treasury stocks during the year was due to the exercise of subscription rights to shares (24 thousand shares) and additional purchase of fractional shares (2 thousand shares).

March 31, 2011

1. Type and number of shares issued and treasury stock

	<u>March</u> <u>31,</u> <u>2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>March</u> <u>31,</u> <u>2011</u>
Issued:				
Common shares	756,201	-	22,100	734,101
Total	756,201	-	22,100	734,101
Treasury stock:				
Common shares	22,100	-	22,100	-
Total	22,100	-	22,100	-

Note 1: The decrease in the number of common treasury stocks during the year (22,100 thousand shares) was due to retirement of these shares.

2. Dividends

(1) Dividends paid (Yen in millions, except for dividend per share in Yen)

<u>Resolution</u>	<u>Type of share</u>	<u>Aggregate amount of dividends</u>	<u>Dividend per share</u>	<u>Date of record</u>	<u>Effective date</u>
General meeting of stockholders held on June 29, 2010	Common shares	¥ 7,341	¥10.00	March 31, 2010	June 30, 2010
Meeting of the Board of Directors held on June 29, 2010	Common shares	¥ 300	¥ 0.40	-	July 2, 2010
Meeting of the Board of Directors held on August 12, 2010	Common shares	¥2,750	¥3.74	-	August 13, 2010
Meeting of the Board of Directors held on November 19, 2010	Common shares	¥ 6,990	¥ 9.52	-	December 1, 2010

<u>Resolution</u>	<u>Type of share</u>	<u>Type of assets for dividends and book value</u>	<u>Dividend per share</u>	<u>Date of record</u>	<u>Effective date</u>
Meeting of the Board of Directors held on August 12, 2010	Common shares	Common shares of MS&AD Research Institute Company, Limited Inter Risk Research Institute and Consulting, Inc. and MS&AD Staffing Service Company, Limited	¥ 222 ¥0.30	-	October 1, 2010

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Statements of Changes in Net Assets (Continued)

March 31, 2010March 31, 2011

- (2) Dividends to be made effective in the following year for which the date of record is in the current reporting period (Yen in millions, except for dividend per share in Yen))

<u>Resolution</u>	<u>Type of share</u>	<u>Type of assets for dividends and book value</u>	<u>Source of dividend</u>	<u>Dividend per share</u>	<u>Date of record</u>	<u>Effective date</u>
Meeting of the Board of Directors held on May 18, 2011	Common share	Treasury Discount Bills ¥ 5,599 (115 th)	Retained earnings	¥ 7.62	March 31, 2011	June 9, 2011

2. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.
3. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.