

Aioi Nissay Dowa Insurance Company, Limited

Financial Statements

Solvency Margin Ratio

(Calculated in accordance with the Japanese equivalent of  
"Solvency Standard for Non-Life Insurance Business" )

As of 31<sup>st</sup> March 2017

 Aioi Nissay Dowa Insurance Company, Limited

**We confirm that on 5 July 2017 the Board confirmed their responsibility for:**

**Financial Statements for**

**Aioi Nissay Dowa Insurance Company Limited March 31, 2016 and 2017**

**Aioi Nissay Dowa Insurance Company Limited and its consolidated Subsidiaries  
March 31, 2016 and 2017**

**and**

**Solvency Margin Ratio (Calculated in accordance with the Japanese equivalent of  
Solvency Standard for Non-Life Insurance Business)**

**and**

**authorise the issue of these financial statements**

**Aioi Nissay Dowa Insurance Company, Limited**

5 / July / 2017

Date

Koji Nagashima

**Koji Nagashima**

Executive Vice President, Executive Officer,  
Representative Director

5 / July / 2017

Date

Masahiro Higuchi

**Masahiro Higuchi**

Managing Executive Officer, Director

## **Financial Statements (Consolidated)**



AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Financial Statements  
For the years ended March 31, 2016 and 2017

(With Independent Auditor's Report Thereon)



## **Independent Auditor's Report**

To the Board of Directors of Aioi Nissay Dowa Insurance Company, Limited:

We have audited the accompanying consolidated financial statements of Aioi Nissay Dowa Insurance Company, Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as of March 31, 2016 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aioi Nissay Dowa Insurance Company, Limited and its consolidated subsidiaries as of March 31, 2016 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

July 5, 2017  
Tokyo, Japan

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

As of March 31, 2016 and 2017

	2016	2017
	(Yen in millions)	
<u>Assets</u>		
Assets		
Cash, deposits and savings	¥ 178,023	215,281
Call loans	15,000	15,000
Monetary claims bought	94	—
Money trusts	2,511	2,502
Investments in securities	2,462,329	2,540,566
Loans	221,856	210,917
Tangible fixed assets:		
Land	80,897	76,920
Buildings	90,362	86,802
Lease assets	51	29
Construction in progress	836	1,187
Other tangible fixed assets	11,598	11,509
Total tangible fixed assets	183,746	176,450
Intangible fixed assets:		
Software	27,264	22,388
Goodwill	8,121	6,040
Other intangible fixed assets	13,098	9,176
Total intangible fixed assets	48,484	37,605
Other assets	324,396	312,796
Assets for pension and retirement benefits	32,815	32,452
Deferred tax assets	13,670	15,536
Customers' liabilities under acceptances and guarantees	12,500	7,530
Bad debt reserve	(1,642)	(1,743)
Total assets	¥ 3,493,786	3,564,896

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets (Continued)

	2016	2017
	(Yen in millions)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:		
Outstanding claims	¥ 538,029	557,637
Underwriting reserves	1,941,805	1,947,427
Total policy liabilities	2,479,834	2,505,065
Bonds issued	50,000	50,000
Other liabilities	163,016	173,314
Liabilities for pension and retirement benefits	16,911	20,218
Accrued bonuses for employees	5,818	5,992
Reserve for reorganization by function	166	2,288
Reserves under the special laws:		
Reserve for price fluctuation	36,525	37,114
Total reserves under the special laws	36,525	37,114
Deferred tax liabilities	280	8
Acceptances and guarantees	12,500	7,530
Total liabilities	2,765,053	2,801,532
Net Assets		
Shareholders' equity:		
Common stock	¥ 100,005	100,005
Capital surplus	77,092	77,092
Retained earnings	198,679	212,021
Total shareholders' equity	375,776	389,118
Accumulated other comprehensive income/(loss):		
Net unrealized gains/(losses) on investments in securities	342,074	375,666
Foreign currency translation adjustments	(309)	(10,984)
Accumulated gains/(losses) on retirement benefits	5,752	5,724
Total accumulated other comprehensive income/(loss)	347,517	370,406
Non-controlling interests	5,439	3,838
Total net assets	728,733	763,364
Total liabilities and net assets	¥ 3,493,786	3,564,896

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income

For the years ended March 31, 2016 and 2017

	2016	2017
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,262,238	1,266,872
Deposit premiums from policyholders	31,513	28,506
Investment income on deposit premiums from policyholders	19,196	17,365
Life insurance premiums	2,131	2,018
Other underwriting income	926	980
Total underwriting income	1,316,005	1,315,742
Investment income:		
Interest and dividends income	60,905	56,929
Investment gains on money trusts	0	1
Gains on sales of securities	19,609	13,386
Gains on redemption of securities	1,242	425
Other investment income	391	1,055
Transfer of investment income on deposit premiums from policyholders	(19,196)	(17,365)
Total investment income	62,952	54,432
Other ordinary income:		
Other ordinary income	11,372	9,732
Total other ordinary income	11,372	9,732
Total ordinary income	1,390,330	1,379,907
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	674,989	684,929
Loss adjustment expenses	63,654	63,253
Commissions and collection expenses	232,389	233,839
Maturity refunds to policyholders	81,691	69,648
Dividends to policyholders	47	59
Life insurance claims	352	362
Provision for outstanding claims	8,133	22,326
Provision for underwriting reserves	32,296	9,598
Other underwriting expenses	5,990	3,299
Total underwriting expenses	1,099,545	1,087,317
Investment expenses:		
Losses on sales of securities	9,172	4,341
Impairment losses on securities	6,693	631
Losses on redemption of securities	448	370
Losses on derivative transactions	1,642	4,102
Other investment expenses	2,416	664
Total investment expenses	20,373	10,110

See accompanying notes to consolidated financial statements.



AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income (Continued)

	2016	2017
	(Yen in millions)	
Operating expenses and general and administrative expenses    ¥	210,560	205,544
Other ordinary expenses:		
Interest expense	931	758
Provision for bad debt reserve	—	281
Losses on bad debts	87	107
Amortization of deferred assets under Article 113 of the Insurance Business Act	236	947
Other ordinary expenses	5,610	3,068
Total other ordinary expenses	6,866	5,162
 Total ordinary expenses	1,337,345	1,308,135
 Ordinary profit/(loss)	52,984	71,771
 <u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sales of fixed assets	637	2,644
Other extraordinary income	3,079	—
Total extraordinary income	3,717	2,644
 Extraordinary losses:		
Losses on sales of fixed assets	1,990	1,927
Impairment losses on fixed assets	3,695	5,709
Provision for reserves under the special laws:		
Provision for reserve for price fluctuation	6,641	589
Total provision for reserves under the special laws	6,641	589
Other extraordinary losses	12,343	2,795
 Total extraordinary losses	24,671	11,021
 Income/(loss) before income taxes	32,031	63,394
 Income taxes-current	3,336	16,866
Income taxes-deferred	6,947	(1,045)
Total income taxes	10,284	15,821
 Net income/(loss)	21,746	47,573
Net income/(loss) attributable to non-controlling interests	(945)	(964)
Net income/(loss) attributable to owners of the parent    ¥	22,692	48,538

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2016 and 2017

	2016	2017
	(Yen in millions)	
Net income/(loss)	¥ 21,746	47,573
Other comprehensive income/(loss):		
Net unrealized gains/(losses) on investments in securities	(56,139)	33,583
Foreign currency translation adjustments	(1,067)	(11,303)
Actuarial gains/(losses) on retirement benefits	(3,917)	(27)
Total other comprehensive income/(loss)	<u>(61,124)</u>	<u>22,252</u>
Total comprehensive income/(loss)	¥ <u>(39,377)</u>	<u>69,826</u>
Allocation:		
Comprehensive income/(loss) attributable to owners of the parent	¥ (39,085)	71,427
Comprehensive income/(loss) attributable to non-controlling interests	(292)	(1,600)

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2016 and 2017

2016

(Yen in millions)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Total shareholders' equity
Beginning balance	¥ 100,005	81,207	203,686	384,899
Changes for the year:				
Dividends paid			(27,700)	(27,700)
Net income/(loss) attributable to owners of the parent			22,692	22,692
Changes in equity resulted from transactions with non-controlling interests		(206)		(206)
Put options granted to non-controlling interests		(3,908)		(3,908)
Net changes of items other than shareholders' equity				
Total changes for the year	—	(4,115)	(5,007)	(9,122)
Ending balance	¥ 100,005	77,092	198,679	375,776

	Accumulated other comprehensive income/(loss)				Non-controlling interests	Total net assets
	Net unrealized gains/(losses) on investments in securities	Foreign currency translation adjustments	Accumulated gains/(losses) on retirement benefits	Total accumulated other comprehensive income		
Beginning balance	¥ 398,178	1,447	9,669	409,295	5,731	799,926
Changes for the year:						
Dividends paid						(27,700)
Net income/(loss) attributable to owners of the parent						22,692
Changes in equity resulted from transactions with non-controlling interests						(206)
Put options granted to non-controlling interests						(3,908)
Net changes of items other than shareholders' equity	(56,103)	(1,756)	(3,917)	(61,777)	(292)	(62,069)
Total changes for the year	(56,103)	(1,756)	(3,917)	(61,777)	(292)	(71,192)
Ending balance	¥ 342,074	(309)	5,752	347,517	5,439	728,733

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Net Assets (Continued)

2017

(Yen in millions)

	Shareholders' equity			
	Common stock	Capital surplus	Retained earnings	Total shareholders' equity
Beginning balance	¥ 100,005	77,092	198,679	375,776
Changes for the year:				
Dividends paid			(35,195)	(35,195)
Net income/(loss) attributable to owners of the parent			48,538	48,538
Changes in equity resulted from transactions with non-controlling interests				—
Put options granted to non-controlling interests				—
Net changes of items other than shareholders' equity				
Total changes for the year	—	—	13,342	13,342
Ending balance	¥ 100,005	77,092	212,021	389,118

	Accumulated other comprehensive income/(loss)				Non-controlling interests	Total net assets
	Net unrealized gains/(losses) on investments in securities	Foreign currency translation adjustments	Accumulated gains/(losses) on retirement benefits	Total accumulated other comprehensive income		
Beginning balance	¥ 342,074	(309)	5,752	347,517	5,439	728,733
Changes for the year:						
Dividends paid						(35,195)
Net income/(loss) attributable to owners of the parent						48,538
Changes in equity resulted from transactions with non-controlling interests						—
Put options granted to non-controlling interests						—
Net changes of items other than shareholders' equity	33,591	(10,675)	(27)	22,888	(1,600)	21,288
Total changes for the year	33,591	(10,675)	(27)	22,888	(1,600)	34,630
Ending balance	¥ 375,666	(10,984)	5,724	370,406	3,838	763,364

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended March 31, 2016 and 2017

	2016	2017
	(Yen in millions)	
I. Cash flows from operating activities:		
Income/(loss) before income taxes	¥ 32,031	63,394
Adjustments for:		
Depreciation	16,164	18,282
Impairment losses on fixed assets	3,695	5,709
Amortization of goodwill	441	469
Increase/(decrease) in outstanding claims	8,504	23,420
Increase/(decrease) in underwriting reserves	31,291	11,809
Increase/(decrease) in bad debt reserve	(420)	152
Increase/(decrease) in accrued bonuses for employees	(560)	177
Increase/(decrease) in reserve for reorganization by function	(587)	2,121
Increase/(decrease) in liabilities for pension and retirement benefits	3,008	2,605
Increase/(decrease) in reserve for price fluctuation	6,641	589
Interest and dividends income	(60,905)	(56,929)
Losses/(gains) on investments in securities	(4,538)	(8,468)
Interest expense	931	758
Foreign exchange losses/(gains)	832	(907)
Losses/(gains) on disposal of tangible fixed assets	1,352	(716)
Decrease/(increase) in other assets	100	(5,231)
Increase/(decrease) in other liabilities	1,634	(3,390)
Other, net	3,412	3,691
Subtotal	43,031	57,538
Interest and dividends received	63,529	59,742
Interest paid	(931)	(758)
Income taxes refunded/(paid)	(5,164)	(2,044)
Net cash provided by/(used in) operating activities (a)	100,464	114,477

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

	2016	2017
	(Yen in millions)	
II. Cash flows from investing activities:		
Net decrease/(increase) in deposits and savings	¥ (7,126)	(3,072)
Proceeds from sales and redemption of monetary claims bought	116	93
Purchase of money trusts	(0)	(1)
Purchase of securities	(301,163)	(281,769)
Proceeds from sales and redemption of securities	252,134	231,255
Investment in loans	(42,341)	(30,803)
Collection of loans	46,844	41,853
Other, net	(13,250)	15,431
Subtotal (b)	<u>(64,787)</u>	<u>(27,011)</u>
(a + b)	35,677	87,466
Acquisition of tangible fixed assets	(13,099)	(10,800)
Proceeds from sales of tangible fixed assets	1,618	6,084
Acquisition of intangible fixed assets	(3,533)	(5,461)
Other, net	(746)	3,267
Net cash provided by/(used in) investing activities	<u>(80,549)</u>	<u>(33,921)</u>
III. Cash flows from financing activities:		
Dividends paid to shareholders	-	(35,195)
Purchase of shares of subsidiaries not resulting in changes in scope of consolidation	(384)	-
Other, net	(112)	(56)
Net cash provided by/(used in) financing activities	<u>(496)</u>	<u>(35,252)</u>
IV. Effect of exchange rate changes on cash and cash equivalents	<u>(1,208)</u>	<u>(5,936)</u>
V. Net increase/(decrease) in cash and cash equivalents	18,210	39,366
VI. Cash and cash equivalents at beginning of year	158,444	176,701
VII. Net increase in cash and cash equivalents due to merger with unconsolidated subsidiaries	<u>46</u>	<u>-</u>
VIII. Cash and cash equivalents at end of year	¥ <u>176,701</u>	<u>216,068</u>

See accompanying notes to consolidated financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES  
Significant Accounting Policies

For the years ended March 31, 2016 and 2017

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 Act 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. In preparing the accompanying consolidated financial statements, certain additional information has been provided to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan.

The accompanying consolidated financial statements are expressed in Japanese yen. As permitted by the regulations under the Corporate Accounting Regulations, amounts are rounded down to the nearest million of Japanese yen, except for those stated otherwise. As a result, the totals shown in the accompanying consolidated financial statements in Japanese yen do not necessarily agree with the sums of the individual amounts.

“Subsidiary” and “Associate” appearing in the accompanying consolidated financial statements and notes thereto refer to those defined in Article 2 of the Corporate Accounting Regulations.

2. Scope of consolidation

(1) Number of consolidated subsidiaries

22 companies

Major consolidated subsidiaries are as follows:

au Insurance Company Limited  
Aioi Nissay Dowa Insurance Company of Europe Limited  
Aioi Nissay Dowa Insurance Company Australia Pty Ltd  
Aioi Nissay Dowa Insurance (China) Company Limited  
DTRIC Insurance Company, Limited

Changes in scope of consolidation

Dowa Insurance Company (Europe) Limited has been excluded from the scope of consolidation during the year ended March 31, 2017 as its liquidation has been completed.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

(2) Unconsolidated subsidiaries

Major unconsolidated subsidiary is as follows:

Aioi Nissay Dowa Insurance Claims Research Company, Limited

Certain subsidiaries including the above subsidiary are not consolidated, as they are not considered to affect, in all material aspects, the consolidated financial conditions and business performance, in view of the size of their total assets, ordinary income, net income and retained earnings attributable to the Company.

3. Application of equity method

Other affiliates, including unconsolidated subsidiaries and associates (e.g. Zenkankyo Small Amount and Short Term Insurance Holdings, Limited), are stated at cost as their effects on consolidated net income and retained earnings are not considered material, individually and in aggregate.

4. Fiscal year of consolidated subsidiaries

The fiscal year end of certain consolidated subsidiaries, including Aioi Nissay Dowa Insurance Company of Europe Limited and 20 other companies, is December 31 which is different from that of the Company. The Company uses the financial statements as of their latest fiscal year end for consolidation purposes since the intervening period does not exceed three months from the Company's fiscal year end.

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

5. Accounting policies

(1) Valuation policies and methods of securities (including those included in Cash, deposits and savings and Monetary claims bought as set forth in the Enforcement Regulations of the Japanese Insurance Business Act)

(i) Investments in unconsolidated subsidiaries and associates that are not accounted for under the equity method are valued at cost determined by the moving average method.

(ii) Available-for-sale securities (except for those without practically determinable fair value) are valued at their year-end market prices.

Net unrealized gains and losses are reported as a separate line item of net assets and cost of sales is calculated by the moving average method.

(iii) Available-for-sale securities without practically determinable fair value are valued at cost using the moving average method.

(iv) Money trusts which are specifically managed for the Company for trading purposes are valued at their year-end market prices.

Money trusts which are specifically managed for the Company, other than money trusts



AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Significant Accounting Policies (Continued)

held for trading purposes and money trusts held to maturity, are valued on the same basis as available-for-sale securities.

(2) Valuation policies and methods of derivative financial instruments

Derivative financial instruments are valued at fair value.

(3) Depreciation methods of significant depreciable assets

- (i) Depreciation of tangible fixed assets is computed using the straight-line method.
- (ii) Intangible fixed assets are amortized by the straight-line method. Capitalized software for internal use is amortized by the straight-line method over its estimated useful life.

(4) Accounting policies for significant reserves

(i) Bad debt reserve

Bad debt reserve is established under the internal standards for self-assessment of assets and the policy for write-off and provision.

Bad debt reserve for loans to debtors who are legally deemed to be insolvent due to bankruptcy or special liquidation, or whose notes are under suspension at clearing houses, and loans to debtors who are deemed to be substantially insolvent is provided based on the outstanding balance remaining after deducting the resale value of collateral and the amount collectible through guarantees.

Bad debt reserve for loans to debtors who are likely to become insolvent in the future is provided based on the outstanding balance remaining after deducting the resale value of collateral, the amount collectible through guarantees and the amount expected to be repaid by the debtors considering their overall ability to pay.

For loans other than those described above, bad debt reserve is calculated by multiplying the outstanding balances by the historical bad debt ratios.

Bad debt reserve for all loans and receivables is provided based on the assessment under the internal standards for self-assessment of assets. The assessment is performed by departments which are responsible for the respective assets and the results are reviewed by the independent internal audit departments.

For overseas consolidated subsidiaries, bad debt reserve is established based on the assessment of collectability of individual receivables.

(ii) Accrued bonuses for employees

Accrued bonuses for employees are determined based on the estimated amounts to be paid at the year-end to provide for future bonuses for employees and operating officers.

(iii) Reserve for reorganization by function

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Significant Accounting Policies (Continued)

Reserve for reorganization by function is established to provide for the costs arising from reorganization by function among insurance subsidiaries of MS&AD Insurance Group Holdings, Inc., including the Company.

(iv) Reserve for price fluctuation

Reserve for price fluctuation is recognized under Article 115 of the Insurance Business Act to provide for possible losses arising from price fluctuation of investment assets such as equity securities.

(5) Accounting for retirement benefits

(i) Attribution method of retirement benefits over the service period

In computing retirement benefit obligations, the estimated retirement benefits are attributed to the periods up to the current year using the plan's benefit formula.

(ii) Accounting for actuarial gains and losses

Actuarial gains and losses are amortized, commencing from the following year, using the straight-line method over a certain number of years (11 years) that do not exceed the expected average remaining service period of employees at the time of occurrence.

(6) Translation of foreign currency assets and liabilities

Foreign currency monetary assets and liabilities of the Company are translated into Japanese yen using the spot exchange rate prevailing at the year-end. The foreign exchange gains and losses resulting from the translation are recognized in earnings.

Foreign currency assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen using the spot exchange rate prevailing at their respective year-ends, while shareholders' equity is translated at the historical rates. Income and expenses of overseas consolidated subsidiaries are translated into Japanese yen using the average exchange rate for the year. Differences arising from such translations are included in Foreign currency translation adjustments and Non-controlling interests in Net Assets.

(7) Accounting for consumption taxes

Consumption taxes received or paid by the Company and its domestic consolidated subsidiary are not included in income or expenses, except for those relating to Loss adjustment expenses and Operating expenses and general and administrative expenses incurred by the Company and its domestic consolidated subsidiary. Consumption taxes excluded from income and expenses are recorded at the net amount on the balance sheet.

Non-deductible consumption taxes are recognized as expenses for the period, except for those relating to the purchase of depreciable fixed assets which are not charged to expenses but deferred as Other assets and amortized over a period of five years on a straight-line basis.

(8) Hedge accounting

The Company applies the fair value hedge accounting to forward exchange contracts used to

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Significant Accounting Policies (Continued)

hedge risks of exchange rate fluctuations related to assets denominated in foreign currencies. Equity forward contracts are also accounted for under the fair value hedge accounting and used to mitigate risks of variability in fair value of equity investment.

Under the fair value hedge accounting, gains and losses on changes in fair value of the hedging instruments, are recognized in earnings together with the corresponding gains and losses of the hedged items attributable to the risks being hedged.

Gains and losses on foreign exchange forward contracts that meet certain criteria are accounted for under the allocation method, which is an exceptional treatment permitted under accounting principles generally accepted in Japan. Under the allocation method, assets and liabilities denominated in foreign currencies and hedged by foreign exchange forward contracts can be translated at the foreign exchange rate stipulated in the forward contracts, and the foreign exchange forward contracts used as hedging instruments are not measured at fair value either at the initial recognition or subsequent reporting dates.

When the fair value hedge is applied to foreign currency bonds and stocks, specific bonds or stocks are designated as the hedged items to apply the hedge accounting on an individual basis.

Hedge effectiveness is not assessed, since critical terms relating to hedged items and hedging instruments are substantially identical and such hedging transactions are highly and clearly interrelated.

(9) Accounting method for deferred assets under Article 113 of the Insurance Business Act

The amortization under Article 113 of the Insurance Business Act is calculated in accordance with the Insurance Business Act and the articles of incorporation of au Insurance Company, Limited, in which the assets are recorded.

6. Goodwill

Goodwill is amortized by the straight-line method over 15 years. Insignificant amounts of goodwill are charged to expenses as incurred.

7. Cash and cash equivalents on the consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash and cash equivalents constitute cash on hand, readily available deposits and short-term highly liquid investments with original maturities not exceeding three months.

8. Additional information

The Company and its domestic consolidated subsidiary have adopted “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 issued on March 28, 2016), effective from the year ended March 31, 2017.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets

As of March 31, 2016 and 2017

1. The amounts of accumulated depreciation and accelerated depreciation of tangible fixed assets are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Accumulated depreciation	252,297	240,846
Accelerated depreciation	8,831	7,626

(Note) As permitted under Japanese tax legislation for the purpose of deferral in recognizing taxable income, acquisition cost of certain qualifying properties is reduced to offset the taxable income that resulted from the sales of assets to be replaced by the acquired assets or receipts of governmental subsidies provided for the acquisition of the new assets. The total amounts deducted from the original acquisition cost of the qualifying properties as of March 31, 2016 and 2017 were ¥8,831 million and ¥7,626 million, respectively.

2. The carrying amounts of equity investments in unconsolidated subsidiaries and associates are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Investments in securities (Domestic stocks)	3,198	3,198
Investments in securities (Foreign securities)	1,374	1,369
Total	4,573	4,568

3. The amounts of loans to borrowers in bankruptcy, overdue loans, loans overdue for three months or more, and restructured loans are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Loans to borrowers in bankruptcy	–	30
Overdue loans	352	526
Loans overdue for three months or more	372	193
Restructured loans	1,341	1,168
Total	2,066	1,918

(Note) Loans to borrowers in bankruptcy represent those, excluding any part of bad debts that have been written off, on which accrued interest receivables are not recognized because repayments of the principal or interest have been overdue for considerable periods and regarded uncollectible (hereinafter, this category is referred to as “Loans not accruing interest”) and which meet the conditions prescribed in Article 96, Section 1-3 or 1-4 of the Corporation Tax Act Enforcement Ordinance (Cabinet Order No.97, 1965).

Overdue loans represent loans not accruing interest excluding (a) loans to borrowers in bankruptcy and (b) loans that have been granted a grace period for interest payments in order to assist the debtors’ operational restructuring or financial recovery.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

Loans overdue for three months or more represent those of which the principal or interest has been past due for three months or more after the contractual due date for repayments of the principal or interest. The loans to borrowers in bankruptcy and overdue loans are excluded from this category.

Restructured loans represent those which have been granted favorable terms for the benefit of the debtors, such as interest exemption or reduction, a grace period for interest payments, a grace period for principal repayments or forgiveness of debts for the purpose of the restructuring of, or support to the debtors in financial difficulty. The loans to borrowers in bankruptcy, overdue loans and loans overdue for three months or more are excluded from this category.

4. The amounts of pledged assets are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Investments in securities	49,106	56,940
Money trusts	2,311	2,302
Cash, deposits and savings	121	117
Total	51,539	59,360

(Note) The amounts in the above table include collateral assets required for borrowings in the amount of ¥9 million and ¥8 million as of March 31, 2016 and March 31, 2017, respectively. The remaining amounts consist of deposits for overseas operations and securities pledged as collateral for derivative transactions.

5. The amounts of investments in securities loaned under securities lending agreements are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
	207	183

6. The amounts of deferred assets under Article 113 of the Insurance Business Act included in Other assets, are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
	947	-

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
AND ITS CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Balance Sheets (Continued)

7. Guarantees and similar arrangements for consolidated subsidiaries and associates

March 31, 2016

The Company guarantees insurance-related liabilities of Aioi Nissay Dowa Insurance Company of America in the amount of ¥1,902 million.

March 31, 2017

The Company guarantees insurance-related liabilities of Aioi Nissay Dowa Insurance Company of America in the amount of ¥1,510 million.

8. The unutilized balances of commitment lines to third parties are as follows:

(Yen in millions)	
March 31, 2016	March 31, 2017
5,030	2,433

9. Information on financial instruments

(1) Qualitative information on financial instruments

(i) Policy on financial instruments

The Company and its subsidiaries (“the Group”) operate non-life insurance business and manage cash received from policyholders as insurance premium and other investment assets. The Group adopts the basic policy of ensuring the soundness of assets and enhancing profitability while maintaining adequate liquidity in order to provide for payment of the insurance liabilities such as claims and maturity-refunds.

As for the investment management relating to long-term insurance such as saving type insurance, long-term fire insurance and care insurance, the Group applies Asset and Liability Management (ALM) to obtain stable investment income through maintaining sufficient and appropriate assets that reflect characteristics of insurance liabilities.

The Company utilizes derivative transactions for the purpose of hedging market risks such as fluctuations of interest rates, foreign exchange rates and stock prices within a certain range.

Through these approaches, the Group aims to secure stable investment returns in the medium to long term.

The Company issues unsecured subordinated bonds in order to strengthen its financial base and raises short-term funds to meet temporary cash needs

(ii) Details of financial instruments and associated risks

The Group’s financial assets mainly consist of domestic and foreign securities including bonds and stocks as well as loans and other instruments.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Balance Sheets (Continued)

Risks pertaining to investments include market risks, credit risks and market liquidity risks. Market risks arise from fluctuation of interest rates, stock prices, foreign exchange rates and other market indicators. Credit risks arise from deterioration in the financial condition of security issuers and counterparties of loans. Market liquidity risks refer to such situation as being forced to execute transactions at extremely unfavorable prices under turmoil of the markets.

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

Derivative transactions are also exposed to market risks, credit risks, and market liquidity risks. However, market risks associated with derivative transactions are mitigated, as the fair value of hedged items and hedging instruments fluctuate oppositely.

In addition, hedge accounting is applied to some derivative transactions. For hedge instruments, hedge items, hedging policies and evaluation methods for hedge effectiveness of derivative transactions to which hedge accounting is applied, please refer to “Significant Accounting Policies, 5. Accounting policies-(8) Hedge accounting”.

(iii) Risk management structure relating to financial instruments

Risks related to financial instruments are managed in accordance with the basic policy for risk management and rules for investment risks which include definition of each risk and risk management techniques, established by the Board of Directors.

The risk management department is segregated from the trading and the back-office departments and maintains a structure which enables to exercise organizational checks and balances.

Based upon positions of assets and liabilities, the risk management department assesses, analyzes and manages risks by quantifying market risk and credit risk using the VaR (Value-at-Risk) method and risk limit management, and regularly reports the result to the Board of Directors.

a. Market risk management

The Company maintains and operates a risk management structure taking into account the characteristics of each financial instrument in accordance with internally established rules for market risk management. In addition to monitoring of risk amount by quantifying risks using the VaR method as described above, the Company manages market risks through assessment of potential risks that cannot be identified using the VaR method, analysis of sensitivity of existing assets to changes in interest rates, stock prices and foreign exchange rates and analysis of concentration and weakness of portfolio.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Balance Sheets (Continued)

b. Credit risk management

The Company maintains and operates a risk management structure in accordance with internally established rules for credit risk management. The trading and risk management departments maintain a credit risk management structure through credit screening, setting internal credit ratings and credit limits, management of concentration of credit risks, managing credit information, requiring collaterals and guarantees where necessary, and resolving delinquent loans on an individual loan basis.

In order to avoid credit risks arising from nonperformance of counterparties, derivative financial instruments are utilized only with selected counterparties of high credit quality and diversified amongst various counterparties.

c. Liquidity risk management

The Company maintains and operates a funding and market liquidity risk structure in accordance with internally established rules for liquidity risk management. The Company's treasury management classifies funding needs into "ordinary" and "emergency" depending on the urgency level and oversees operation and management for the liquidity in each level, which gives the foremost consideration to the liquidity risk. The treasury management also ensures diversification of fundraising activities to secure and maintain liquidity in various environments. The Group manages liquidity risks by holding a sufficient amount of cash, savings and deposits and highly liquid securities such as government bonds and regularly monitoring their aggregate amounts, in order to secure and maintain adequate funding in case of unexpected events like catastrophe and deterioration of funding liquidity arising from turmoil in the financial markets.

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

The fair value of financial instruments is determined based on market prices and, when market price is not available, based on reasonable estimates. In determining fair value, certain assumptions and methods are used, thus the fair value may differ if alternative assumptions are applied.

(2) Supplementary information on fair value of financial instruments

The following tables summarize the carrying amounts on the consolidated balance sheets and the fair values of financial instruments as of March 31, 2016 and 2017 together with their differences. The following tables exclude financial instruments in which the fair values are not practically determinable (see Note 2).



AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Balance Sheets (Continued)

(Yen in millions)

March 31, 2016	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	178,023	178,479	456
(ii) Call loans	15,000	15,000	—
(iii) Monetary claims bought	94	94	—
(iv) Money trusts	2,511	2,511	—
(v) Investments in securities			
Available-for-sale securities	2,428,738	2,428,738	—
(vi) Loans	221,856		
Bad debt reserve (*1)	(369)		
	221,487	225,271	3,784
Total assets	2,845,855	2,850,095	4,240
Bonds issued	50,000	52,275	2,275
Total liabilities	50,000	52,275	2,275
Derivative transactions (*2)			
Hedge accounting not applied	108	108	—
Hedge accounting applied	11,409	11,409	—
Total derivative transactions	11,517	11,517	—

(Yen in millions)

March 31, 2017	Carrying amount	Fair value	Difference
(i) Cash, deposits and savings	215,281	215,657	375
(ii) Call loans	15,000	15,000	—
(iii) Monetary claims bought	—	—	—
(iv) Money trusts	2,502	2,502	—
(v) Investments in securities			
Available-for-sale securities	2,505,826	2,505,826	—
(vi) Loans	210,917		
Bad debt reserve (*1)	(301)		
	210,615	213,299	2,684
Total assets	2,949,226	2,952,286	3,060
Bonds issued	50,000	51,734	1,734
Total liabilities	50,000	51,734	1,734
Derivative transactions (*2)			
Hedge accounting not applied	(134)	(134)	—
Hedge accounting applied	(567)	(567)	—
Total derivative transactions	(701)	(701)	—

(\*1) Bad debt reserve for loans is deducted from the carrying amount.

(\*2) Derivative assets and liabilities included in Other assets and Other liabilities are presented on a net basis. Debits and credits arising from derivative transactions are netted, and net credit position is shown in parentheses.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Balance Sheets (Continued)

(Note 1) Determination of fair value of financial instruments

Assets

(i) Cash, deposits and savings

With regard to deposits and savings, the fair value is measured at the present value of estimated future cash flows, discounted at interest rates applicable to the same type of new deposits and savings based on duration. With regard to deposits and savings without maturities and short-term deposits and savings, the book value is deemed as the fair value due to their demand feature or short term duration.

(ii) Call loans

With regard to Call loans, the book value approximates the fair value since they are scheduled to be settled in a short period of time.

(iii) Monetary claims bought

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

(iv) Money trusts

With regard to Money trusts, the price quoted by trustees is deemed as the fair value.

(v) Investments in 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 exchanges, independent price venders or counterparty financial institutions.

(vi) Loans

With regard to floating rate loans, the book value approximates the fair value contingent on no significant changes in the credit conditions of the debtor, because the floating rates on the loans reflect market interest rates. With regard to fixed rate loans, for loans sorted by type, term and credit rating, the fair value is based on the present value of the estimated future cash flows discounted at market interest rates, such as yields on government bonds, plus a credit spread. The fair value of certain personal loans is determined at the net present value of the estimated future cash flows discounted at interest rates applicable to the same type of new loans.

With regard to policy loans, which do not have contractual maturities, as the loan amount is limited to the surrender value, the carrying amount approximates the fair value, considering their estimated repayment periods and interest rates.

With regard to loans to debtors that are legally or substantially bankrupt and loans to doubtful debtors, the carrying amount less bad debt reserve is deemed as the fair value, because the bad debt reserve is determined based on the present value of the estimated future cash flows or the value of the collateral and the amount collectible through

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Balance Sheets (Continued)

guarantees.

Liabilities

Bonds issued

With regard to Bonds issued, prices included in “Reference Statistical Prices for OTC Bond Transactions” published by the Japan Securities Dealers Association or prices quoted by independent price venders is deemed as the fair value.

Derivative transactions

With regard to derivative transactions, the fair value is determined based on published forward exchange rates, closing prices at major exchanges or prices quoted by counterparty financial institutions.

(Note 2) The carrying amounts of financial instruments in which the fair values are not practically determinable, which are not included in “(v) Investments in securities” above, are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Unlisted stocks and other assets invested in unconsolidated subsidiaries and associates	4,573	4,568
Other unlisted stocks	24,648	25,076
Partnership investments comprised of unlisted stocks	4,369	5,095
Total	33,591	34,740

The fair value of the financial instruments in the above table is not disclosed because their fair value is not practically determinable due to lack of marketability and difficulties in reasonably estimating future cash flows.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Balance Sheets (Continued)

10. The Company and certain consolidated subsidiaries own investment properties in Tokyo and other areas. The carrying amounts and fair value of the investment properties are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Carrying amount	42,352	47,827
Fair value	52,204	61,833

(Notes)

1. Carrying amount represents the acquisition cost less accumulated depreciation.
2. Fair value is primarily determined based on the appraisal values provided by qualified external appraisers. With respect to the properties with no substantial changes in their appraisal values or indices that were considered to appropriately reflect market prices since most recent appraisal dates, the fair value is determined based on these appraisal values or the values adjusted by the relevant indices.

11. The amounts of net assets per share are as follows:

	March 31, 2016	March 31, 2017
Net assets per share (in Yen)	985.27	1,034.63
Non-controlling interests deducted from net assets	5,439	3,838
(Yen in millions)		
Outstanding common shares		
(in thousands of shares)	734,101	734,101

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Statements of Income

For the years ended March 31, 2016 and 2017

1. Other underwriting income or expenses include gains/(losses) on derivative transactions for mitigating currency risks arising from reinsurance transactions denominated in foreign currencies in the amount of ¥(1,628) million and ¥3 million for the years ended March 31, 2016 and 2017, respectively.
2. Major components of business expenses are as follows:

(Yen in millions)		
	For the year ended March 31, 2016	For the year ended March 31, 2017
Commission expenses	230,331	223,311
Salaries	104,008	100,718
(Note) 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 consolidated statements of income.		

3. Impairment losses recognized on fixed assets are as follows:

For the year ended March 31, 2016

(Yen in millions)					
Use	Category	Description	Impairment losses on fixed assets		
				Breakdown	
Investment properties	Land and buildings	5 properties, including buildings for rent in Kagawa	191	Land Buildings	17 173
Idle real estate and real estate for sale	Land and buildings	15 properties, including buildings in Saitama	3,503	Land Buildings	2,276 1,227

Fixed assets used for insurance business operations are grouped as a single asset group by each insurance company. Other assets such as investment properties, idle assets and assets for sale are grouped on an individual basis.

Fixed assets are reviewed for impairment whenever events or changes in circumstances, such as a significant decline in the value of the asset (asset group) or a change in the intended use of the asset, indicate that the carrying amount of the asset (asset group) may not be recoverable. An impairment loss is measured at the amount by which the carrying amount of the asset (asset group) exceeds its recoverable amount, which is the higher of 1) the sum of discounted cash flows from the continued use and eventual disposition of the asset (asset group) and 2) the net sales value at disposition.

As the assets in the above table were idle or determined to be closed, ¥3,695 million of the

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Statements of Income (Continued)

aggregate difference between the carrying amounts of the assets in the above table and the recoverable amounts was recognized as impairment losses on fixed assets under Extraordinary losses.

The recoverable amounts of these assets represent their net sales value, which are determined based on the appraisal value provided by qualified appraisers.

For the year ended March 31, 2017

(Yen in millions)

Use	Category	Description	Impairment losses on fixed assets		
				Breakdown	
Investment properties	Land and buildings	5 properties, including buildings for rent in Saitama	7	Land Buildings	2 4
Idle real estate and real estate for sale	Land and buildings	28 properties, including office buildings in Aichi	5,702	Land Buildings Other	2,113 3,422 165

Fixed assets used for insurance business operations are grouped as a single asset group by each insurance company. Other assets such as investment properties, idle assets and assets for sale are grouped on an individual basis.

Fixed assets are reviewed for impairment whenever events or changes in circumstances, such as a significant decline in the value of the asset (asset group) or a change in the intended use of the asset, indicate that the carrying amount of the asset (asset group) may not be recoverable. An impairment loss is measured at the amount by which the carrying amount of the asset (asset group) exceeds its recoverable amount, which is the higher of 1) the sum of discounted cash flows from the continued use and eventual disposition of the asset (asset group) and 2) the net sales value at disposition.

As the assets in the above table were determined to be sold in the near future, ¥5,709 million of the aggregate difference between the carrying amounts of the assets in the above table and the recoverable amounts was recognized as impairment losses on fixed assets under Extraordinary losses.

The recoverable amounts of these assets represent their net sales value, which are determined based on the appraisal value provided by qualified appraisers.

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Notes to Consolidated Statements of Income (Continued)

4. The details of Other extraordinary income is as follows:

For the year ended March 31, 2016

Other extraordinary income represents gains resulting from amortization of unrecognized actuarial gains and losses related to the return of a portion of retirement benefit trusts in the amount of ¥3,079 million.

5. The details of Other extraordinary losses are as follows:

For the year ended March 31, 2016

Other extraordinary losses represent additional payments of retirement benefit related to outplacement and career support program implemented at the Company in the amount of ¥11,344 million and system-related costs that were recognized by the reorganization by function in the amount of ¥999 million.

For the year ended March 31, 2017

Other extraordinary losses represent costs for reorganization by function such as system development costs in the amount of ¥2,795 million (of which provision for reserve for reorganization by function of ¥2,238 million).

6. The amounts of net income/(loss) attributable to owners of the parent per share are as follows:

	For the year ended March 31, 2016	For the year ended March 31, 2017
Net income/(loss) attributable to owners of the parent per share (in Yen)	30.91	66.11

(Notes)

1. Since there was no potential dilution for the years ended March 31, 2016 and 2017, diluted net income/(loss) per share is not disclosed.
2. The basis of calculation is as follows.

	For the year ended March 31, 2016	For the year ended March 31, 2017
Net income/(loss) attributable to owners of the parent (Yen in millions)	22,692	48,538
Average outstanding common stock during the year (in thousands of shares)	734,101	734,101

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Statement of Comprehensive Income

For the years ended March 31, 2016 and 2017

1. Reclassification adjustments and income tax effects of Other comprehensive income/(loss)

	2016	2017
	(Yen in millions)	
Net unrealized gains/(losses) on investments in securities:		
Gains/(losses) arising during the period	(76,879)	39,066
Reclassification adjustments	<u>(7,182)</u>	<u>(6,613)</u>
Before income tax effect adjustments	(84,061)	32,453
Income tax effects	<u>27,922</u>	<u>1,130</u>
Net unrealized gains/(losses) on investments in securities	<u>(56,139)</u>	<u>33,583</u>
Foreign currency translation adjustments:		
Gains/(losses) arising during the period	<u>(1,067)</u>	<u>(11,303)</u>
Actuarial gains/(losses) on retirement benefits:		
Gains/(losses) arising during the period	(555)	953
Reclassification adjustments	<u>(5,036)</u>	<u>(992)</u>
Before income tax effect adjustments	(5,592)	(39)
Income tax effects	<u>1,674</u>	<u>11</u>
Actuarial gains/(losses) on retirement benefits	<u>(3,917)</u>	<u>(27)</u>
Total other comprehensive income/(loss)	<u>(61,124)</u>	<u>22,252</u>



AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2016 and 2017

For the year ended March 31, 2016

1. Type and number of issued stock and treasury stock

(In thousands of shares)

	Beginning balance	Increase	Decrease	Ending balance
Issued stock:				
Common stock	734,101	—	—	734,101
Total	734,101	—	—	734,101

(Note) Not applicable to treasury stock.

2. Dividends

(1) Dividends paid

Resolution	Type of shares	Type of assets for dividends and their book value (Yen in millions)		Dividends per share (in Yen)	Date of record	Effective date
Board meeting held on May 19, 2015	Common stock	Treasury Discount Bills	15,899	21.65	March 31, 2015	May 26, 2015
Board meeting held on November 17, 2015	Common stock	Treasury Discount Bills	11,800	16.07	—	November 18, 2015

(2) Dividends declared effective after March 31, 2016 for which the date of record is in the year ended March 31, 2016

Resolution	Type of shares	Aggregate amount of dividends (Yen in millions)	Source of dividends	Dividends per share (in Yen)	Date of record	Effective date
Board meeting held on May 18, 2016	Common stock	20,472	Retained earnings	27.88	March 31, 2016	May 23, 2016

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Statements of Changes in Net Assets (Continued)

3. Put options granted to non-controlling interests

Aioi Nissay Dowa Insurance Company of Europe Limited granted written put options for shares held by non-controlling interests of BIG, its consolidated subsidiary. The present value of the redemption value of such options was recognized in Other liabilities with the same amount recognized as reduction in Capital surplus.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Statements of Changes in Net Assets (Continued)

For the year ended March 31, 2017

1. Type and number of issued stock and treasury stock

(In thousands of shares)

	Beginning balance	Increase	Decrease	Ending balance
Issued stock:				
Common stock	734,101	—	—	734,101
Total	734,101	—	—	734,101

(Note) Not applicable to treasury stock.

2. Dividends

(1) Dividends paid

Resolution	Type of shares	Aggregate amount of dividends (Yen in millions)	Dividends per share (in Yen)	Date of record	Effective date
Board meeting held on May 18, 2016	Common stock	20,472	27.88	March 31, 2016	May 23, 2016
Board meeting held on November 16, 2016	Common stock	14,723	20.05	—	November 25, 2016

(2) Dividends declared effective after March 31, 2017 for which the date of record is in the year ended March 31, 2017

Resolution	Type of shares	Aggregate amount of dividends (Yen in millions)	Source of dividends	Dividends per share (in Yen)	Date of record	Effective date
Board meeting held on May 17, 2017	Common stock	20,184	Retained earnings	27.49	March 31, 2017	May 22, 2017

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED  
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Notes to Consolidated Statements of Cash Flows

For the years ended March 31, 2016 and 2017

1. Reconciliation of balance sheet items to cash and cash equivalents

	(Yen in millions)	
	2016	2017
Cash, deposits and savings	178,023	215,281
Call loans	15,000	15,000
Investments in securities	2,462,329	2,540,566
Time deposits with original maturities of more than three months	(34,568)	(35,503)
Investments in securities other than cash equivalents	(2,444,082)	(2,519,276)
Cash and cash equivalents	176,701	216,068

2. Cash flows from investing activities include those from investments made as part of the insurance business.

## **Financial Statements (Non-Consolidated)**



AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Financial Statements

For the years ended March 31, 2016 and 2017

(With Independent Auditor's Report Thereon)



## **Independent Auditor's Report**

To the Board of Directors of Aioi Nissay Dowa Insurance Company, Limited:

We have audited the accompanying financial statements of Aioi Nissay Dowa Insurance Company, Limited, which comprise the balance sheets as of March 31, 2016 and 2017, and the statements of income and statements of changes in net assets for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines 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 these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with 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 consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Aioi Nissay Dowa Insurance Company, Limited as of March 31, 2016 and 2017, and their financial performance for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

July 5, 2017  
Tokyo, Japan

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Balance Sheets

As of March 31, 2016 and 2017

	2016	2017
	(Yen in millions)	
<u>Assets</u>		
Assets		
Cash, deposits and savings:		
Cash on hand	¥ 23	21
Deposits in banks	131,923	172,302
Total cash, deposits and savings	131,947	172,323
Call loans	15,000	15,000
Monetary claims bought	94	—
Money trusts	2,511	2,502
Investments in securities:		
Government bonds	693,622	670,598
Municipal bonds	22,487	20,726
Corporate bonds	269,389	279,472
Stock	792,765	843,368
Foreign securities	675,729	707,044
Other securities	43,582	55,876
Total investments in securities	2,497,578	2,577,087
Loans:		
Policy loans	3,794	3,384
General loans	218,062	207,533
Total loans	221,856	210,917
Tangible fixed assets:		
Land	80,890	76,916
Buildings	90,026	86,506
Lease assets	51	29
Construction in progress	836	1,187
Other tangible fixed assets	9,860	9,957
Total tangible fixed assets	181,665	174,597
Intangible fixed assets:		
Software	16,966	14,633
Other intangible fixed assets	7,009	5,045
Total intangible fixed assets	23,976	19,679

See accompanying notes to financial statements.



## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Balance Sheets (Continued)

	2016	2017
	(Yen in millions)	
Other assets:		
Premiums receivable	¥ 2,611	2,639
Due from agencies	77,801	79,671
Due from foreign agencies	780	800
Co-insurance accounts receivable	3,265	3,813
Reinsurance accounts receivable	55,238	54,357
Foreign reinsurance accounts receivable	37,363	49,319
Agency business accounts receivable	84	65
Other receivables	53,866	40,227
Accrued income	7,734	7,916
Guarantee deposits	7,047	7,061
Deposits with Japan Earthquake Reinsurance Co., Ltd.	7,844	3,961
Suspense payments	22,876	23,333
Derivative financial instruments	13,461	3,563
Total other assets	289,975	276,730
Prepaid pension expenses	28,175	27,150
Deferred tax assets	14,544	16,329
Customers' liabilities under acceptances and guarantees	12,500	7,530
Bad debt reserve	(1,309)	(1,584)
Total assets	¥ 3,418,516	3,498,264

See accompanying notes to financial statements.

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Balance Sheets (Continued)

	2016	2017
	(Yen in millions)	
<u>Liabilities and Net Assets</u>		
Liabilities		
Policy liabilities:		
Outstanding claims	¥ 511,559	526,764
Underwriting reserves	1,893,259	1,898,337
Total policy liabilities	2,404,819	2,425,101
Bonds issued	50,000	50,000
Other liabilities:		
Co-insurance accounts payable	3,817	3,966
Reinsurance accounts payable	51,236	57,124
Foreign reinsurance accounts payable	19,397	21,389
Agency business accounts payable	1,509	1,478
Borrowings	9	8
Income taxes payable	3,000	17,290
Deposits received	2,585	2,888
Unearned income	18	18
Other payables	40,003	26,495
Suspense receipts	19,057	18,807
Derivative financial instruments	1,943	4,264
Lease obligations	109	30
Asset retirement obligations	654	661
Other liabilities	0	0
Total other liabilities	143,343	154,423
Reserve for pension and retirement benefits	20,239	22,840
Accrued bonuses for employees	5,757	5,919
Reserve for reorganization by function	166	2,288
Reserves under the special laws:		
Reserve for price fluctuation	36,525	37,114
Total reserves under the special laws	36,525	37,114
Acceptances and guarantees	12,500	7,530
Total liabilities	¥ 2,673,351	2,705,218

See accompanying notes to financial statements.

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Balance Sheets (Continued)

	2016	2017
	(Yen in millions)	
Net Assets		
Shareholders' equity:		
Common stock	¥ 100,005	100,005
Capital surplus:		
Additional paid-in capital	52,593	52,593
Other capital surplus	28,614	28,614
Total capital surplus	81,207	81,207
Retained earnings:		
Legal earned reserve	47,411	47,411
Other retained earnings:		
Retained earnings brought forward	174,464	189,660
Total other retained earnings	174,464	189,660
Total retained earnings	221,876	237,071
Total shareholders' equity	403,089	418,284
Valuation and translation adjustments:		
Net unrealized gains/(losses) on investments in securities	342,075	374,762
Total valuation and translation adjustments	342,075	374,762
Total net assets	745,164	793,046
Total liabilities and net assets	¥ 3,418,516	3,498,264

See accompanying notes to financial statements.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Statements of Income

For the years ended March 31, 2016 and 2017

	2016	2017
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,192,089	1,200,525
Deposit premiums from policyholders	31,513	28,506
Investment income on deposit premiums from policyholders	19,196	17,365
Other underwriting income	297	228
Total underwriting income	1,243,096	1,246,626
Investment income:		
Interest and dividends income	58,752	55,409
Investment gains on money trusts	0	1
Gains on sales of securities	19,522	13,349
Gains on redemption of securities	1,242	425
Other investment income	391	238
Transfer of investment income on deposit premiums from policyholders	(19,196)	(17,365)
Total investment income	60,713	52,058
Other ordinary income	6,176	6,302
Total ordinary income	1,309,986	1,304,987
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	644,889	648,618
Loss adjustment expenses	61,076	60,829
Commissions and collection expenses	223,121	223,848
Maturity refunds to policyholders	81,691	69,648
Dividends to policyholders	47	59
Provision for outstanding claims	441	15,205
Provision for underwriting reserves	15,132	5,077
Foreign exchange losses	2,419	1,562
Other underwriting expenses	3,027	1,318
Total underwriting expenses	1,031,846	1,026,167

See accompanying notes to financial statements.

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Statements of Income (Continued)

	2016	2017
	(Yen in millions)	
Investment expenses:		
Losses on sales of securities	¥ 9,069	4,298
Impairment losses on securities	6,664	4,919
Losses on redemption of securities	448	370
Losses on derivative transactions	1,761	4,102
Foreign exchange losses	832	125
Other investment expenses	1,525	622
Total investment expenses	20,302	14,439
Operating expenses and general and administrative expenses	193,651	186,846
Other ordinary expenses:		
Interest expense	756	755
Provision for bad debt reserve	—	295
Losses on bad debts	6	0
Other ordinary expenses	1,650	1,294
Total other ordinary expenses	2,413	2,345
Total ordinary expenses	1,248,214	1,229,799
Ordinary profit/(loss)	61,771	75,188
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sales of fixed assets	637	2,644
Other extraordinary income	3,079	—
Total extraordinary income	3,717	2,644
Extraordinary losses:		
Losses on sales of fixed assets	1,265	1,922
Impairment losses on fixed assets	3,695	5,709
Provision for reserves under the special laws:		
Provision for reserve for price fluctuation	6,641	589
Total provision for reserves under the special laws	6,641	589
Other extraordinary losses	12,343	2,795
Total extraordinary losses	23,946	11,015
Income/(loss) before income taxes	41,542	66,816
Income taxes-current	3,218	17,097
Income taxes-deferred	7,225	(672)
Total income taxes	10,444	16,425
Net income/(loss)	¥ 31,098	50,391

See accompanying notes to financial statements.

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Statements of Changes in Net Assets

For the years ended March 31, 2016 and 2017

2016

(Yen in millions)

	Shareholders' equity					
	Common stock	Capital surplus			Retained earnings	
		Additional paid-in capital	Other capital surplus	Total capital surplus	Legal earned reserve	Other retained earnings
						Retained earnings brought forward
Beginning balance	¥ 100,005	52,593	28,614	81,207	47,411	171,066
Changes for the year:						
Dividends paid						(27,700)
Net income/(loss)						31,098
Net changes of items other than shareholders' equity						
Total changes for the year	—	—	—	—	—	3,398
Ending balance	¥ 100,005	52,593	28,614	81,207	47,411	174,464

	Shareholders' equity		Valuation and translation adjustments	Total net assets
	Retained earnings	Total Shareholders' equity	Net unrealized gains/(losses) on investments in securities	
	Total retained earnings			
Beginning balance	¥ 218,478	399,691	397,230	796,921
Changes for the year:				
Dividends paid	(27,700)	(27,700)		(27,700)
Net income/(loss)	31,098	31,098		31,098
Net changes of items other than shareholders' equity			(55,155)	(55,155)
Total changes for the year	3,398	3,398	(55,155)	(51,756)
Ending balance	¥ 221,876	403,089	342,075	745,164

See accompanying notes to financial statements.

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Statements of Changes in Net Assets (Continued)

2017

(Yen in millions)

	Shareholders' equity					
	Common stock	Capital surplus			Retained earnings	
		Additional paid-in capital	Other capital surplus	Total capital surplus	Legal earned reserve	Other retained earnings
Beginning balance	¥ 100,005	52,593	28,614	81,207	47,411	174,464
Changes for the year:						
Dividends paid						(35,195)
Net income/(loss)						50,391
Net changes of items other than shareholders' equity						
Total changes for the year	—	—	—	—	—	15,195
Ending balance	¥ 100,005	52,593	28,614	81,207	47,411	189,660

	Shareholders' equity		Valuation and translation adjustments	Total net assets
	Retained earnings	Total Shareholders' equity	Net unrealized gains/(losses) on investments in securities	
	Total retained earnings			
Beginning balance	221,876	403,089	342,075	745,164
Changes for the year:				
Dividends paid	(35,195)	(35,195)		(35,195)
Net income/(loss)	50,391	50,391		50,391
Net changes of items other than shareholders' equity			32,686	32,686
Total changes for the year	15,195	15,195	32,686	47,881
Ending balance	237,071	418,284	374,762	793,046

See accompanying notes to financial statements.

# AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Significant Items for Presenting Financial Statements

For the years ended March 31, 2016 and 2017

### 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 (hereinafter referred to as “the Company”) prepared in accordance with the provisions set forth in the Corporate Accounting Regulations, the Enforcement Regulations of the Japanese Insurance Business Act 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.

The accompanying non-consolidated financial statements are expressed in Japanese yen. As permitted by the regulations under the Corporate Accounting Regulations, amounts are rounded down to the nearest million of Japanese yen, except for those stated otherwise. As a result, the totals shown in the accompanying non-consolidated financial statements in Japanese yen do not necessarily agree with the sums of the individual amounts.

### 2. Accounting policies

#### (1) Valuation policies and methods of securities (including those included in Cash, deposits and savings, and Monetary claims bought, as set forth in the Enforcement Regulations of the Japanese Insurance Business Act)

- (i) Investments in subsidiaries and associates are valued at cost determined by the moving average method.
- (ii) Available-for-sale securities (except for those without practically determinable fair value) are valued at their year-end market prices.  
Net unrealized gains and losses are reported as a separate line item of net assets, and cost of sales is calculated by the moving average method.
- (iii) Available-for-sale securities without practically determinable fair value are valued at cost using the moving average method.
- (iv) Money trusts which are specifically managed for the Company for trading purposes are valued at their year-end market prices. Money trusts which are specifically managed for the Company, other than money trusts held for trading purposes and money trusts held to maturity, are valued on the same basis as available-for-sale securities.

#### (2) Valuation policies and methods of derivative financial instruments

Derivative financial instruments are valued at fair value.

#### (3) Depreciation methods of significant depreciable assets

- (i) Depreciation of tangible fixed assets is computed using the straight-line method.
- (ii) Intangible fixed assets are amortized by the straight-line method. Capitalized software for internal use is amortized by the straight-line method over its estimated useful life.

#### (4) Translation of foreign currency assets and liabilities



## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Significant Items for Presenting Financial Statements (Continued)

Foreign currency monetary assets and liabilities are translated into Japanese yen using the spot exchange rate prevailing at the year-end. The foreign exchange gains and losses resulting from the translation are recognized in earnings.

## (5) Accounting policies for reserves

## (i) Bad debt reserve

Bad debt reserve is established under the internal standards for self-assessment of assets and the policy for write-off and provision. Bad debt reserve for loans to debtors who are legally deemed to be insolvent due to bankruptcy or special liquidation, or whose notes are under suspension at clearing houses, and loans to debtors who are deemed to be substantially insolvent is provided based on the outstanding balance remaining after deducting the resale value of collateral and the amount collectible through guarantees.

Bad debt reserve for loans to debtors who are likely to become insolvent in the future is provided based on the outstanding balance remaining after deducting the resale value of collateral, the amount collectible through guarantees and the amount expected to be repaid by the debtors considering their overall ability to pay.

For loans other than those described above, bad debt reserve is calculated by multiplying the outstanding balances by the historical bad debt ratios.

Bad debt reserve for all loans and receivables is provided based on the assessment under the internal standards for self-assessment of assets. The assessment is performed by departments which are responsible for respective assets and the results are reviewed by the independent internal audit departments.

## (ii) Reserve for pension and retirement benefits

Reserve for pension and retirement benefits is established to provide for future retirement benefits based on the estimated retirement benefit obligations and plan assets at the year-end.

## (a) Attribution method of retirement benefits over the service period

In computing retirement benefit obligations, the estimated retirement benefits are attributed to the periods up to the current year using the plan's benefit formula.

## (b) Actuarial gains and losses

Actuarial gains and losses are amortized, commencing from the following year, using the straight-line method over a certain number of years (11 years) that do not exceed the expected average remaining service period of the employees at the time of occurrence.

## (iii) Accrued bonuses for employees

Accrued bonuses for employees are determined based on the estimated amounts to be paid at the year-end to provide for future bonuses for employees and operating officers.

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Significant Items for Presenting Financial Statements (Continued)

## (iv) Reserve for reorganization by function

Reserve for reorganization by function is established to provide for the costs arising from reorganization by function among insurance subsidiaries of MS&AD Insurance Group Holdings, Inc., including the Company.

## (v) Reserve for price fluctuation

Reserve for price fluctuation is recognized under Article 115 of the Insurance Business Act to provide for possible losses arising from price fluctuation of investment assets such as equity securities.

## (6) Hedge accounting

The Company applies the fair value hedge accounting to forward exchange contracts used to hedge risks of exchange rate fluctuations related to assets denominated in foreign currencies. Equity forward contracts are also accounted for under the fair value hedge accounting and used to mitigate risks of variability in fair value of equity investment.

Under the fair value hedge accounting, gains and losses on changes in fair value of the hedging instruments, are recognized in earnings together with the corresponding gains or losses of the hedged items attributable to the risks being hedged.

Gains and losses on foreign exchange forward contracts that meet certain criteria are accounted for under the allocation method, which is an exceptional treatment permitted under accounting principles generally accepted in Japan. Under the allocation method, assets and liabilities denominated in foreign currencies and hedged by foreign exchange forward contracts can be translated at the foreign exchange rate stipulated in the forward contracts, and the foreign exchange forward contracts used as hedging instruments are not measured at fair value either at the initial recognition or subsequent reporting dates.

When the fair value hedge is applied to foreign currency bonds and stocks, specific bonds or stocks are designated as the hedged items to apply the hedge accounting on an individual basis.

Hedge effectiveness is not assessed, since critical terms relating to hedged items and hedging instruments are substantially identical and such hedging transactions are highly and clearly interrelated.

## (7) Other significant items for preparation of financial statements

## (i) Accounting for retirement benefits

The accounting treatment for unrecognized actuarial gains and losses related to retirement benefits in non-consolidated financial statements differs from those in consolidated financial statements.

## (ii) Accounting for consumption taxes

Consumption taxes received or paid are not included in income or expenses, except for those relating to Loss adjustment expenses and Operating expenses and general and administrative

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Significant Items for Presenting Financial Statements (Continued)

expenses. Consumption taxes excluded from income and expenses are recorded at the net amount on the balance sheet. Non-deductible consumption taxes are recognized as expenses for the period, except for those relating to purchase of depreciable fixed assets which are not charged to expenses but deferred as Suspense payments and amortized over a period of five years on a straight-line basis.

## (8) Additional information

The Company has adopted “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 issued on March 28, 2016), effective from the year ended March 31, 2017.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Balance Sheets

As of March 31, 2016 and 2017

1. The amounts of investments in securities loaned under securities lending agreements are as follows:

(Yen in millions)	
March 31, 2016	March 31, 2017
207	183

(Note) The amounts in the above table are included in Stock under Investments in securities.

2. The amounts of loans to borrowers in bankruptcy, overdue loans, loans overdue for 3 months or more and restructured loans are as follows:

(Yen in millions)		
	March 31, 2016	March 31, 2017
Loans to borrowers in bankruptcy	—	30
Overdue loans	352	526
Loans overdue for 3 months or more	372	193
Restructured loans	1,341	1,168
Total	2,066	1,918

(Note) Loans to borrowers in bankruptcy represent those, excluding any part of bad debts that have been written off, on which accrued interest receivables are not recognized because repayments of the principal or interest have been overdue for considerable periods and regarded uncollectible (hereinafter, this category is referred to as “Loans not accruing interest”) and which meet the conditions prescribed in Article 96, Section 1-3 or 1-4 of the Corporation Tax Act Enforcement Ordinance (Cabinet Order No.97, 1965).

Overdue loans represent loans not accruing interest excluding (a) loans to borrowers in bankruptcy and (b) loans that have been granted a grace period for interest payments in order to assist the debtors’ operational restructuring or financial recovery.

Loans overdue for 3 months or more represent those of which the principal or interest has been past due for 3 months or more after the contractual due date for repayments of the principal or interest. The loans to borrowers in bankruptcy and overdue loans are excluded from this category.

Restructured loans represent those which have been granted favorable terms for the benefit of the debtors such as interest exemption or reduction, a grace period for interest payments, a grace period for principal repayments, or forgiveness of debts for the purpose of the restructuring of, or support to the debtors in financial difficulty. The loans to borrowers in bankruptcy, overdue loans and loans overdue for 3 months or more are excluded from this category.

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Notes to Balance Sheets (Continued)

3. The amounts of accumulated depreciation and accelerated depreciation of tangible fixed assets are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Accumulated depreciation	249,690	238,355
Accelerated depreciation	8,831	7,626

(Note) As permitted under Japanese tax legislation for the purpose of deferral in recognizing taxable income, acquisition cost of certain qualifying properties is reduced to offset the taxable income that resulted from the sales of assets to be replaced by the acquired assets or receipts of governmental subsidies provided for the acquisition of the new assets. The total amounts deducted from the original acquisition cost of the qualifying properties held by the Company as of March 31, 2016 and 2017 were ¥8,831 million and ¥7,626 million, respectively.

4. The total amounts receivable from and payable to affiliates are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Total amounts receivable	6,780	6,305
Total amounts payable	3,740	4,350

5. Significant components of Deferred tax assets and liabilities are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Deferred tax assets:		
Underwriting reserves	80,116	80,488
Outstanding claims	15,613	19,108
Assets of retirement benefits trust	18,408	15,326
Depreciation	12,836	14,886
Investments in securities	14,930	14,618
Reserve for price fluctuation	10,194	10,354
Others	18,191	16,177
Total gross deferred tax assets	170,291	170,962
Less valuation allowance	(23,309)	(23,308)
Total net deferred tax assets	146,981	147,653
Deferred tax liabilities:		
Net unrealized gains/(losses) on investments in securities	(132,437)	(131,324)
Total gross deferred tax liabilities	(132,437)	(131,324)
Total deferred tax assets/(liabilities) net of deferred tax assets/liabilities	14,544	16,329

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Notes to Balance Sheets (Continued)

6. The carrying amounts of equity investments in affiliates are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Stock	81,885	85,792
Capital	10,861	10,861

7. The amounts of pledged assets are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Investments in securities	48,580	56,420
Money trusts	2,311	2,302

(Note) The above amounts include collateral assets required for borrowings in the amount of ¥9 million and ¥8 million as of March 31, 2016 and March 31, 2017, respectively. The remaining amounts consist of deposits for overseas operations and securities pledged as collateral for derivative transactions.

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Notes to Balance Sheets (Continued)

## 8. Details of Outstanding claims are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Gross outstanding claims (except for (b))	503,759	518,475
Reinsurance recoverable on unpaid losses	40,524	37,926
Net (a)	463,234	480,549
Outstanding claims relating to earthquakes and compulsory automobile liability insurance (b)	48,324	46,215
Total (a) + (b)	511,559	526,764

## 9. Details of Underwriting reserves are as follows:

	(Yen in millions)	
	March 31, 2016	March 31, 2017
Gross ordinary underwriting reserves	1,044,158	1,037,913
Reinsurance recoverable on underwriting reserves	153,877	147,208
Net (a)	890,281	890,704
Other underwriting reserves (b)	1,002,978	1,007,632
Total (a) + (b)	1,893,259	1,898,337

## 10. The amounts of net assets per share are as follows:

	March 31, 2016	March 31, 2017
Net assets per share (in Yen)	1,015.07	1,080.29
Total net assets (Yen in millions)	745,164	793,046
Net assets attributable to common stock (Yen in millions)	745,164	793,046
Outstanding common stock (in thousands of shares)	734,101	734,101

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Notes to Balance Sheets (Continued)

## 11. Guarantees and similar arrangements for subsidiaries and associates

As of March 31, 2016

## (Guarantees)

The Company guarantees insurance-related liabilities of the following subsidiaries and associates.

	(Yen in millions)
	March 31, 2016
Aioi Nissay Dowa Insurance Company of Europe Limited	34,854
Dowa Insurance Company (Europe) Limited	42
Aioi Nissay Dowa Insurance Company of America	1,902
Total	36,800

## (Arrangements similar to guarantees)

The Company executes a net worth maintenance agreement with 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 a triggering situation mentioned above as of March 31, 2016. The aggregate amount of liabilities and assets of DTRIC were ¥8,671 million and ¥11,529 million, respectively.

As of March 31, 2017

## (Guarantees)

The Company guarantees insurance-related liabilities of the following subsidiaries and associates.

	(Yen in millions)
	March 31, 2017
Aioi Nissay Dowa Insurance Company of Europe Limited	42,341
Aioi Nissay Dowa Insurance Company of America	1,510
Total	43,852

## (Arrangements similar to guarantees)

The Company executes a net worth maintenance agreement with 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 a triggering situation mentioned above as of March 31, 2017. The aggregate amount of liabilities and assets of DTRIC were ¥9,173 million and ¥12,057 million, respectively.



## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Notes to Balance Sheets (Continued)

12. The unutilized balances of commitment lines to third parties are as follows:

(Yen in millions)	
March 31, 2016	March 31, 2017
5,030	2,433

13. “Subsidiary”, “Associate”, and “Affiliate” appearing elsewhere in the balance sheets and notes thereto refer to those defined in Article 2 of the Corporate Accounting Regulations.

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Notes to Statements of Income

For the years ended March 31, 2016 and 2017

1. The aggregate amounts of income and expenses resulting from transactions with affiliates are as follows:

(Yen in millions)		
	For the year ended March 31, 2016	For the year ended March 31, 2017
Income	44,756	50,314
Expenses	56,126	57,974

2.
  - (1) Details of Net premiums written are as follows:

(Yen in millions)		
	For the year ended March 31, 2016	For the year ended March 31, 2017
Gross premiums written	1,482,444	1,466,383
Less reinsurance premiums ceded	290,354	265,857
Net	1,192,089	1,200,525

- (2) Details of Net claims paid are as follows:

(Yen in millions)		
	For the year ended March 31, 2016	For the year ended March 31, 2017
Gross claims paid	832,695	872,996
Less claim recoveries from reinsurance ceded	187,806	224,377
Net	644,889	648,618

- (3) Details of Commissions and collection expenses are as follows:

(Yen in millions)		
	For the year ended March 31, 2016	For the year ended March 31, 2017
Commissions and collection expenses paid	250,906	244,833
Less reinsurance commissions received	27,785	20,985
Net	223,121	223,848

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Notes to Statements of Income (Continued)

(4) Details of Provision for/(reversal of) outstanding claims are as follows:

	(Yen in millions)	
	For the year ended March 31, 2016	For the year ended March 31, 2017
Gross provision for outstanding claims (except for (b))	9,391	14,715
Less reinsurance recoverable on unpaid losses	8,274	(2,598)
Net (a)	1,117	17,314
Provision for outstanding claims relating to earthquakes and compulsory automobile liability insurance (b)	(675)	(2,108)
Total (a) + (b)	441	15,205

(5) Details of Provision for /(reversal of) underwriting reserves are as follows:

	(Yen in millions)	
	For the year ended March 31, 2016	For the year ended March 31, 2017
Gross provision for ordinary underwriting reserves	41,166	(6,245)
Less reinsurance recoverable on underwriting reserves	24,493	(6,668)
Net (a)	16,673	423
Provision for other underwriting reserves (b)	(1,540)	4,654
Total (a) + (b)	15,132	5,077

(6) Details of Interest and dividends income are as follows:

	(Yen in millions)	
	For the year ended March 31, 2016	For the year ended March 31, 2017
Interest on deposits and savings	188	136
Interest on call loans	0	0
Interest on monetary claims bought	2	0
Interest and dividends income on investments in securities	50,179	47,848
Interest on loans	3,113	2,677
Rental income on properties	4,373	4,495
Other interest and dividends income	894	250
Total	58,752	55,409

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Notes to Statements of Income (Continued)

3. The total valuation gains/(losses) included in Investment gains and losses on money trusts are as follows:

(Yen in millions)	
For the year ended March 31, 2016	For the year ended March 31, 2017
—	—

The total valuation gains/(losses) included in Losses on derivative transactions are as follows:

(Yen in millions)	
For the year ended March 31, 2016	For the year ended March 31, 2017
(271)	(427)

4. The amounts of net income/(loss) per share are as follows:

	For the year ended March 31, 2016	For the year ended March 31, 2017
Net income/(loss) per share (in Yen)	42.36	68.64
Net income/(loss) attributable to common stock (Yen in millions)	31,098	50,391
Average outstanding common stock during the year (in thousands of shares)	734,101	734,101

(Notes)

1. Since there was no potential dilution for the year ended March 31, 2016, diluted net income/(loss) per share is not disclosed.
  2. Since there was no potential dilution for the year ended March 31, 2017, diluted net income/(loss) per share is not disclosed.
5. Other underwriting income or expenses include gains/(losses) on derivative transactions for mitigating currency risks arising from reinsurance transactions denominated in foreign currencies in the amounts of ¥(1,628) million and ¥3 million for the years ended March 31, 2016 and 2017, respectively.

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Notes to Statements of Income (Continued)

6. The details of Other extraordinary income is as follows:

For the year ended March 31, 2016

Other extraordinary income represents gains resulting from amortization of unrecognized actuarial gains and losses related to the return of a portion of retirement benefit trusts in the amount of ¥3,079 million.

7. The details of Other extraordinary losses are as follows:

For the year ended March 31, 2016

Other extraordinary losses represent additional payments of retirement benefit related to outplacement and career support program implemented at the Company in the amount of ¥11,344 million and system-related costs that were recognized by the reorganization by function in the amount of ¥999 million.

For the year ended March 31, 2017

Other extraordinary losses represent costs for reorganization by function such as system development costs in the amount of ¥2,795 million (of which provision for reserve for reorganization by function of ¥2,238 million).

8. Reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	(%)	
	For the year ended March 31, 2016	For the year ended March 31, 2017
Statutory income tax rate	28.75	28.15
(Reconciliation)		
Tax exempted dividends income	(5.06)	(3.15)
Entertainment and other expenses not deductible for tax purposes	0.91	0.66
Inhabitant tax on per capita basis	0.99	0.61
Increase/(decrease) in valuation allowance	(7.82)	(0.38)
Effects of the change in income tax rate	9.64	0.21
Others	(2.27)	(1.52)
Effective income tax rate	25.14	24.58

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Notes to Statements of Income (Continued)

## 9. Related party transactions are as follows:

For the year ended March 31, 2016

Category	Company name	Voting rights (%)	Relationship	Transactions	Transaction amounts (Yen in millions)	Account	Ending Balances (Yen in millions)
Subsidiary	Aioi Nissay Dowa Insurance Company of Europe Limited	100%	Temporary transfer of director Reinsurance contracts Debt guarantee	Debt guarantee (Note)	34,854	—	—
Corporate pension	Retirement benefit trusts	—	Pension assets under retirement benefit accounting	Return of a portion of retirement benefit trusts	19,998	—	—

(Note)

The terms and conditions of transactions and the policy to determine the terms and conditions are as follows:

The Company guarantees insurance-related liabilities of Aioi Nissay Dowa Insurance Company of Europe Limited.

For the year ended March 31, 2017

Category	Company name	Voting rights (%)	Relationship	Transactions	Transaction amounts (Yen in millions)	Account	Ending Balances (Yen in millions)
Subsidiary	Aioi Nissay Dowa Insurance Company of Europe Limited	100%	Temporary transfer of director Reinsurance contracts Debt guarantee	Debt guarantee (Note)	42,341	—	—

(Note)

The terms and conditions of transactions and the policy to determine the terms and conditions

## AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

## Notes to Statements of Income (Continued)

are as follows:

The Company guarantees insurance-related liabilities of Aioi Nissay Dowa Insurance Company of Europe Limited.

10. “Subsidiary” and “Affiliate” appearing elsewhere in the statements of income and notes thereto refer to those defined in Article 2 of the Corporate Accounting Regulations.

AIOI NISSAY DOWA INSURANCE COMPANY, LIMITED

Notes to Statements of Changes in Net Assets

For the years ended March 31, 2016 and 2017

1. Type and number of treasury stock

For the year ended March 31, 2016

Not applicable

For the year ended March 31, 2017

Not applicable



## **Solvency Margin Ratio**

**(Japanese equivalent of Solvency Standard for Non-Life Insurance Business)**

Solvency Margin Ratio (Non-Consolidated)

(Yen in millions)

	As of March 31, 2016	As of March 31, 2017
(A) Total amount of solvency margin	1,246,991	1,332,714
Total net assets	382,616	398,099
Reserve for price fluctuation	36,525	37,114
Contingency reserve	747	747
Catastrophe reserve	287,174	318,711
General bad debt reserve	372	296
Net unrealized gains/(losses) on securities and deferred gains/(losses) on hedges (Prior to tax effect deductions)	427,061	455,477
Net unrealized gains/(losses) on land	9,267	14,099
Excess of policyholders' contact deposits (a)	-	-
Subordinated debts, etc. (b)	50,000	50,000
Amount excludes from the margin, out of (a) and (b)	-	-
Deductions	9,747	10,743
Others	62,975	68,911
(B) Total amount of risks $\sqrt{(R_1 + R_2)^2 + (R_3 + R_4)^2} + R_5 + R_6$	300,711	312,981
General insurance risk ( $R_1$ )	100,469	103,370
Third sector insurance risk ( $R_2$ )	-	-
Assumed interest risk ( $R_3$ )	8,919	8,387
Asset management risk ( $R_4$ )	207,334	221,083
Business administration risk ( $R_5$ )	7,431	7,728
Catastrophe risk ( $R_6$ )	54,827	53,574
(C) Solvency margin ratio $[(A) / \{(B) \times 1/2\}] \times 100$	829.3%	851.6%

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