

ANNUAL REPORT  
2006

SOMPO  
JAPAN



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### Forward-Looking Statements:

This annual report contains certain forward-looking statements relating to future plans and targets, and related operating investments. We caution that there can be no assurance that such targets and plans can or will actually be achieved.

Sompo Japan Insurance Inc. (Sompo Japan) was founded on July 1, 2002, with the merger of The Yasuda Fire and Marine Insurance Company, Limited and The Nissan Fire and Marine Insurance Company, Limited.

Sompo Japan immediately set to work realizing its vision of becoming “a new business presence suited to a new age” and establishing a new corporate image as a comprehensive service provider group for risk and asset management.

Continuing liberalization and deregulation as well as harsh economic conditions present the insurance and financial industries with an increasingly challenging business environment.

### Management Philosophy of Sompo Japan Insurance Inc.

Sompo Japan will offer excellent risk “solutions” to individuals and corporations. With services that always exceed customer expectations, Sompo Japan will create shareholder value and grow together with our employees. Sompo Japan will be a high-profile Japanese corporation, with progressive strategy and dynamic business activity.

### Policy of Sompo Japan Insurance Inc.:

## The 5 “S”s

### Service, not sales

We will supply the best coverage for the client’s particular situation and the finest service in the event of need

### Shareholder value

We will identify specific measures to increase shareholder value and put them into practice

### Set and stick to high targets

We will take bold action to keep ahead, refusing to be deterred by any obstacle, to meet the high targets we set ourselves

### Stimulating work environment

We will create a workplace that is open and filled with stimulation, inspiring each other to improve

### Spirit of fairness

We will act with a spirit of fairness and integrity based on high ethical standards and rational judgement

# FINANCIAL HIGHLIGHTS

## Consolidated Financial Highlights in FY2005

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	2006
Net premiums written	¥1,394,784	¥1,376,233	¥1,377,900	\$11,873,534
Total interest and dividend income	110,321	94,511	85,917	939,142
Net income	67,377	51,766	55,088	573,568
Total assets	6,774,813	5,874,859	5,689,037	57,672,708

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥117.47=U.S.\$1.00, the approximate rate prevailing at March 31, 2006.  
2. Total interest and dividend income comprises "Interest and dividend income on deposits of premiums, etc." and net "Interest and dividend income."

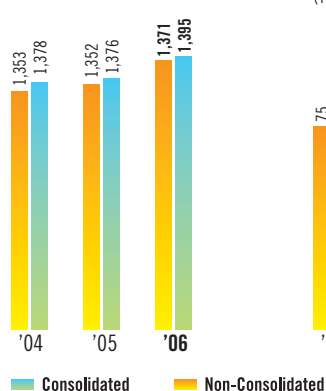
## Non-Consolidated Financial Highlights in FY2005

	Millions of Yen			Thousands of U.S. Dollars
	2006	2005	2004	2006
Net premiums written	¥1,370,920	¥1,351,915	¥1,352,877	\$11,670,384
Total interest and dividend income	95,040	82,706	75,114	809,058
Net income	67,858	56,898	64,175	577,662
Total assets	5,934,761	5,157,080	5,072,285	50,521,503

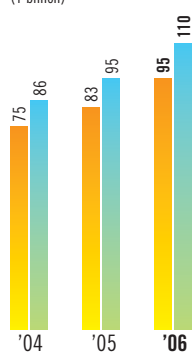
	Percent		
Loss ratio	61.3	64.8	56.8
Expense ratio	30.3	30.9	31.9

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥117.47=U.S.\$1.00, the approximate rate prevailing at March 31, 2006.  
2. Total interest and dividend income comprises "Interest and dividend income on deposits of premiums, etc." and net "Interest and dividend income."

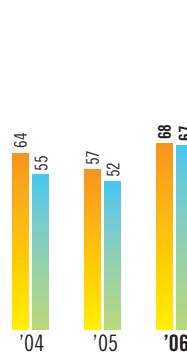
**Net Premiums Written**  
(¥ billion)



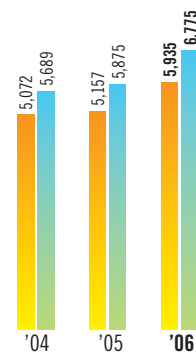
**Total Interest and Dividend Income**  
(¥ billion)



**Net Income**  
(¥ billion)



**Total Assets**  
(¥ billion)



“Annual Report 2006” is the first annual report since I became President and Chief Executive Officer of Sompo Japan in June 2006. I would like to thank you for your support of Sompo Japan. As a message from the president, I will report about the administrative order we received from the Financial Services Agency (FSA) on May 25, 2006, the business improvement plan we submitted to the FSA on June 26 and a new medium-term business plan.

We will work to make Sompo Japan a company deserving of the trust of all our stakeholders.

### Administrative Order and Business Improvement Plan

On May 25, 2006, Sompo Japan received from the FSA an administrative order for the partial suspension of business operations and an administrative order for business improvement owing to the occurrence of partial failure to pay claims, inappropriate handling of life insurance policies and other irregularities. We sincerely apologize for the great inconvenience this has caused our customers, agents, shareholders and other stakeholders. Operating under a new management structure, we prepared a business improvement plan and submitted the plan to the FSA on June 26, 2006.

We consider this order quite seriously and have totally reviewed the current corporate governance framework. Based on “The customer’s viewpoint” and “The society’s viewpoint,” we established a transparent, fair and appropriate management system and will try our best to recover the confidence of society and the customers through the execution of this plan.

We deeply regret this situation and are introducing a high-level transparent corporate governance system that incorporates a cross-check by “Eyes outside the company.” Under the supervision of the new management system, we will execute the business improvement plan as our top priority.

### Medium-Term Business Plan

In FY2005, Sompo Japan completed the implementation of the medium-term business plan launched in July 2002, when Sompo Japan was established. The period covered by the plan saw the formation of a number of alliances in the insurance industry. In implementing the plan, Sompo Japan steadily demonstrated the beneficial effects of the merger that resulted in its formation. We

achieved improvement in profitability by lowering the expense ratio while at the same time solidifying the business foundation through such means as expanding life insurance business and establishing an industry-leading position in defined contribution pension plan business. In this way, in FY2005 we posted record-high net income of ¥67.3 billion. We steadily expanded life insurance business, defined contribution pension plan business and other new businesses. Consequently, we were largely able to achieve the targets set forth in the previous medium-term management plan. We are deeply grateful for the support of our customers and agents that made possible these achievements.

Having completed the medium-term business plan, we have formulated a new medium-term business plan this fiscal year. Building on the foundation of the highly profitable business structure we have established to date, we will proceed with further operational innovation in non-life insurance business, investment, life insurance business and defined contribution pension plan business. In conducting our business, we will make risk management, compliance and human resources the major premises for business expansion.

In non-life insurance business, we will actively invest management resources in the domestic business making it the core domain for constructing new business models for the retail market. Specific new business models will address the differing needs of employees of large corporations, small-and-medium-sized companies and other organizations, as well as private individuals. In detail, we will further improve the quality of our customer services by the upgrading and expansion of the call center, the innovations in products, clerical work, IT systems and the introduction of sophisticated systems to promote information sharing among employees. We will utilize Sompo Japan Risk Management Inc. and other resources to strengthen our ability to propose optimal responses adapted to the individual circumstances and specific risks facing companies and other organizations.

With regard to our overseas business, we will work to increase group profits by developing our business in regions where markets growth and expansion can be expected, such as the ASEAN region and the BRIC countries (Brazil, Russia, India and China). For instance, in 2005 we became the first Japanese non-life insurance company to establish a local subsidiary and


start business operations in China.

With regard to investment, we will strive to further increase investment profitability and efficiency by shifting the basic investment concept from risk reduction to increasing expected returns and forming a new investment portfolio while at the same time upgrading our analysis, management and operating techniques.

We will further increase our commitment to life insurance and defined contribution pension plan businesses with the aim of increasing group profits. In life insurance, we will issue proposals to existing customers acquired in non-life insurance business and actively work to open new markets by developing products that correspond to customer needs and developing agencies. In defined contribution pension plan business, we will establish a position of industry leadership by further upgrading the bundled service integrated provision of fund management, which has already won a favorable reputation among customers.

Sompo Japan will continue to take maximum advantage of synergy in its non-life insurance business, investment and group businesses such as life insurance and defined contribution pension plan business and will achieve stable development for the group by growing each of those businesses.

We are committed to realize our management philosophy by working together with our agents to provide excellent risk and asset management solutions by putting the customer first while making risk management, compliance and human resources the major premises for business expansions. We will appreciate your continued patronage and assistance in the years ahead.



**Masatoshi Sato**  
President and Chief Executive Officer



## Medium-Term Business Plan

### Corporate Vision

Sompo Japan seeks to fulfill its corporate image as one of the most prominent comprehensive service provider groups for risk and asset management in Japan. Positioning risk management, compliance, and human resources as the major premises for business expansion, Sompo Japan will pursue operational innovation to realize this corporate image.

### Overview of the New Medium-Term Business Plan

Sompo Japan has launched a new medium-term business plan covering the three-year period from FY2006 to FY2008. Under the plan, we will pursue operational innovation involving the development of concrete systems and mechanisms under the slogan “Something new” in accordance with the following framework:

1. Designating domestic business as core domain
2. Enhancing IT infrastructure
3. Creating new business models in the retail market
4. Focusing on overseas businesses only in profitable markets
5. Reinforcing life insurance and defined contribution pension businesses

#### Review of Previous Medium-Term Targets

	Medium-Term Targets	FY2005 Results
<b>Net Premiums Written</b>	1,275.0 bil.JPY	1,264.1 bil.JPY
<b>Expense Ratio</b>	33.0%	32.9%
<b>Ordinary Profit</b> Non-Consolidated	104.0 bil.JPY	114.2 bil.JPY
<b>Net Income</b> Non-Consolidated	60.0 bil.JPY	67.8 bil.JPY
<b>Adjusted Consolidated ROE*</b>	15.0%	18.1%

Excluding impact of the abolition of the government reinsurance program for CALI and impact of reinsurance contracts handled by Fortress Re.  
\* Adjusted consolidated ROE excludes after-tax unrealized gains in securities from shareholder's equity in the denominator.

#### New Medium-Term Targets

	FY2005(Results)	FY2008 Plan	FY2010 Plan
<b>Net Premiums Written</b>	1,370.9 bil.JPY	1,510.0 bil.JPY	← Medium-Term Targets
<b>Expense Ratio</b>	30.3%	30.3%	
<b>Net Income</b> Non-Consolidated	67.8 bil.JPY	64.0 bil.JPY	
<b>Net Income</b> Consolidated	67.3 bil.JPY	74.0 bil.JPY	110.0 bil.JPY
<b>New Adjusted Consolidated ROE*</b>	10.9%	11.4%	15.0%

Including impact of the abolition of the government reinsurance program for CALI and impact of reinsurance contracts handled by Fortress Re.

$$* \text{ New adjusted consolidated ROE} = \frac{\text{Consolidated net income—gains from sales and unrealized losses of stocks and real estate (after taxes)}}{\text{Average balance of (consolidated shareholders' equity — unrealized gains of stock (after taxes))}}$$

## Business Portfolio and Management Commitment Indicators

Analysis of the business portfolio on a profit basis reveals that whereas in FY2005 domestic non-life insurance business and investment accounted for 90.8% of profits, in FY2010 Sompo Japan plans to increase the contribution to profits from domestic life insurance business, the second pillar of Group profits, to 35% and to secure contributions from overseas business, defined contribution pension business and other businesses.

We have made growth in net premiums written and new adjusted consolidated ROE\* the key management commitment indicators.

## Management Direction for Shareholder Returns

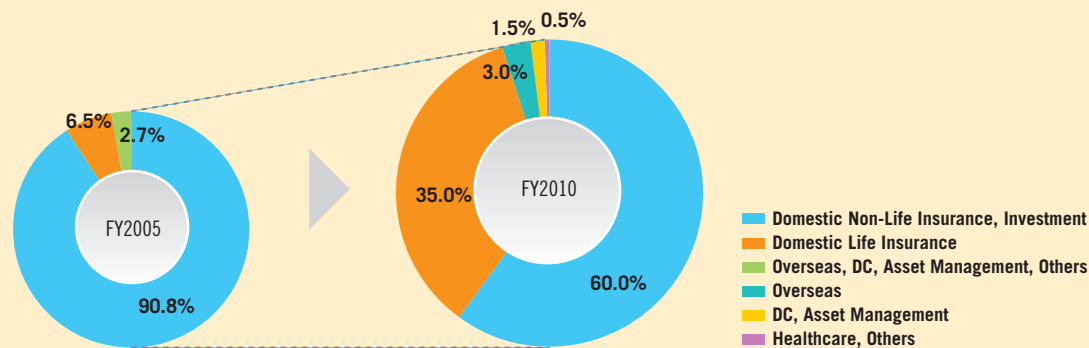
Sompo Japan seeks steady increase of the actual amounts of dividends. We have made dividend on equity\* (DOE) the key indicator of shareholder returns and aim for medium- to long-term DOE of 2%. DOE is the ratio of return to shareholders' equity and is defined by the following equation: ROE × Dividend payout ratio. Sompo Japan aims to increase shareholder value by boosting both ROE and the dividend payout ratio.

### Dividend on Equity

Target: 2% (FY2005 results: 1.1%)

$$* \text{ DOE} = \frac{\text{Total dividend}}{\text{Consolidated shareholders' equity (average balance)}}$$

### Transition of Business Portfolio

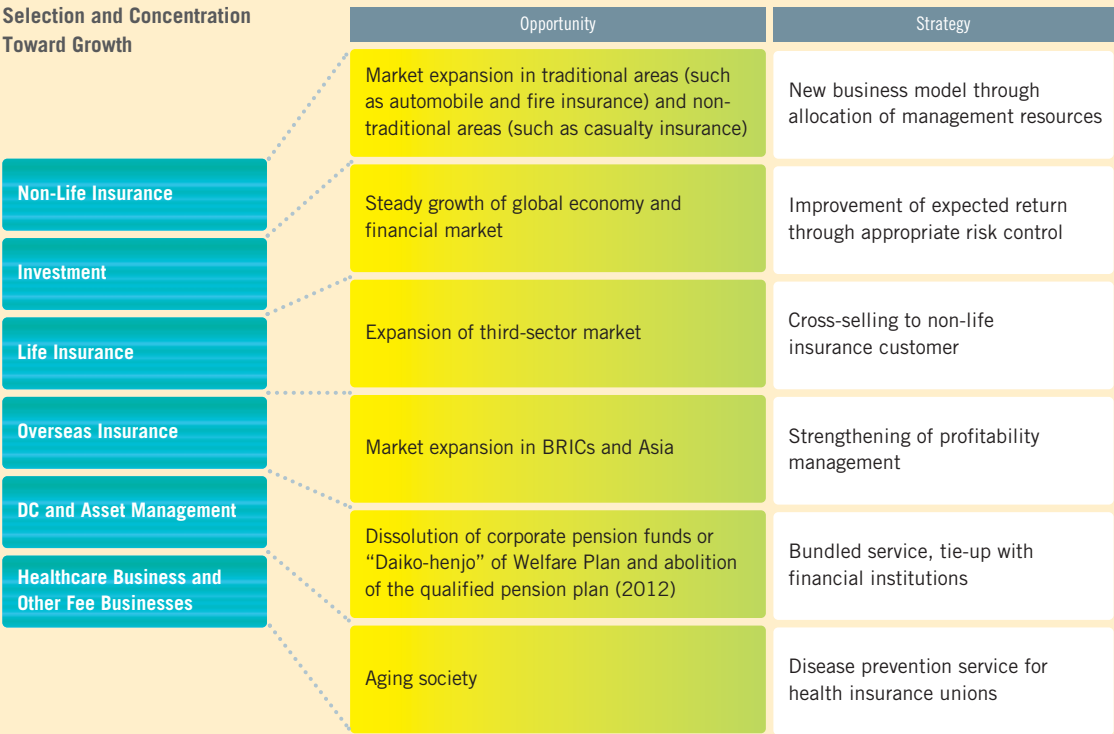


\* Only Himawari Life Insurance uses increase of adjusted EV (see below); others use net income.  
 (Note) The impacts of (1) interest rate fluctuations, (2) discount rate fluctuations and (3) capital increases and shareholder dividends are deducted from the EV increase.

# Sompo Japan's Business Strategy

## Non-Life Insurance Business

Sompo Japan was formed in 2002 through the merger of Yasuda Fire & Marine Insurance Company, Nissan Fire & Marine Insurance Company, Taisei Fire & Marine Insurance Company and Dai-ichi Property & Casualty Insurance Co., Ltd., a wholly owned subsidiary of Dai-ichi Mutual Life Insurance Company. The newly born company named as Sompo Japan has grown today to occupy the second leading position in non-life insurance industry, transfigured by repeated realignments and consolidations. We are proud of our industry-leading levels of developing ability in products and services, operational efficiency, ability of readiness in handling accidents and damage and powerful sales ability accumulated through the long history of our business experience. We believe that these abilities, reinforced by maximizing the synergy effects generated from our business consolidation and collaboration, should have satisfied our customers. Our customer base has spread through the sales channels of Dai-ichi Life, financial institutions, automobile dealers, Credit Saison and Saison Automobile & Fire Insurance Co.,Ltd. as well as traditional ones. We pledge to continue to satisfy all of our customers by providing products and services of the highest quality.





## Life Insurance Business

Sompo Japan Himawari Life was first created in 1983 in a collaboration with CIGNA Corporation (based in Philadelphia, U.S.A.), which later transformed into a wholly-owned subsidiary of The Yasuda Fire & Marine Insurance Company (currently Sompo Japan) in December 2001. Through its long corporate history as a foreign-capitalized life insurance company, the company provides a distinctive line of third-sector insurance products. These include medical insurance developed and sold ahead of other domestic life and non-life insurance companies and “Multiple Income Protection,” a type of personal type death security product. The company also handles large-scale death security insurance products developed for business owners. With such a distinctive line of products and long accumulated expertise, Sompo Japan Himawari Life is ready to satisfy every requirement of its customers.

Life insurance companies use insurance premiums and investment income to establish liability reserves to ensure payment of future insurance claims. Sompo Japan Himawari Life completed accumulation of the standard liability reserve on March 31, 2006, thus ensuring ample funds for payment of insurance claims to customers.

Sompo Japan DIY Life Insurance Co., Ltd. offers life insurance to customers by non-face-to-face selling methods (direct selling by mail order, telephone and the Internet). Its mainstay one-year term life insurance is the only product in the industry that makes it possible for customers to review coverage details as their lifestages change and freely combine hospitalization, cancer and salary substitute riders. This policy is highly popular among customers who want to design their own insurance.

We obtain a varied range of products, including “New Doudou Jinsei,” from Dai-ichi Mutual Life Insurance Company, our partner in the goal of forming a “comprehensive life and non-life insurance group with supreme quality and strength.” We combine these products with Dai-ichi Mutual Life’s inimitable services to provide products optimized to customer needs.

## Strategic New Businesses

The arrival of the aging society, volatile changes in the social environment and systems, and resultant diversified business risks will create variety of new customer needs. So as to meet these new needs, we will continue to develop new products and high quality services, which, together with our existing non-life and life insurance products, will be useful for medium- to long-term asset formation by our customers and the prevention, reduction and control of risks.

Sompo Japan believes that companies are at the same time economic entities that pursue profit through fair competition and public entities that play the important role of contributing to social and public benefit. What is required of non-life insurance companies above all else is a high degree of concern for the public good, and it is necessary for companies to meet the expectations and reward the trust of society through business operations that are just, fair and transparent. With the aim of continuously improving activities conducted to date and securing a position as a company trusted by customers, local communities and shareholders, Sompo Japan will rigorously engage in compliance, observing laws and ordinances and acting in accordance with the norms of society.

### Compliance Structure

Sompo Japan regards compliance as a necessary precondition for all business undertakings. To incorporate an external viewpoint in the management posture and ensure more transparent, just and appropriate business management, in September 2006 we will substantially reorganize the current Compliance Committee and establish the Business Audit and Compliance Committee (secretariat: Internal Audit Department), whose chairman and a majority of members will come from outside Sompo Japan. By providing instructions and advice to the Compliance Implementation Department (secretariat: Compliance Department) and receiving reports on the state of compliance measures, this committee will maintain and improve compliance readiness, approve the company-wide compliance implementation plan, verify progress and results and offer recommendations on compliance implementation measures and implementation posture.

In September, we will make the Regional Compliance Committees, established in March 2006 to serve as regional compliance headquarters, subordinate organizations of the Compliance Implementation Department. In this way, we will increase awareness and understanding of the state of business operation at local offices and promote company-wide improvement in accordance with the instructions of the Business Audit and Compliance Committee. At the same time, we will apply information from a network of Compliance Implementation Officers appointed and assigned to each regional headquarters, department and branch office and from the Internal Audit Department in the early detection and solution of problems.

### Compliance Implementation Method

Compliance is implemented in accordance with the implementation plan decided at the beginning of each fiscal year by the Board of Directors, on the basis of which each department devises its own action plan and implements compliance. We ensure that the Board of Directors keeps abreast of the state of compliance implementation at Sompo Japan by having the Business Audit and Compliance Committee report to the Board of Directors and Board of Auditors on the compliance implementation plan and the state of implementation.

### Compliance Action Policy

Sompo Japan will strive to further inculcate compliance group-wide by designating November as a month for focused implementation of compliance measures beginning in fiscal 2006 and by prioritizing the implementation of the following compliance measures year-round.

■ To ensure further inculcation of compliance awareness among all managers, actively engage in the following awareness and training activities.

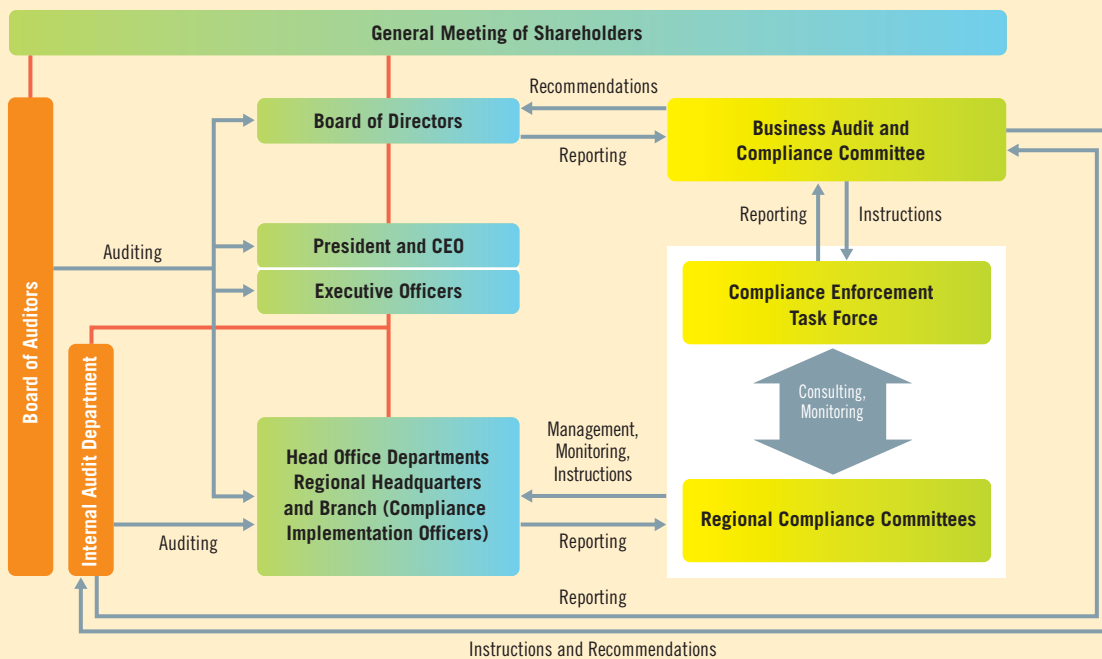
- 1) Continuous dissemination of messages from top management (the president, corporate officers and department and branch office managers) and front-line leaders emphasizing the importance of compliance
- 2) Establishment of a compliance course as part of the in-house professional education program (popularly known as the Sompo Japan Professional College)
- 3) Mandated compliance training at least four times a year for all managers
- 4) Continuing training each year for all managers until a compliance test has been passed
- 5) Upgrading of the importance of compliance-related items in the personnel evaluations of all managers and the commendation system

■ Further promote appropriate insurance marketing and business operation in compliance with the law by means of training for agents and operations audits.

■ Further strengthen internal compliance controls through various monitoring activities, including Internal audits by the Internal Audit Department and voluntary checks by the departments and branch offices.

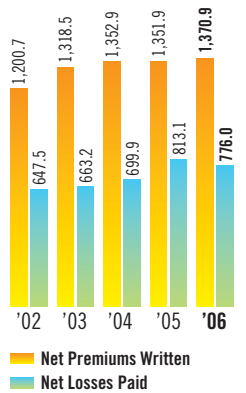
**Internal Management System**

Effective from September 2006

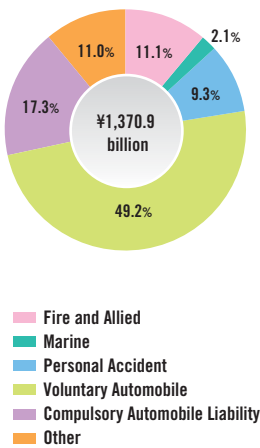


Underwriting Operations

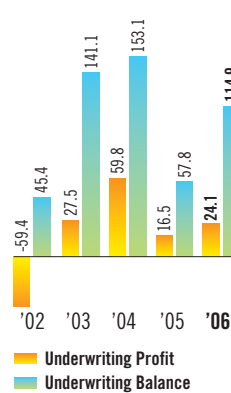
Net Premiums Written and Net Losses Paid (¥ billion)



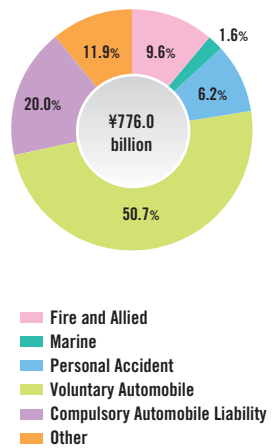
Breakdown of Net Premiums Written (For the year ended March 31, 2006)



Underwriting Profit (¥ billion)

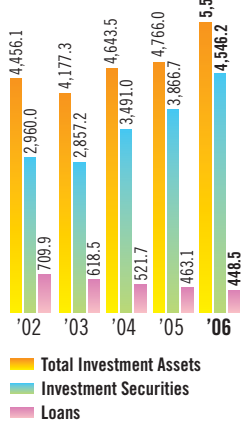


Breakdown of Net Losses Paid (For the year ended March 31, 2006)

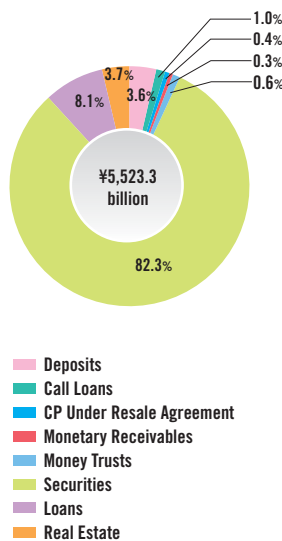


Investment Operations

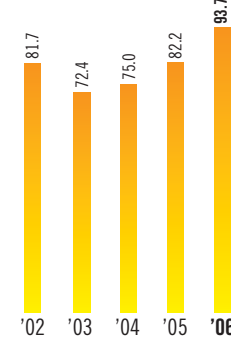
Investment Assets (¥ billion)



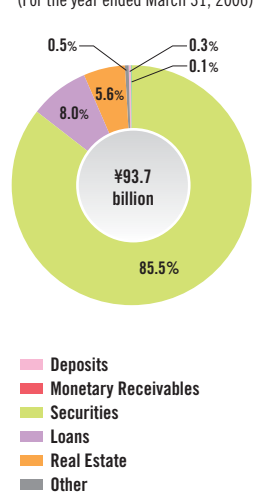
Breakdown of Investment Assets (March 31, 2006)



Interest and Dividend Income on Investment Assets (¥ billion)

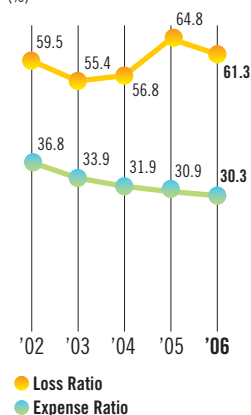


Breakdown of Interest and Dividend Income on Investment Assets (For the year ended March 31, 2006)

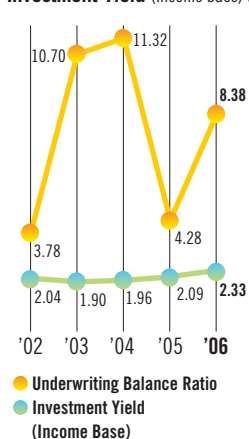


## Operating Indicators

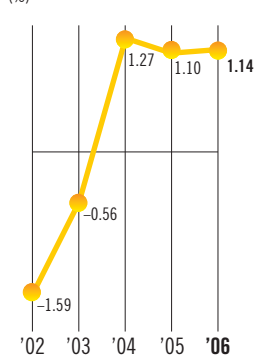
**Loss Ratio and Expense Ratio**  
(%)



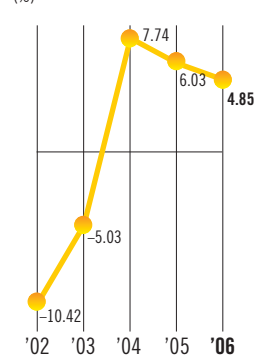
**Underwriting Balance Ratio and Investment Yield (Income base)** (%)



**Return on Assets**  
(%)

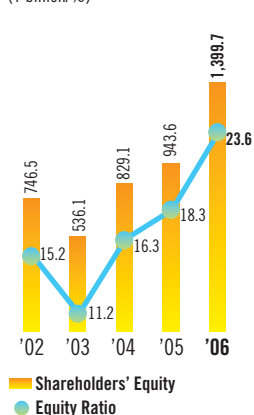


**Return on Equity**  
(%)

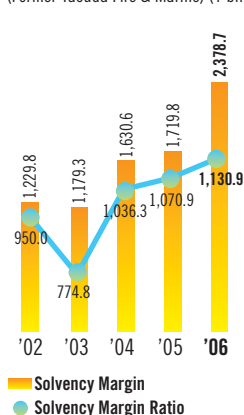


## Financial Soundness

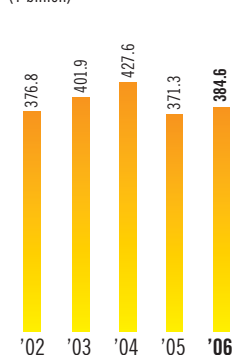
**Shareholders' Equity Ratio**  
(¥ billion/%)



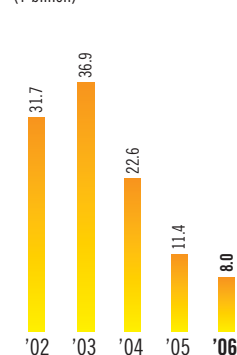
**Solvency Margin**  
(Former Yasuda Fire & Marine) (¥ billion/%)



**Catastrophic Loss Reserves**  
(¥ billion)

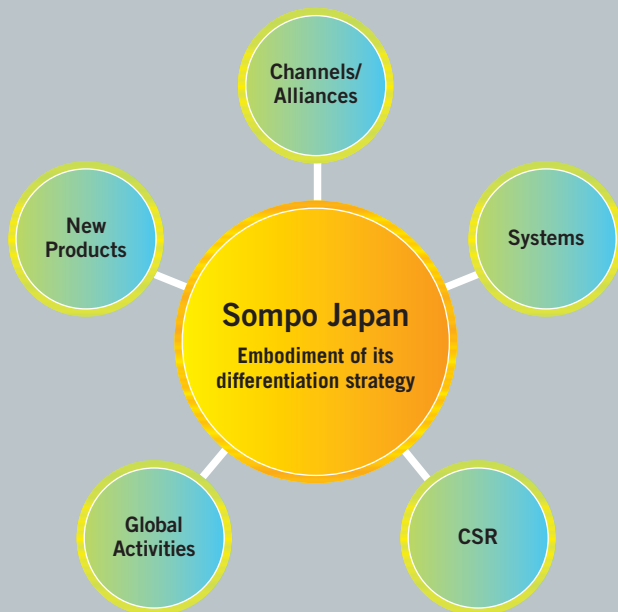


**Risk-Monitored Loans**  
(¥ billion)



Figures in 2002 are accumulations of The Yasuda Fire and Marine Insurance Co., Ltd., The Nissan Fire and Marine Insurance Co., Ltd. and Dai-ichi Property and Casualty Insurance Co., Ltd. For 2003, figures are accumulations of The Yasuda Fire and Marine Insurance Co., Ltd. and The Nissan Fire and Marine Insurance Co., Ltd. until the end of June and Sompo Japan Insurance Inc. from July.

# Building Up a Strategic Framework



## Committed Start-Up of the Healthcare Strategy

### The Launch of Healthcare Frontier Japan



Healthcare Frontier Japan Inc. (HFJ), a joint venture between Sompo Japan and Omron Healthcare Co.,

Ltd., is a strategically important subsidiary for Sompo Japan's healthcare business. On October 1, 2005, HFJ launched an unprecedented new service. Fusing Sompo Japan's actuarial expertise developed in its insurance business and Omron Healthcare's disease prevention expertise incorporating the behavior modification theory, HFJ supports the estimated 30 million people who are at risk of lifestyle diseases by helping to prevent the onset and/or progression of disease through empowering these individuals to improve day-to-day lifestyle habits. A number of important players have participated in HFJ's business initiatives, thereby bringing their unique competences and highly specialized expertise into this company. For instance, Home Well, which has a proven program centered on dietary habits utilizing a proprietary Registered Dietician network, has been integrated into HFJ. Furthermore, NTT Data Corporation has taken an equity stake in the company.



### The Saga Dondondon Call Center Opens

The Saga Dondondon Call Center opened on May 25 as Sompo Japan's first regional call center. The call center's primary task

will be to handle product inquiries and trial calculation requests from customers and agents. The call center will actively contribute to the local community and local economy by providing employment opportunities for women and the disabled.

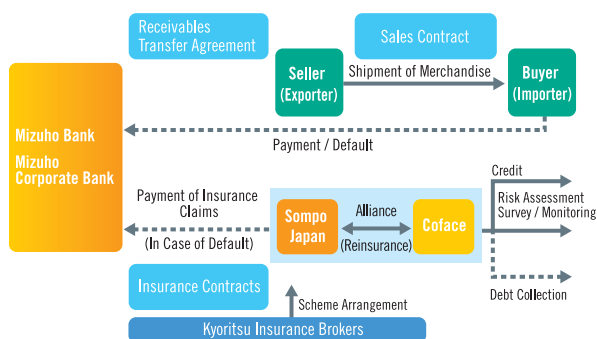
### Operating Alliance with Mizuho Corporate Bank and Mizuho Bank

#### The Provision of Export Credit Insurance for Export Receivables Securitization

Sompo Japan has entered into an alliance concerning the export receivables securitization business of Mizuho Corporate Bank and Mizuho Bank. Sompo Japan will pro-



vide export credit insurance to Mizuho Corporate Bank and Mizuho Bank in cooperation with Coface of France, with which Sompo Japan has a business alliance. The provision of insurance is expected to begin in the first half of 2006. Against a background of diversification of export settlement terms, export receivables securitization needs are increasing. The alliance will enable Mizuho Corporate Bank and Mizuho Bank to purchase export receivables from a broader base of exporters than was previously possible.



## International Business Strategy

### Basic Principles of the International Business Strategy

To take full advantage of Sompo Japan's extensive global network and advanced insurance techniques, in the new medium-term business plan we set forth two basic principles for our international business strategy: "profitable domestic and overseas alliance businesses" and "profitable overseas businesses."

With regard to profitable domestic and overseas alliance businesses, we will provide solutions involving acting in concert with the global strategies of Japanese-affiliated companies by providing enhanced service infrastructure to Japanese-affiliated customers in a number of overseas regions and increase profitability by sharing with customers the resulting added value.

As for profitable overseas businesses, in the BRIC countries and the ASEAN region we aim to increase profitability by providing added value through the introduction of the advance insurance techniques Sompo Japan has developed over the years. We will also consider underwriting high-quality local properties and entering the life insurance business. We plan to actively invest resources in regions and businesses from which such potential can be expected.

## Activities in the BRIC Countries

### Brazil

In Brazil, Yasuda Segros S.A. (headquartered in Sao Paulo), a local subsidiary established in 1958, is engaged in direct underwriting of life insurance. In 2005, the company posted record-high profits for the third consecutive year. Direct underwriting income was about ¥12,000 million, and after-tax profits were about ¥1,440 million.

### Russia

In 2005, Sompo Japan opened a representative office in Moscow and dispatched a Japanese resident employee. We have also entered into comprehensive operating alliance agreements with local insurance companies Ingosstrakh Insurance Company and Allianz Russia. In this way we have established a local cooperative framework with two major players in a number of areas, including securities issuance, claim settlement, legal affairs and accounting, making possible flexible, agile service provision to Japanese-affiliated companies that enter the Russian market.

### India

The insurance market in India, whose population of more than one billion is the world's second largest, is expanding rapidly. Sompo Japan regards India as a future growth region, has dispatched four Japanese resident employees and is considering market entry.

### China

In June 2005, Sompo Japan established Sompo Japan Insurance (China) Co., Ltd., becoming the first Japanese non-life insurer to establish a local subsidiary in Dalian. The subsidiary began operation in July. Future plans call for implementing a powerful program of advancement in this market, opening branches of the local subsidiary in Shanghai, Suzhou, Guangzhou, Beijing and other regions where Japanese companies have established a significant presence. In addition to expanding our independent business base, we are actively moving forward with alliance building with leading players in various market sectors. For instance, in January 2006 we entered into an alliance with local non-life insurer Sunshine Property & Casualty Insurance.

# New Products Inspired by Customers' Needs

## ONE-do

### —Needs Segmentation Automobile Insurance

#### New Product Incorporates Innovations to Increase Customer Convenience

In January 2004, Sompo Japan launched ONE-do automobile insurance, a product based on the concept of offering greater convenience for customers and simplified policy administration for agents. Now we have begun offering Safe and Sure Policy Renewal Support, beginning with policies expiring in January 2005. Safe and Sure Policy Renewal Support is a new automobile insurance renewal system based on the Safe and Sure Renewal Guide (utility model registered) easy-to-understand policy renewal information tool and a function to prevent inadvertent policy lapsing.

The Safe and Sure Renewal Guide makes it possible for customers themselves to carefully consider their policies by explaining in an easy-to-understand way how to confirm age conditions, driver's license color and other policy terms and conditions and key points to consider in reviewing coverage details. By increasing customer conviction and peace of mind at the time of policy purchase and renewal, Sompo Japan wrote more than 5.2 million policies in FY2005 and increased the renewal rate by about 1% from the previous year.







## Dr. Japan —Whole-Life Medical Coverage

### A Very Popular Product

Dr. Japan whole-life Medical Insurance, introduced in July 2004, incorporates features such as insurance premium reductions in the event that the standard expected interest rate increases after a policy is taken out and exemption from subsequent premium payments in certain prescribed conditions of the three major diseases (cancer, major heart attack and stroke). In February 2006, we enhanced Dr. Japan as a product suited to wide-ranging needs by introducing two endorsements: a hospital discharge lump-sum endorsement and a post-discharge outpatient benefits endorsement.

## Complete Natural Disaster Plan —New Homeowners Insurance

### The Provision of Comprehensive Preparedness for Typhoons, Floods and Earthquakes

Complete Natural Disaster Plan is the name of a new product package that combines Fussai Jisson-barai Plan (full compensation for the actual amount of wind damage), a product launched in August 2005, Suisai Jisson-barai Plan (full compensation for the actual amount of Flood damage, a product previously offered), and Jishin

Kasai Hiyou 50 Plan and 30 Plan (payment of Earthquake fire expenses in cases of fire damage due to earthquake). New Shizen Saigai Jyujitsu Plan home insurance has been well received by customers, and the number of policies written during the seven-month period beginning in September 2005 exceeded 80,000.

## Yutorido, Super X —Saving-Type Personal Accident Insurance

### Providing the Pleasure of Customer-Selectable Compensation and Maturity Date

Yutorido, a new saving-type personal accident insurance products, was introduced in September 2005. With this product Sampo Japan combined eight previously available saving-type personal accident insurance products into a single product package and enhanced compensation, realizing greater convenience for customers and simplification of clerical work for agents.

We simultaneously introduced Super X, the popular nickname for a sales approach that meets the needs of customers who place importance on the savings characteristics of insurance. Savings-type personal accident insurance has been well received by customers, and more than 60,000 policies have been written since launch.

## Happy Aging 401k Plan

### Major Enhancement of Personal Defined Contribution Pension Plan Investment Products

In May 2006, Sampo Japan greatly increased from six to fourteen the number of investment products available to Happy Aging 401k Plan personal defined contribution pension plan customers. To increase the range of customer options, we complemented the previously available principal guaranteed Happy Aging Anny defined contribution pension plan and Happy Aging Fund balanced investment trust by adding stock investment trusts (three Japanese stock products and one foreign stock product) and bond investment trusts (three Japanese bond products and three foreign bond products). Another benefit of the product expansion is that the addition of passive investment prod-



ucts to the previously available active investment products has resulted in a balanced lineup throughout. This major enhancement to the range of investment products makes possible more satisfying investment of plan assets for customers by accommodating diverse portfolios that can be configured according to customer investment experience and investment policies.

### The Development of New Services and Coverage Types in Business Automobile Insurance

#### Aiming to be the “Best Partner” for Corporate Customers

In October 2005, Sompo Japan developed the industry’s first service (business model) that supports automobile accident prevention activities by linking customer company managers, an insurance company and insurance agents via the Internet to make possible unique two-way communication. We have introduced business automobile insurance that combines this groundbreaking service with new types of coverage.

#### New Services and Coverage Overview

##### 1. Jikoboshi-club web-based accident prevention support service

We have constructed a Web-based system that enables customers themselves to easily access and use accident prevention support services optimized to their individual requirements.



##### 2. ACE Lite new vehicle management software

We have developed new vehicle management software that incorporates a vehicle increase/decrease notification function and an accident analysis function in addition to vehicle management functions.

##### 3. Development of coverage suited to the needs of businesses

We have developed new coverage (new riders) that includes the Robbery Damage Accident Pack for paying benefits in cases when company employees and other persons are injured or when money is stolen during the robbery of insured vehicles and a Personal Information Protection Measure Cost Rider for paying the actual cost of damages incurred when personal information is leaked due to the theft of property containing personal information.

By providing these new services and forms of coverage, Sompo Japan aims to be the “best partner” for corporate customers by actively supporting automobile accident response and accident prevention activities, for which demand from business managers is great.

### Corporate Information Disclosure Liability Insurance Protecting Companies Against the Risk of Compensation in Connection with Information Disclosure

In August 2005, Sompo Japan introduced corporate disclosure liability insurance as a solution to more rigorous requirements for disclosure responsibility to investors and the construction of internal control systems imposed on listed companies by the December 2004 revision of the Securities Exchange Law. This insurance indemnifies listed companies or their corporate officers from liability under the civil liability provision of the Securities Exchange Law for damages incurred by investors due to false descriptions in disclosure documents and false disclosure. As corporate officers are included among the insured parties, coverage is duplicated in cases where payment of insurance benefits is possible under existing corporate officer liability insurance. In such cases, this insurance is primarily applied.

### **Hostile Takeover Bid Cost Insurance (Insurance to Cover the Cost of Major Incidents)**

#### **Coverage Against Costs Required for Measures to Counter Hostile Takeover Bids**

There is concern that liberalization of mergers and acquisitions, the dissolution of share crossholdings, employment mobility and other changes in the social environment brought about by enforcement of the Companies Act in 2006 will give rise to an increase in hostile takeover bids in Japan. Against this background, in May 2006 Sompo Japan introduced Hostile Takeover Bid Cost Insurance (Insurance to Cover the Cost of Major Incidents). In cases of hostile takeover bids launched against listed companies, this insurance indemnifies the costs required for measures devised to counter parties mounting takeover bids for the purpose of preventing damage to corporate value or shareholders' common interest.

This insurance provides compensation for the following costs: 1) hostile takeover bid research costs (such as costs to examine the details of takeover proposals), 2) the cost of lawsuits to seek injunction, 3) the cost of obtaining consultation from external specialists, 4) the cost of holding extraordinary meetings of shareholders for the purpose of passing resolutions necessary to counter takeover bids, 5) the cost of expressing management opinion to shareholders, 6) the cost of a waging a proxy fight and 7) the cost of establishing a headquarters for advertising, communications, document preparation and countermeasures. (Costs required for third-party share allocations, costs required for dividends and other costs required to put in motion defensive measures themselves are not covered.)

### **China Cargo Program**

#### **Comprehensive Solutions for Companies Entering China**

In January 2006, Sompo Japan developed China Cargo Program, as part of our services for small and medium-sized companies conducting trade with China or setting up operations in China. China Cargo Program is a package tool for comprehensively providing advice, such as a service for assessing risk associated with distribution in China and the arrangement of marine insurance for ocean-going cargo. Sompo Japan will design products tailored to the risks facing individual customers.

### **Product Wind and Water Disaster Countermeasure Support Tool**

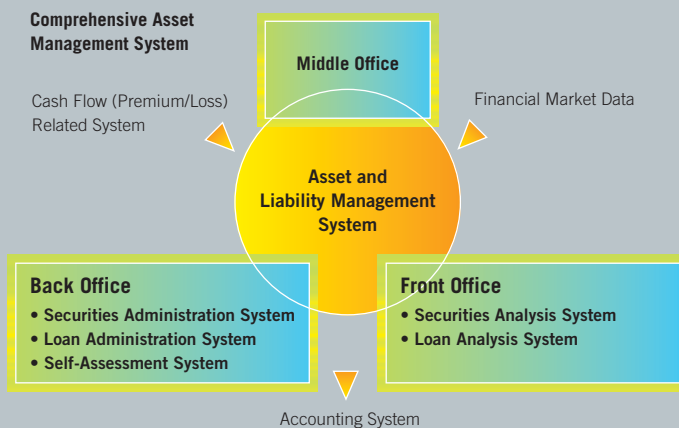
#### **Free-of-Charge Cash Theft Risk Assessment Service**

Interest among companies in strengthening measures against wind and water disaster and anticrime systems to protect their products is increasing owing to recent abnormal weather (typhoons, torrential rainfall, high water, etc.) and an uptrend in incidents of cash and securities theft. As services to assist customers in coping with these risks, Sompo Japan offers the Product Wind and Water Disaster Countermeasure Support Tool and Free-of-Charge Cash Theft Risk Assessment Service. In addition to the provision of insurance such as comprehensive distribution insurance that covers products during transport and storage and Corporate Money Guard Insurance that covers cash and securities, we assist customers to ascertain the current state of risk and to consider and implement effective safeguards.

### **Happy Aging Confederation Type Corporate DC Plan Making Possible Timely, Low-Cost Pension Services**

Sompo Japan DC Securities' Happy Aging Confederation Type Corporate DC Plan has made possible timely, low-cost service regardless of company size, industry, sector, or location due to a simplified documentation approval process. The need for defined contribution pension plans among small and medium-size companies is increasing, and this plan has been introduced by numerous customers since its launch. Also, in June 2006 Sompo Japan expanded the selection of investment products from twelve to fourteen products, broadening investment product choices and making possible more satisfying investment of plan assets for participants.

# Maintaining a Firm Grip on Risk



## Strengthening Risk Management

Risk management is an important tool to assess the value of corporations and investments. The Sompo Japan group offers wide-ranging risk consultation services to corporate customers. Sompo Japan is also enhancing its asset management operations to respond flexibly and appropriately to financial and economic change, at the same time sustaining healthy assets.

## Reorganized to Provide Total Risk Management Consulting for Enterprises

Expanding on its original “individual risk”-based consulting platform, Sompo Japan established a risk management firm, Sompo Japan Risk Management, for risk assessments and subsequent solution proposals, which is structured from the corporate customer’s standpoint. Sompo Japan Risk Management deals with a broad range of risks affecting companies, from “pure” risks such as valued asset risk, loss of profits risk and liability risk to speculative risk. Sompo Japan Risk Management comprises the following departments:

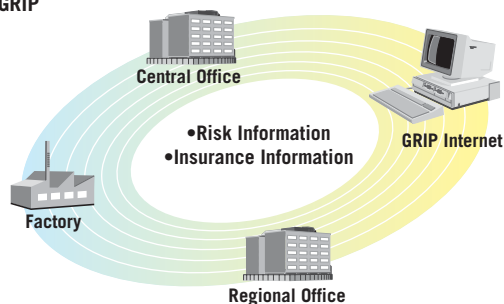
- Research & Development Department
- Risk Engineering Department
- Engineering Due Diligence Department
- Natural Disaster Department
- Information Security Department
- Crisis Management Department
- Medical Risk Management Department
- Management System Department
- Authorized Inspection Department

## Global Risk Management

Sompo Japan Risk Management has a global management service network and provides quality services to our clients operating their business in global basis. We focus on promoting alliances with local partners who specialize in risk engineering and risk management fields. Specifically, Sompo Japan group provides risk management services to companies who develop businesses in the Asian region.



## e-GRIP



### e-GRIP (e-Global Risk Information Program)

Sompo Japan Risk Management has developed a system that integrates information on corporate risks through the Internet (e-GRIP), thus making it possible to assist risk managers working on global business projects. The advanced information technology (IT) applications of e-GRIP allow risk managers instantaneous visual access to our policies and accident information worldwide.

### Earthquake Risk Consulting

Japan is one of the countries suffering most seriously from earthquakes. In addition, typhoons and other natural disasters frequently occur in this country. Sompo Japan Risk Management analyzes the degree of earthquake risk for each business establishment in various parts of Japan through computer simulation based on advanced ground data and carries out accurate modeling. This global-standard-based methodology allows those enterprises requiring priority treatment to be promptly identified.

### Business Continuity Management (BCM)

BCM is becoming a part of standard procedure in disaster prevention management for a business entity. Risk assessment is the first step for introducing BCM, and Sompo Japan Risk Management focuses on assisting our clients in developing probable and reliable scenarios utilizing their expertise in risk engineering. Probable causes for disaster scenarios they currently focused on are earthquakes and other natural perils, IT security and infectious diseases. Since many of our clients have multiple production locations and a huge number of suppliers depended on, any of such causes will directly impact their business in a very wide range resulting in an extensive loss.

### Business Interruption Risk Evaluation Program

In case a company's production facilities are damaged because of fire or other disasters, they take measures to limit losses by increasing production at other factories or outsourcing production to other companies. Sompo Japan Risk Management supports the strengthening and promotion of such measures by quantitatively analyzing the risk of business interruption, factoring in the crisis management systems of individual corporations.

### Ensuring Comprehensive Asset Management

Amid the changes continuously taking place in financial markets around the world, asset management has played a vital role in the operations of non-life insurers. Always at the forefront of change, Sompo Japan makes every effort to ensure that its asset management system, as well as its trading and risk management methods, is among the most sophisticated in the industry.

To maintain the quality of its assets and to carry out efficient and flexible asset management that meets the demands of ever-changing financial and economic conditions, we have established the following departments:

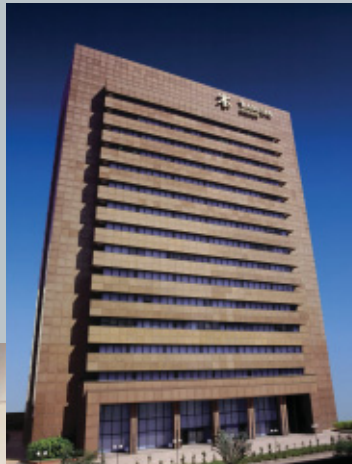
- Investment Planning Department (handles asset allocation)
- Financial Services Department and Global Securities Investment Department (carry out investment and lending activities)
- Investment Administrative Department (gives managerial support to above departments)

To make full use of our advanced asset management know-how, each department is equipped with a continuous-improvement management system, which enables the implementation of sophisticated asset and liability management strategies.

Furthermore, we have established self-assessment rules to serve as the basis for rigorous examinations of assets, with the aim of ensuring a high-quality balance sheet.

With a global network that includes offices in Tokyo, New York and London, our asset management operations cover all major international financial markets.

# Expanding Global Activities



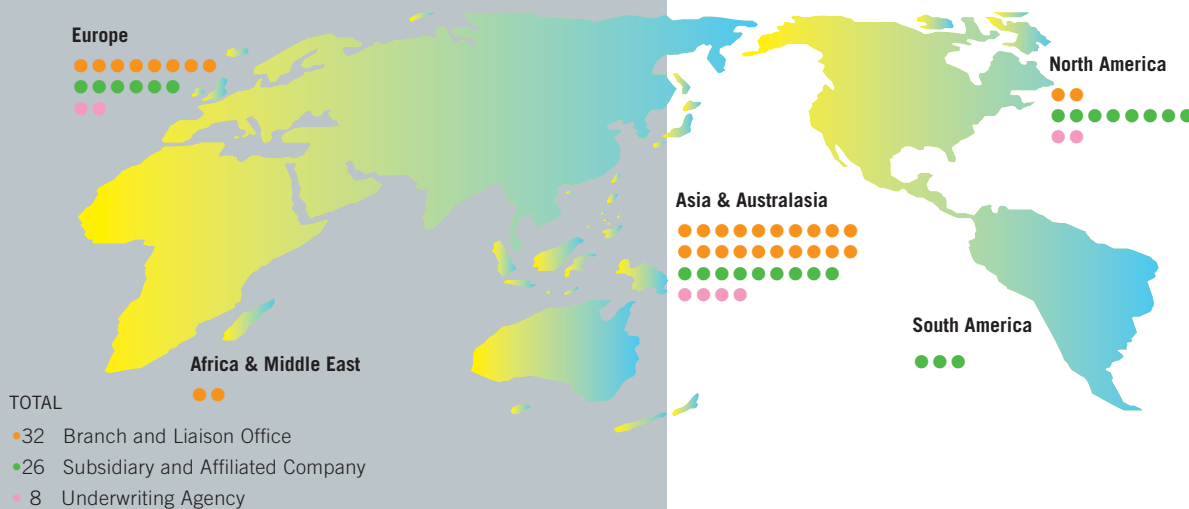
## Expanding Global Activities

Sompo Japan has set up a network of overseas subsidiaries and underwriting agencies in Europe, Africa and the Middle East; North, Central and South America; and China, Southeast Asia and Oceania to establish a sales system covering every major area of the world. Under this system, we offer insurance services to Japan-based companies around the globe and we are developing local market especially in the BRIC countries and the ASEAN region etc.

## Worldwide Service Network

Sompo Japan aims to support Japanese companies by providing comprehensive insurance services around the world. To this end, we maintain a global network comprising the following:

**International Operations** Sompo Japan's international network encompasses operations covering nearly the entire world, including the regions of North America (comprising the United States, Canada and Mexico, based in New York); South America (based in Sao Paulo); Europe, Africa and the Middle East (based in London); East Asia (based in Dalian); and South Asia and Australasia (based in Singapore).





This expansive network allows us to provide customers with a wide range of support as they work to expand their worldwide operations.

At present, we have offices and subsidiaries in over 42 cities in 26 countries, to which we have dispatched approximately 120 highly skilled personnel, for providing insurance and claim settlement.

**Reinsurance** Reinsurance Department offers worldwide reinsurance services in Tokyo and Hong Kong. Particularly in Asia, Sompo Japan provides reinsurance capacity through Sompo Japan Reinsurance Company Limited based in Hong Kong. Sompo Japan has been also a corporate member of Lloyd's of London since 1993.

**East Asia** As the economy in the East Asia continues to expand, many companies from all over the world, including Japan, are making inroads into these markets.

Due to the great potentiality in East Asian insurance market, especially in China, Sompo Japan established "Sompo Japan Insurance (China) Co., Ltd." in Dalian in June 2005, the first wholly owned subsidiary in China in the Japanese non-life insurance industry.

Sompo Japan opened a new liaison office in Seoul, Korea in June 2006, the ninth office in the region. Sompo Japan also has offices in Hong Kong, Beijing, Shanghai, Suzhou, Chongqing, Shenzhen, Guangzhou and Taipei.

**South Asia and Australasia** Sompo Japan has established a network centered on its wholly-owned subsidiary, Sompo Japan Insurance Company (Asia) Pte Ltd, in Singapore, to provide insurance services in the countries of South Asia and Australasia. At present, we maintain subsidiaries in Indonesia, the Philippines, Thailand and Vietnam, as well as in Singapore.

We have established an alliance with MNI (Malaysia National Insurance Bhd.) in Malaysia, to provide insurance services, and liaison offices in Australia, India and Myanmar, to provide insurance information to customers.

We will continue to work to provide sophisticated insurance services that meet the needs of customers in this vibrant area of the world.

**Europe** Sompo Japan has been serving clients in Europe for over 40 years since it first set up a liaison office in London in 1958.

At present, a wholly-owned subsidiary, Sompo Japan Insurance Company of Europe Limited, conducts underwriting and provides claim settlement, risk management and insurance information mainly to Japanese enterprises. With offices in the U.K., Belgium, France, Germany, Italy, the Netherlands and Spain, our operations cover the insurance markets of Europe as well as those of Africa and the Middle East.

**North America** In North America, Sompo Japan conducts property and casualty insurance operations through its U.S. subsidiary, Sompo Japan Insurance Company of America with its main regional bases in New York. The Company has branch offices in Los Angeles, Chicago, Atlanta and San Francisco and also has SJA Insurance Agency, LLC in Charlotte, to strengthen its own underwriting capability and administrative processing functions. In addition, Sompo Japan provides service in Canada through its Toronto office and in Mexico by its subsidiary, Sompo Japan Insurance De Mexico, S.A. de C.V., which began operation in March 1998.

**South America** Sompo Japan's main base of operations in South America is its subsidiary Yasuda Seguros S.A., in Brazil. This company was established in 1958, primarily to serve the insurance needs of Japanese companies setting up operations in the area. In 1959, the company became the first subsidiary of a Japanese insurance company licensed to underwrite insurance in Brazil.

At present, the company is providing services for the insurance needs of affiliates of Japanese companies and numerous local companies.

# CSR Approaches

## Toward a Sustainable Society

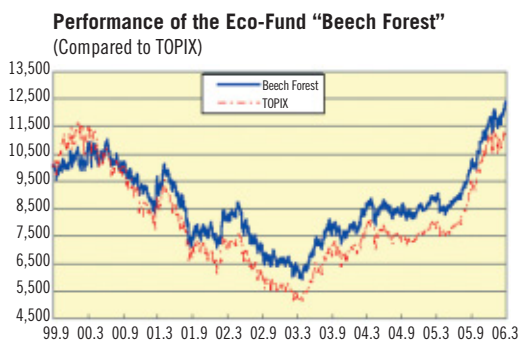
Sompo Japan established a Global Environment Office in 1993, the predecessor of the Corporate Social Responsibility (CSR) Office created in December 2003. We are undertaking various challenges related to CSR, such as environmental issues and corporate citizenship, through active engagement with multiple stakeholders.

## Highlights

### Steady Performance of Eco-Fund “Beech Forest”

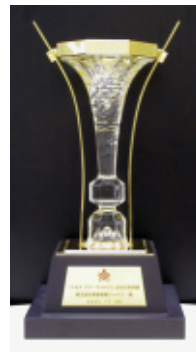
The eco-fund “Beech Forest” (Buna no Mori) is the investment trust product that invests in companies undertaking business activities while paying due heed to the environment. After about two years of research, the Beech Forest eco-fund was launched in September 1999 with the purpose of supporting companies that are making proactive efforts to solve environmental problems by purchasing their equity shares. Sold through a range of financial institutions, including Sompo Japan as well as other securities firms, banks, industrial banks and credit associations. The balance of the eco-fund’s net assets reached ¥17.8 billion as March 31, 2006. The fund’s performance has been firm and steady, outperforming TOPIX (Tokyo Stock Price Index) by 8.41% since its launch.

Following the launch of the eco-fund “Beech Forest,” Sompo Japan developed the new SRI fund in March 2005, “Empowering Our Common Future” (Mirai no Chikara), which is to conduct a comprehensive evaluation of CSR of companies and select investees. It was the first launch of a publicly offered SRI Fund by a non-life insurance company group in Japan.



\* The performance of the fund includes 500 yen of dividends on July 17, 2000.

\* The unit price of the fund and TOPIX are indexed as 10,000 on the date of inception.



Trophy of the Commissioner for Cultural Affairs Award

## Signatory to the Principles of Responsible Investment (PRI)

In addition to signing the United Nations Environment Programme (UNEP) Finance Initiative in 1995, we have, as Sompo Japan Insurance Group, been proactively engaged in developing and providing socially responsible investment (SRI) funds and insurance products that benefit the environment and sustainable development of society. We believe our business performance should be socially responsible, environmentally sound and economically viable. On May 1, 2006, we, together with four other Japanese companies, signed the PRI proposed by the UNEP. The PRI takes the perspective of the so-called ESG issues, or Environment, Society, Corporate Governance issues, into consideration in the area of asset management—financial institutions’ main line of business.

## Award Received in 2005

In November 2005, Sompo Japan was awarded the Commissioner for Cultural Affairs Award for the recognition of its multi-faceted efforts, integrating material, financial and human resources for the development of art and cultural activities in local communities.

The Seiji Togo Memorial Sompo Japan Museum of Art located in our head office building in Tokyo, is run by the Sompo Japan Fine Art Foundation, and the Himawari (Sunflower) Hall puppet theatre, located in our Nagoya building, is co-managed with a local NPO. Though the area abounds in puppet groups, up until our Nagoya building opening in 1989, it had almost no major facilities to support their activities.

The Chikyu (Earth) Club, an employee-managed volunteer organization, often cooperates with these facilities. The Club invites people with hearing disabilities for the special viewing at the Museum, providing sign-language interpretation for the museum curator’s talk by the volunteer employees. Also, the Club members support various local activities supporting culture and art, such as a puppet theatre project putting on “the Fire of Inamura (rice sheaves).” The story of “the Fire of Inamura” is a well-known folk tale that carries a valuable message about disaster reduction. It tells the story of a man who set fire to his precious rice sheaves on a hilltop to attract his fellow villagers in their homes below in order to save them from a tsunami. The production was presented on various occasions, including the United Nations World Conference on Disaster Reduction, held in Kobe in January 2005.





### Tackling Environmental Issues

The “Sompo Japan Environmental Principles,” introduced in October 2002, guide our environmental activities. The following are the some of our efforts.

#### Insurance Products for Reducing Environmental Risks

In recent years, illegal waste dumping and soil contamination are among the emerging environmental risks that companies face. Aiming to provide total solutions for customers, Sompo Japan offers insurance to cover the liability of dischargers when commissioned medical or industrial waste is illegally dumped. Also, Sompo Japan provides soil contamination insurance and cost cap insurance.

#### Resource and Energy Conservation

Sompo Japan’s head office building and its Data Processing Center are both ISO 14001 certified. Since FY2002 the Data Processing Center has been achieving “zero emissions”—defined as producing no waste requiring disposal in a landfill—a first among financial institutions in Japan. We have also introduced a unique environmental management system named the “E-Koto Project,” which is implemented at offices around the country. The system, developed through the know-how of ISO certificate acquisition, involves numerical reduction targets for the use of electric power, gas, water, paper and other resources, while setting objectives on corporate citizenship activities.

### Corporate Citizenship

Sompo Japan, as a good corporate citizen, actively implements initiatives that contribute to society. We also strongly encourage our employees’ volunteer activities. Our initiatives on contributing to society focus mainly on three areas: fine arts, welfare and the environment through our three foundations each dedicated to one of the areas.

From the beginning, we have been strengthening our cooperation with CSOs (Civil Society Organizations, also known as NPOs or NGOs) in practicing these activities.

#### Seiji Togo Memorial Sompo Japan Museum of Art

The Museum of Art, located on the 42nd floor of the head office building, opened its doors in June of 1976. The museum’s collection is comprised of the works of Seiji Togo, a noted Japanese modern artist closely associated throughout



Special exhibitions at Seiji Togo Memorial Sompo Japan Museum of Art

his life with our company. The museum has since accumulated in its collection such acquisitions as Vincent van Gogh’s “Sunflowers” in October 1987, Paul Gauguin’s “L’Allee des Alyscamps, Arles” in January 1989 and Paul Cezanne’s “Pommes et Serviette” in January 1990.

During FY2005, special exhibitions of “French Painting from the Museum Fabre, Montpellier,” “The Best Collection from the Museum Buffer,” and “Treasures from the City of Prato, Italy” were held. The Museum welcomes over 150,000 visitors annually, and a total of more than 3.8 million people have enjoyed the collection since the its opened.

#### For Children’s Safety and Learning (Yellow Safety Badges)

Every April, Sompo Japan joins Mizuho Financial Group, Meiji Yasuda Life Insurance Company and Dai-ichi Mutual Life Insurance Company in a program in which every child entering the first grade in elementary school is given a yellow traffic safety badge that also confers insurance protection against traffic-related injury. This not only raises the children’s awareness about traffic safety, but by eliciting the cooperation of drivers and local citizens, it also contributes to preventing traffic accidents. Started in 1965, the program celebrated its 42nd anniversary in April 2005 and has so far donated 51.86 million badges.

#### Contribution to Social Welfare

Through the Sompo Japan Foundation established in October 1977, we assist organizations specialized in the field of social welfare and disability. The Sompo Japan Foundation Award, the only prize of its kind in Japan, is awarded to researchers of the field, while a total ¥1.8 billion



A vehicle donated to a welfare organization by Sompo Japan Foundation



An activity of “Chikyu Club”  
Sign Language Chorus



CSR Report 2005

was awarded to welfare groups and organizations for people with disabilities during FY2005.

#### Public Seminars on the Environment

Sompo Japan has joined with an NPO and the Sompo Japan Environment Foundation to host a series of open public seminars on the environment. Entering its 13th year in FY2005, this seminar has been attended by approximately 10,800 people, such as company representatives, government officials, NPOs and students, providing extensive knowledge on the issue.

#### Sompo Japan “Chikyu (Earth) Club”

The Sompo Japan “Chikyu Club,” an employee-managed volunteer organization, plans and carries out activities that benefit the local communities with the collaboration of local Sompo Japan Agents and NPOs. To support employees’ volunteer works, the company offers such programs as paid leaves for up to 20 days per year.

#### Enhancing Stakeholder Engagement (CSR Communication)

Continued interactive communication with the wide range of our stakeholders is indispensable for the promotion of CSR. At Sompo Japan, we are creating various opportunities for stakeholder engagement.

#### Publication of the “CSR Report”

We publish the “CSR Report” annually as a communication tool to introduce Sompo Japan’s various CSR initiatives. Published since 1998, the report not only provides detailed performance of the corporation’s CSR efforts but is also used as a medium for dialogues with stakeholders. The report is available both in Japanese and English, in addition the report is available in Braille.

#### Holding of “CSR Dialogues”

Since FY 2001, the “Stakeholder Meeting” has been held

every year to exchange a wide range of opinions regarding Sompo Japan’s CSR initiatives with multiple stakeholders, including the general public, business people, students and employees.

In FY2005, we held the “CSR Dialogue—Let’s talk together! Sompo Japan’s CSR—” in Osaka. As for communication with external stakeholders, we continued dialog on CSR issues through the web-based “CSR Consortium,” which conducts dialog and opinion exchange between multiple stakeholders and our staff. In November 2005, we upgraded this channel of communication to the “Sompo Japan CSR Communication Site,” a new system designed to further deepen dialog with stakeholders.

#### CSR Awareness-Raising Training

With the goal of increasing the capacity of employees to incorporate CSR in their day-to-day business activities, from FY2000, all employees of Sompo Japan, including group companies, have been receiving in-service training on “CSR Literacy” with overall CSR. Furthermore, we are supporting the deepening of CSR understanding by employees through intranet education courses on “CSR Fundamentals” and “Introduction to Environmental Issues.”

Our new employees receive a whole-day training regarding the CSR activities of Sompo Japan. At the training held in May 2006, in addition to group discussions on “CSR of Sompo Japan” with Sompo Japan’s and other companies’ CSR reports as the subject matter, the training included discussions of Sompo Japan environmental and social corporate citizenship activity, and with the help of a local social welfare council, classes using wheelchairs and eye masks to provide physical impairment experiences.

#### External Appraisal

##### Socially Responsible Investment (SRI) Indices

SRI examining corporate financial standing as well as environmental and social efforts, has been growing in global financial markets.

Sompo Japan is the only Japanese insurance company included in the Dow Jones Sustainability Index (DJSI), the largest SRI stock index, jointly developed by SAM Group Holding AG (Switzerland) and Dow Jones Inc. (U.S.). It is also listed in the FTSE4Good Index in the U.K., the Ethibel Sustainability Index (ESI) in Belgium, and MS-SRI in Japan.

Non-Consolidated Financial Review

Net Premiums Written by Category (Millions of yen)

Years ended March 31,	2006	2005	2004	2003	2002
Fire and Allied Insurance	¥ 152,077	¥ 150,367	¥ 157,448	¥ 153,957	¥127,432
Marine Insurance	28,362	25,199	24,849	22,904	17,716
Personal Accident Insurance	127,634	120,795	114,802	112,992	95,067
Voluntary Automobile Insurance	674,073	669,097	673,589	643,628	524,125
Compulsory Automobile Liability Insurance	237,918	244,156	241,858	196,708	89,771
Other Insurances	150,856	142,300	140,331	134,095	109,504
Total	¥1,370,920	¥1,351,915	¥1,352,877	¥1,264,284	¥963,615

HIGHLIGHTS OF THE YEAR UNDER REVIEW

In fiscal 2005, the final year of Sompo Japan’s first medium-term business plan, we achieved high profitability and strengthened the business foundation by decisively implementing thoroughgoing business structure innovation and improving the expense ratio.

With regard to automobile insurance, “ONE-do” (needs segmentation automobile insurance) was favorably accepted for its simple contract procedure and comprehensive coverage. ONE-do developed into a core product for which the number of policies written was 5.24 million and premiums reached ¥348.5 billion in fiscal 2005.

With regard to new product development, in September 2005, we launched “Yutorido” (saving-type personal accident insurance). We have been working on the development of new products in response to diversifying risks, including information disclosure liability insurance to indemnify companies against risks associated with information disclosure and school comprehensive general liability insurance to comprehensively indemnify schools against the risk of damages.

With regard to insurance underwriting, underwriting profit increased owing to factors including minor negative impact from natural disasters compared to the previous fiscal year. Investments performed favorably as a result of efforts to increase asset management efficiency and factors including an increase in dividends from the equity portfolio accompanying a recovery in corporate profits.

OVERVIEW OF THE INSURANCE UNDERWRITING BUSINESS

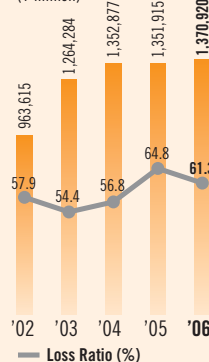
Net annual premiums written in underwriting income rose by 1.4% compared to the previous fiscal year to ¥1,370,920 million, while net losses paid in underwriting expenses decreased by 4.6% to ¥776,042 million. As a result, the loss ratio decreased by 3.5 percentage points from the previous year to 61.3%. Operating costs and general administrative expenses associated with insurance underwriting fell by 4.9% to ¥189,820 million owing to continued implementation of measures to increase efficiency. The net annual operating loss ratio fell by 0.6 percentage points to 30.3%.

As a result, the net underwriting balance, obtained by deducting net claims paid, loss adjustment costs, sundry expenses and collection costs, and operating costs and general administrative expenses from net premiums written, increased by 98.7% from the previous year to ¥114,890 million. Net underwriting profit, obtained by deducting premiums on savings-type insurance, maturity repayments, the reserve for outstanding losses, claims and reversal from the liability reserve, and other items from the net underwriting balance, increased by 46.5% to ¥24,060 million.

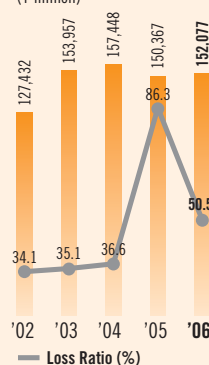
■ Fire and Allied Insurance

Factors including steady growth from new fire and allied insurance products for individuals and robust sales of products for businesses led to an increase in net premiums written of 1.1% from the previous year to ¥152,077 million. The loss ratio fell by 35.8 percentage points to 50.5% owing to a reduction in the payment of claims for losses from typhoons and other natural disasters.

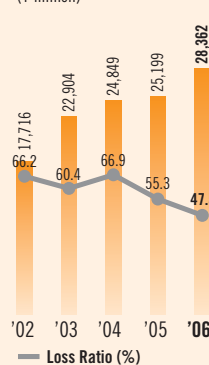
Net Premiums Written (¥ million)



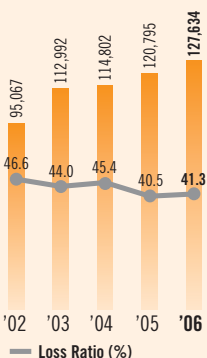
Fire and Allied Insurance (¥ million)



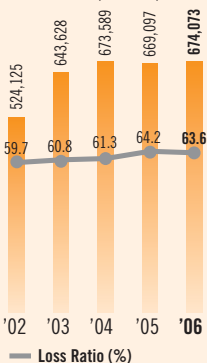
Marine Insurance (¥ million)



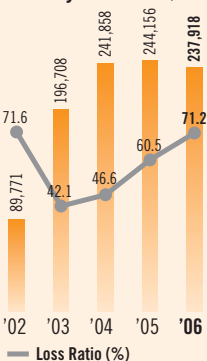
### Personal Accident Insurance (¥ million)



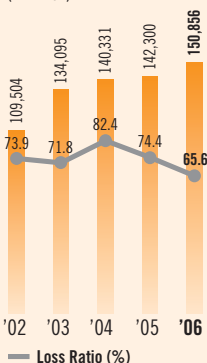
### Voluntary Automobile Insurance (¥ million)



### Compulsory Automobile Liability Insurance (¥ million)



### Other Insurances (¥ million)



### Marine Insurance

Owing to factors including strong sales of cargo insurance, net premiums written increased by 12.5% from the previous year to ¥28,362 million. The net loss ratio fell by 7.8 percentage points to 47.5%.

### Personal Accident Insurance

Steady growth from “Dr. Japan” (whole-life medical insurance) coupled with favorable sales of overseas travel insurance and other products resulted in an increase in net premiums written of 5.7% from the previous year to ¥127,634 million. The net loss ratio rose by 0.8 percentage points to 41.3%.

### Voluntary Automobile Insurance

An increase in the policy renewal rate due to the bringing forward of renewal procedures for mainstay product “ONE-do” coupled with an increase in policy unit price led to an increase of 0.7% in net insurance premiums to ¥674,073 million. The net loss ratio fell by 0.6 percentage points to 63.6%.

### Compulsory Automobile Liability Insurance

Although the number of policies increased owing to solid growth in periodical vehicle safety inspections, net premiums written fell by 2.6% from the previous year to ¥237,918 million owing to factors including the impact of the April 2005 revision to the standard premium rate. The net loss ratio rose by 10.7 percentage points to 71.2% due to factors including the impact of the abolishment of the government re-insurance scheme.

### Other Insurances

Owing to factors including solid sales of general liability insurance, net premiums written increased by 6.0% from the previous year to ¥150,856 million. The net loss ratio fell by 8.8 percentage points to 65.6%.

## OVERVIEW OF ASSET MANAGEMENT

### Net Losses Paid (Millions of yen) Loss Ratio (%)

Years ended March 31,	2006		2005		2004		2003	
	Net Losses Paid	Loss Ratio	Net Losses Paid	Loss Ratio	Net Losses Paid	Loss Ratio	Net Losses Paid	Loss Ratio
Fire and Allied Insurance	¥74,049	50.5%	¥126,893	86.3%	¥ 55,605	36.6%	¥ 52,004	35.1%
Marine Insurance	12,416	47.5	12,987	55.2	15,387	66.9	12,536	60.4
Personal Accident Insurance	48,052	41.3	44,534	40.5	46,790	45.4	44,424	44.0
Voluntary Automobile Insurance	393,717	63.6	395,819	64.2	375,609	61.3	357,106	60.8
Compulsory Automobile Liability Insurance	155,311	71.2	133,212	60.5	97,863	46.6	69,730	42.1
Other Insurances	92,497	65.6	99,652	74.4	108,654	82.4	88,532	71.8
Total	¥776,042	61.3%	¥813,097	64.8%	¥699,908	56.8%	¥624,333	54.4%

Total assets at the end of the fiscal year under review increased by ¥777,681 million from the previous year to ¥5,934,761 million. Investment assets such as securities and loans increased by ¥757,365 million to ¥5,523,347 million.

The appraisal profit of the equity portfolio (unrealized gain) at the end of the fiscal year under review increased by ¥606,057 million compared to a year earlier to ¥1,448,013 million. Net appraisal profit of the equity portfolio (shareholders' equity) after deducting the corresponding value of corporate income tax rose by ¥396,971 million from end of the previous fiscal year to ¥960,629 million.

During the fiscal year under review, as a result of an increase in dividends on the equity portfolio accompanying on a recovery in corporate profits and an increase in investment efficiency, interest and dividend income

increased by ¥12,334 million from the previous year to ¥95,040 million.

Net investment income after adjustment for items including profit on securities sold and transfer of investment income on savings-type insurance premiums increased by ¥17,803 million from the previous year to ¥98,616 million.

Investment expenses such as appraisal losses on the share portfolio and losses securities sold fell by ¥13,071 million from the previous year to ¥7,140 million.

## ORDINARY PROFIT AND NET INCOME

Ordinary income in fiscal 2005 was ¥1,696,666 million, ordinary expenses were ¥1,582,377 million, and ordinary profit was ¥114,289 million.

Net income was a record high ¥67,858 million.

## FINANCIAL POSITION

Shareholders' equity was ¥1,399,719 million at the end of the fiscal year. The equity ratio was 23.6%. The solvency margin reached ¥2,378,680 million, the solvency margin ratio was 1,130.9%.

### Assets by Category (Millions of yen)

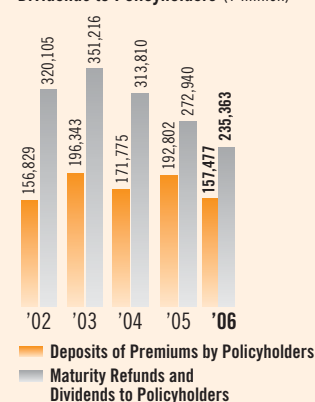
Years ended March 31,	2006	2005	2004	2003	2002
Cash	¥ 186,255	¥ 162,897	¥ 200,796	¥ 206,726	¥ 220,315
Short-Term Investments	120,185	47,568	171,178	181,357	125,322
Investments in Securities	4,546,230	3,866,653	3,491,036	2,875,170	2,411,620
Loans	448,525	463,126	521,734	618,491	557,824
Accrued Investment Income	12,580	13,184	11,671	9,778	11,352
Property and Equipment, at Cost	450,785	466,467	513,494	557,934	480,107
Less Accumulated Depreciation	(222,503)	(228,556)	(238,769)	(242,515)	(194,917)
Premiums Receivable and Agents' Balances	110,919	101,782	86,133	75,407	59,873
Reinsurance Balances Recoverable	116,602	120,175	117,426	126,125	71,688
Other Business Balances Receivable	9,620	11,889	9,596	7,675	7,859
Other Assets	175,590	155,199	152,357	177,459	100,913
Deferred Tax Assets	—	—	64,144	221,124	45,571
Customers' Liabilities for Acceptances and Guarantees	—	—	—	—	414
Reserve for Possible Loan Losses	(20,023)	(23,154)	(28,352)	(28,695)	(16,132)
Reserve for Possible Losses on Investment Securities	(4)	(150)	(159)	(171)	(149)
<b>Total</b>	<b>¥5,934,761</b>	<b>¥5,157,080</b>	<b>¥5,072,285</b>	<b>¥4,785,865</b>	<b>¥3,881,660</b>

### Solvency Margin Ratio (%)

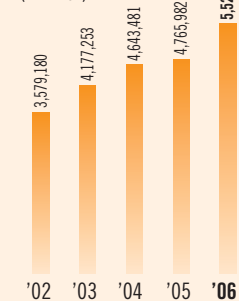
Years ended March 31,	2006	2005	2004	2003
Solvency Margin (a) (Millions of yen)	¥2,378,680	¥1,719,839	¥1,630,598	¥1,179,390
Risk Total (b) (Millions of yen)	420,688	321,187	314,691	304,445
Solvency Margin Ratio (c=a/(b/2))	1,130.9%	1,070.9%	1,036.3%	774.8%

Note: Because the standards for calculating these figures were revised every year, figures in the same line for the respective years are not comparable.

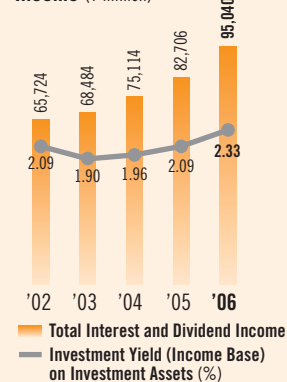
### Deposits of Premiums by Policyholders and Maturity Refunds and Dividends to Policyholders (¥ million)



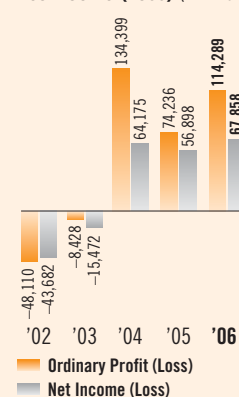
### Investment Assets (¥ million)



### Total Interest and Dividend Income (¥ million)



### Ordinary Profit (Loss) and Net Income (Loss) (¥ million)



## Consolidated Financial Review

### TRENDS IN PERFORMANCE AND FINANCIAL INDICATORS

#### ■ Profit and Loss

Due to an economic recovery, the non-life insurance industry saw solid growth from automobile insurance, medical insurance, and other products in the individual insurance sector and broad-based revenue increases in the business insurance sector from products including fire insurance, marine insurance, and general liability insurance owing to vitalization of economic activity in the form of increases in capital expenditures and distribution volume.

In these circumstances, Sompo Japan, which was formed with the aim of realizing a new business vision of becoming a comprehensive service provider group for risk and asset management, entered its fourth year of operation. FY2005 was the final year of the medium-term business plan launched when Sompo Japan was founded. As a result of achieving high profitability and the strengthening of the business foundation by decisively implementing thoroughgoing business structure innovation based on this plan, the Company achieved the following consolidated business results in the fiscal year under review.

Consolidated ordinary income rose by ¥31,673 million year on year to ¥1,931,474 million owing to increases in net premiums written in insurance underwriting and life insurance premiums as well as an increase in interest and dividend income from asset managements. Ordinary expenses decreased by ¥13,956 million to ¥1,816,601 million owing to factors including a decrease in net losses paid due to damage from typhoons and other natural disasters. Ordinary profit (ordinary income less ordinary expenses) increased by ¥45,629 million to ¥114,873 million.

Net income after special gains and losses, income taxes, corporate and residence taxes, deferred income taxes, and minority interests increased by ¥15,612 million year on year to a record high ¥67,377 million.

#### ■ Segment Review

In the non-life insurance business, net premiums written rose by ¥18,551 million year on year to ¥1,394,784 million owing to higher revenues driven by an increase in the number of policies owing to an increase in the policy renewal rate attributable to the bringing forward of renewal procedures for a mainstay automobile insurance product, the acquisition of new contracts, and the development of the medium-size business market as well as favorable sales of general liability insurance. Ordinary income (net premiums written plus investment income) increased by ¥6,323 million to ¥1,729,408 million. Ordinary expenses fell by ¥37,374 million to ¥1,612,398 million owing to contraction of operating costs and a reduction in net losses paid due to damage from natural disasters.

In the life insurance business, as a result of steady business expansion such as a year-on-year increase of ¥21,883 million in life insurance premiums, ordinary income increased by ¥25,649 million to ¥209,429 million. Ordinary expenses increased by ¥23,788 million year on year to ¥211,565 million owing to factors including an increase in the provision for underwriting reserve attendant on the increase in life insurance premiums at Sompo Japan Himawari Life.

As a result, in the non-life insurance business, ordinary profit was ¥117,010 million, and in the life-insurance business, there was an ordinary loss of ¥2,137 million.

#### ■ Financial Position

Net cash flow from operating activities increased by ¥139,159 million from the previous fiscal year to ¥251,049 million owing to factors including a sharp decrease in net insurance claims paid due to natural disasters.

Net cash flow from investment activities was negative. The outflow decreased by ¥65,904 million from the previous fiscal year to ¥153,146 million due in part to an increase in the amount of securities sold.

Net cash flow from financial activities was negative. The outflow decreased by ¥14,716 million from the previous fiscal year to ¥9,153 million due to factors including no redemption of convertible bonds.

As a result, the balance of cash and cash equivalents at the end of the fiscal year was ¥326,154 million, an increase of ¥91,709 million from the preceding fiscal year.

## Report of Independent Auditors

The Board of Directors  
Sompo Japan Insurance Inc.

We have audited the accompanying consolidated balance sheets of Sompo Japan Insurance Inc. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sompo Japan Insurance Inc. and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

*Supplemental Information*

As described in Note 1, effective the year ended March 31, 2006, the Company has changed its method of accounting for officers' retirement benefits from a cash basis to an accrual basis in accordance with internal regulations and presented as part of accrued severance benefits.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

*Ernst & Young Shin Nihon*

June 28, 2006

## Consolidated Balance Sheets

Sompo Japan Insurance Inc. March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>ASSETS</b>			
Cash (Note 10)	¥ 221,816	¥ 197,837	\$ 1,888,278
Short-term investments (Notes 3 and 10)	130,285	59,685	1,109,092
Investments in securities (Notes 4 and 10)	5,262,320	4,464,645	44,797,140
Loans (Note 5)	458,164	471,245	3,900,264
Accrued investment income	16,432	16,795	139,883
Property and equipment, at cost (Note 6)	454,547	469,581	3,869,473
Less accumulated depreciation	(224,138)	(229,885)	(1,908,045)
	230,409	239,696	1,961,428
Insurance business balances receivable:			
Premiums receivable and agents' balances	118,993	110,297	1,012,965
Reinsurance balances recoverable	119,637	123,622	1,018,447
Other	10,112	12,033	86,082
	248,742	245,952	2,117,494
Other assets	193,006	171,439	1,643,023
Deferred tax assets (Note 7)	5,833	1,313	49,655
Excess of cost of investments over net assets acquired	28,713	30,585	244,428
Reserve for possible loan losses	(20,903)	(24,183)	(177,943)
Reserve for possible losses on investment securities	(4)	(150)	(34)
<b>TOTAL ASSETS</b>	<b>¥6,774,813</b>	<b>¥5,874,859</b>	<b>\$57,672,708</b>



	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Liabilities:			
Underwriting funds:			
Reserve for outstanding losses and claims	¥ 695,167	¥ 644,501	\$ 5,917,826
Underwriting reserves	4,103,328	3,975,753	34,930,859
	4,798,495	4,620,254	40,848,685
Insurance business balances payable:			
Reinsurance balances payable	94,943	96,618	808,232
Other	6,039	6,491	51,409
	100,982	103,109	859,641
Accrued taxes	19,979	6,413	170,077
Accrued severance benefits (Note 8)	91,089	84,932	775,423
Reserve for decline in value of assets	24,058	17,583	204,801
Other liabilities	124,653	128,007	1,061,148
Deferred tax liabilities (Note 7)	253,504	11,870	2,158,032
Total liabilities	5,412,760	4,972,168	46,077,807
Minority interests	470	396	4,001
Shareholders' equity (Notes 9 and 16):			
Common stock:			
Authorized 2,000,000,000 shares, issued 987,733,424 shares in 2005 and 2006	70,000	70,000	595,897
Additional paid-in capital	24,230	24,230	206,265
Retained earnings	313,357	254,744	2,667,549
Unrealized gains on securities available for sale	959,486	563,709	8,167,924
Translation adjustments	(2,633)	(7,666)	(22,414)
Treasury stock, 3,592,881 shares in 2005 and 3,508,140 shares in 2006, at cost	(2,857)	(2,722)	(24,321)
Total shareholders' equity	1,361,583	902,295	11,590,900
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>¥6,774,813</b>	<b>¥5,874,859</b>	<b>\$57,672,708</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income

Sompo Japan Insurance Inc. For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>Ordinary income</b>			
Underwriting income:			
Net premiums written	¥1,394,784	¥1,376,233	\$1,873,534
Deposits of premiums by policyholders	157,477	192,802	1,340,572
Interest and dividend income on deposits of premiums, etc. (Note 4)	45,685	46,295	388,908
Life insurance premiums written	196,509	174,626	1,672,844
Other underwriting income	7,619	2,756	64,859
	1,802,074	1,792,712	15,340,717
Investment income:			
Interest and dividend income (Note 4)	64,636	48,216	550,234
Realized gain on sales of securities	41,512	42,046	353,384
Other investment income	10,371	3,575	88,286
	116,519	93,837	991,904
Equity in profit of affiliates	302	—	2,571
Other ordinary income	12,579	13,252	107,082
Total ordinary income	1,931,474	1,899,801	16,442,274
<b>Ordinary expenses</b>			
Underwriting expenses:			
Net losses paid	791,268	828,493	6,735,916
Loss adjustment expenses	64,986	63,771	553,214
Net commissions and brokerage fees	253,749	245,445	2,160,117
Maturity refunds and dividends to policyholders	235,363	272,940	2,003,601
Life insurance claims paid, etc.	36,898	33,427	314,106
Provision for reserve for outstanding losses	46,828	50,183	398,638
Provision for underwriting reserves	128,214	57,018	1,091,462
Other underwriting expenses	2,552	2,342	21,724
	1,559,858	1,553,619	13,278,778
Investment expenses:			
Realized loss on sales of securities	618	4,896	5,261
Devaluation loss on securities	318	1,609	2,707
Other investment expenses	6,529	14,048	55,580
	7,465	20,553	63,548
Operating, general and administrative expenses	246,466	254,976	2,098,119
Equity in losses of affiliates	—	423	—
Other ordinary expenses	2,812	986	23,937
Total ordinary expenses	1,816,601	1,830,557	15,464,382
<b>Ordinary profit</b>	114,873	69,244	977,892
<b>Special gains and losses</b>			
Provision for reserve for decline in value of assets	(6,475)	(6,290)	(55,120)
Impairment loss (Note 11)	(233)	(15,671)	(1,983)
Other special gains, net	9,432	43,679	80,292
	2,724	21,718	23,189
<b>Income before income taxes and minority interests</b>	117,597	90,962	1,001,081
<b>Income taxes</b> (Note 7):			
Current	21,462	3,389	182,702
Deferred	28,692	35,768	244,250
<b>Minority interests</b>	66	39	561
<b>Net income</b>	¥ 67,377	¥ 51,766	\$ 573,568
		Yen	U.S. dollars (Note 2)
Net income per share:			
Basic	¥ 68.46	¥ 52.59	\$ 0.583
Diluted	68.40	52.22	0.582
Cash dividends per share attributable to the year	13.00	9.00	0.111

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Shareholders' Equity

Sompo Japan Insurance Inc. For the years ended March 31, 2006 and 2005

	Thousands		Millions of yen				
	Thousands of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Unrealized gains on securities available for sale	Translation adjustments	Treasury stock
<b>Balance at March 31, 2004</b>	987,733	¥70,000	¥24,230	¥211,560	¥497,565	¥(8,005)	¥(2,511)
Net income	—	—	—	51,766	—	—	—
Cash dividends	—	—	—	(8,366)	—	—	—
Director's bonus	—	—	—	(45)	—	—	—
Other decrease in retained earnings	—	—	—	(163)	—	—	—
Increase in treasury stock—net	—	—	—	(8)	—	—	(211)
Net change during the year	—	—	—	—	66,144	339	—
<b>Balance at March 31, 2005</b>	987,733	¥70,000	¥24,230	¥254,744	¥563,709	¥(7,666)	¥(2,722)
Net income	—	—	—	67,377	—	—	—
Cash dividends	—	—	—	(8,857)	—	—	—
Other increase in retained earnings	—	—	—	93	—	—	—
Increase in treasury stock – net	—	—	—	—	—	—	(135)
Net change during the year	—	—	—	—	395,777	5,033	—
<b>Balance at March 31, 2006</b>	<b>987,733</b>	<b>¥70,000</b>	<b>¥24,230</b>	<b>¥313,357</b>	<b>¥959,486</b>	<b>¥(2,633)</b>	<b>¥(2,857)</b>
				Thousands of U.S. dollars (Note 2)			
		Common stock	Additional paid-in capital	Retained earnings	Unrealized gains on securities available for sale	Translation adjustments	Treasury stock
<b>Balance at March 31, 2005</b>		\$595,897	\$206,265	\$2,168,596	\$4,798,749	\$(65,259)	\$(23,172)
Net income		—	—	573,568	—	—	—
Cash dividends		—	—	(75,407)	—	—	—
Other increase in retained earnings		—	—	792	—	—	—
Increase in treasury stock – net		—	—	—	—	—	(1,149)
Net change during the year		—	—	—	3,369,175	42,845	—
<b>Balance at March 31, 2006</b>		<b>\$595,897</b>	<b>\$206,265</b>	<b>\$2,667,549</b>	<b>\$8,167,924</b>	<b>\$(22,414)</b>	<b>\$(24,321)</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Sompo Japan Insurance Inc. For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>Operating activities</b>			
Income before income taxes and minority interests	¥ 117,597	¥ 90,962	\$1,001,081
Depreciation	12,099	12,865	102,997
Impairment loss	233	15,671	1,983
Net amortization of excess of cost of investments over net assets acquired in subsidiaries	1,873	1,856	15,944
Increase in reserve for outstanding losses and claims	46,413	50,270	395,105
Increase in underwriting reserves	126,210	54,748	1,074,402
Net reversal of reserve for possible loan losses	(3,390)	(4,876)	(28,858)
Reversal of reserve for possible losses on investment securities	(146)	(9)	(1,243)
Provision (reversal) of accrued severance benefits	6,049	(33,803)	51,494
Provision for reserve for decline in value of assets	6,475	6,290	55,120
Increase in other reserves	93	115	792
Total interest and dividend income	(110,322)	(94,511)	(939,150)
Profit on securities	(40,569)	(35,360)	(345,356)
Interest expense	208	206	1,771
Loss on loans	401	542	3,414
Equity in (gain) losses of affiliates	(303)	423	(2,579)
Other, net	(23,865)	(53,294)	(203,159)
Subtotal	139,056	12,095	1,183,758
Interest and dividends received	118,310	101,685	1,007,151
Interest paid	(208)	(211)	(1,771)
Income taxes paid	(6,109)	(1,679)	(52,005)
Net cash provided by operating activities	251,049	111,890	2,137,133
<b>Investing activities</b>			
Net decrease in short-term investments	1,890	17,649	16,089
Purchases of investment securities	(731,550)	(806,214)	(6,227,547)
Proceeds from sales or maturity of investment securities	597,630	477,813	5,087,512
Loans made	(154,533)	(144,381)	(1,315,510)
Collection of loans	167,640	200,435	1,427,088
Purchases of property and equipment	(5,908)	(7,629)	(50,294)
Proceeds from sales of property and equipment	4,230	45,904	36,009
Other, net	(32,545)	(2,627)	(277,050)
Net cash used in investing activities	(153,146)	(219,050)	(1,303,703)
<b>Financing activities</b>			
Redemption of convertible bonds	—	(15,000)	—
Purchases of treasury stock	(466)	(424)	(3,967)
Dividends paid	(8,857)	(8,491)	(75,398)
Dividends paid to minority shareholders	(3)	(1)	(25)
Other, net	173	47	1,473
Net cash used in financing activities	(9,153)	(23,869)	(77,917)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>2,959</b>	<b>119</b>	<b>25,189</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>91,709</b>	<b>(130,910)</b>	<b>780,702</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>234,445</b>	<b>365,355</b>	<b>1,995,786</b>
<b>Cash and cash equivalents at end of year (Note 10)</b>	<b>¥ 326,154</b>	<b>¥ 234,445</b>	<b>\$2,776,488</b>

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Sompo Japan Insurance Inc. March 31, 2006 and 2005

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (1) Basis of preparation

Sompo Japan Insurance Inc. (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements on the basis of the statutory accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan and have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

### (2) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

The excess of cost of investments over net assets acquired in consolidated subsidiaries at their acquisition dates is amortized within twenty years on a straight-line basis.

### (3) Foreign currency translation

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

### (4) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

### (5) Investments in securities

Trading securities are carried at fair value and held-to-maturity bonds are carried at amortized cost. Underwriting-Reserve-matching-bonds are carried at amortized cost in accordance with the Industry Audit Committee Report No. 21 "Temporary Treatment of Accounting and Auditing Concerning Underwriting-Reserve-matching-bonds in the Insurance Industry" issued by the Japanese Institute of Certified Public Accountants. Sompo Japan Himawari Life Insurance Co., Ltd., a wholly owned life insurance subsidiary, sets "Nonparticipating Insurance Policies on the general account with less than 20 years remaining period" as a subsection to control the interest exposure and matches the duration of Underwriting-Reserve-matching-bonds with the duration of underwriting reserve of the subsection. Marketable securities available for sale are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities available for sale are carried at cost or amortized cost. Shares of unconsolidated subsidiaries and affiliated companies are stated at cost. Cost of securities sold is determined by the moving average method.

When an investment in non-marketable securities is considered permanently impaired, it is written down to its estimated realizable value and is treated as a realized loss on an investment in the consolidated financial statements.

Securities held by the foreign consolidated subsidiaries are primarily stated at fair value.

### (6) Derivative financial instruments and hedge accounting

Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for hedge accounting under which unrealized gain or loss is not charged to or credited to operations.

The Company applies fair value hedges to equity swaps entered into for the hedge of the future price fluctuation risk arising from the investment in equity securities.

The Company reviews the hedge effectiveness on a regular basis and examines whether designated derivatives are highly effective in offsetting changes in fair value of hedged items for the period from the inception of the hedging instruments to date.

### (7) Depreciation

Depreciation of property and equipment of the Company and the domestic consolidated subsidiaries is computed by the declining-balance method, except for buildings acquired in Japan subsequent to March 31, 1998 on which depreciation is computed by the straight-line method at rates based on the estimated useful lives of the respective assets.

Depreciation of property and equipment of the foreign consolidated subsidiaries is computed by the straight-line method.

### (8) Reserve for outstanding losses and claims

In accordance with the regulations of Insurance Business Law, the reserve for outstanding losses and claims, which represents the accumulation of the estimates for reported losses and includes provision for losses incurred but not reported (IBNR), has been established at an amount estimated to be sufficient, in

the opinion of management, to discharge of all losses and claims incurred.

With respect to such lines of direct business as voluntary automobile, personal accident, liability, workers' compensation and nursing care written in Japan, the Enforcement Regulation of the Insurance Business Law and other relevant regulations stipulate the calculation method of IBNR reserve. In accordance with the methods, the Company provides IBNR reserve for these lines of business at an amount greater of:

- (a) An average of incurred but not reported losses for the last three years adjusted by the increase ratio of the incurred losses, or
- (b) A certain percentage (3% for voluntary automobile and 8% for the other lines of business) of the premium earned during the calculation year.

In addition, for the other direct businesses (except for compulsory automobile liability and earthquake insurance) and assumed reinsurance businesses, the estimates of losses for unreported claims are provided primarily based on the recent (partly long-term) experience trends of losses and other factors and/or the statement received from ceding reinsurance companies/brokers. The Company also utilizes outside actuaries to determine IBNR reserve for the assumed reinsurance businesses written in foreign markets and under run off.

### **(9) Underwriting reserves**

Pursuant to the provisions of the Insurance Business Law and the related rules and regulations, the Company and the consolidated insurance subsidiaries in Japan are required to maintain underwriting reserves mainly calculated as follows:

#### **(a) Premium reserve**

*Insurance other than compulsory automobile liability insurance and earthquake insurance:*

Whichever is the greater of the unearned premiums or the underwriting balance at the end of the year for policies written during the year, by lines of business and types of policy.

*Compulsory automobile liability insurance:*

The accumulated total sum of the premiums written less the losses and claims incurred, and the related net investment income less the related income taxes and contributions to the Japan Red Cross Society and other Japanese institutions.

Insurance companies are not permitted to recognize any profit or loss from underwriting compulsory automobile liability insurance.

*Earthquake insurance:*

The accumulated total sum of the premiums written less the losses, claims incurred and net underwriting expense, and the related net investment income less income taxes.

*Catastrophe reserve:*

In addition to the above, in order to provide for any extraordinary risks which might arise from a catastrophe, the Company is required, under the standards for accounting practices of property and casualty insurance companies in Japan, to maintain a catastrophe reserve calculated at rates varying by line of business and ranging from 2% to 3.8% of the net premiums written, except for nuclear energy insurance, for which the provision is calculated at 50%.

#### **(b) Policyholders' deposit funds**

Underwriting reserves include premium reserve and policyholders' deposit funds for long-term saving type products. Policyholders deposit funds for long-term saving type products represent an accumulation of account deposits and credited income.

### **(10) Policy acquisition costs**

The costs of acquiring and renewing business, which include agent commission and certain other costs directly related to the acquisition of business, are expensed when incurred as the Insurance Business Law in Japan does not permit insurance companies to defer and amortize these costs.

### **(11) Income taxes**

Deferred tax assets and liabilities were initially recognized in the consolidated financial statements with respect to the differences between financial reporting and the tax basis of the assets and liabilities, and were measured using the enacted tax rates and laws which would be in effect when the differences were expected to reverse.

### **(12) Accrued severance benefits**

An employee whose employment is terminated is entitled, in most cases, to a lump-sum payment, the amount of which is determined by reference to the current basic rate of pay, length of service and conditions under which the termination occurs.

In addition to the lump-sum severance benefit plan, the Company and domestic consolidated subsidiaries have a defined benefit pension plan covering substantially all their employees.

Accrued retirement benefits for employees at March 31, 2006 and 2005 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of March 31, 2006 and 2005, as adjusted for unrecognized actuarial loss, and unrecognized loss on plan amendments.

Actuarial loss and prior service cost are amortized principally by the straight-line method over certain years within the average remaining years of service of the eligible employees.

Effective the year ended March 31, 2006, the Company has changed its method of accounting for officers' retirement benefits from a cash basis to an accrual basis in accordance with internal regulations and presented as part of accrued severance benefits.

This change is made because an accrual accounting for officers' retirement benefits becomes more common practice and the internal regulations con-

cerning the benefits are revised in this year. The changes is intended to present operating results and financial position more appropriately through allocation of cost of the benefits over an officers' service period.

The effect of this change is charged to "Loss adjustment expenses," Operating, general and administrative expenses" and "Other special gains, net" and, as a result, to decrease ordinary profit by ¥214 million (\$1,822 thousand) and to decrease income before income tax by ¥1,142 million (\$9,722 thousand) for the year ended March 31, 2006.

### **(13) Reserve for possible loan losses**

The Company and the consolidated insurance subsidiaries in Japan provide a reserve for possible loan losses pursuant to their internal rules for self-assessment of asset quality and for providing reserves for possible credit losses.

For loans to borrowers who are classified as substantially bankrupt or which are bankrupt in the formal legal sense, a reserve is provided at 100% of the amount remaining after deduction of the estimated recoverable amounts from the disposal of collateral and from guarantees.

For loans to borrowers who, although neither substantially bankrupt nor bankrupt in the legal sense, have experienced serious management difficulties and whose failure is imminent, a reserve is provided at an amount deemed necessary out of that remaining after deduction of the disposal of collateral and from guarantees.

For loans to borrowers whose loan repayment capability is deemed uncertain in the light of their earnings and financial condition, a reserve is provided at an amount based on the estimated bad debt expenses over the following three years.

The classification of borrowers and calculation of provision for possible loan losses are based on the result of the self-assessment, which is performed in accordance with the Company's internal policy and guidelines and is independently reviewed by internal audit unit.

For other loans, a reserve is provided based on their historical loan loss experience.

The reserve relating to loans to certain developing countries is provided based on the prospective loss after consideration of the relevant country's political and economic situations, etc.

The other consolidated subsidiaries provide reserves at amounts deemed sufficient to cover their estimated future losses on individual accounts.

### **(14) Reserve for possible losses on investment securities**

Reserve for possible losses on investment securities is based on the estimated possible losses on non-marketable investment securities.

### **(15) Reserve for decline in value of assets**

In accordance with the Insurance Business Law, the Company and the consolidated insurance subsidiaries in Japan are required to set aside a reserve to cover any declines in the value of their assets at an amount calculated at rates varying by type of asset and, unless permission is granted by the Prime Minister of Japan, to exclude all or a portion of this amount from such accounting treatment. Also, the Company and the consolidated insurance subsidiaries in Japan may reduce this reserve by an amount equivalent to the net loss resulting from reappraisals and sales of property and securities or from operations, or by a specified amount permitted by the Commissioner of Financial Services Agency for other reasons.

### **(16) Amounts per share**

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each fiscal year. Diluted net loss per share is not required to disclose under accounting principles generally accepted in Japan.

Cash dividends per share represent the cash dividends declared as applicable to the respective years.

### **(17) Leases**

The Company and consolidated subsidiaries lease certain equipment under noncancelable lease agreements and account for them as finance leases. Finance leases other than those which transfer the ownership of the leased property to the Company and consolidated subsidiaries are accounted for as operating leases.

### **(18) Amortization of software costs**

Amortization of software costs of a domestic consolidated subsidiary is computed by the straight-line method based on the estimated useful life.

## **2. U.S. DOLLAR AMOUNTS**

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥117.47 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2006. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

### 3. SHORT-TERM INVESTMENTS

Short-term investments as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Time deposits	¥ 20,007	¥23,448	\$ 170,315
CP under resale agreements	19,999	5,000	170,248
Money trusts	33,279	27,237	283,298
Call loans	55,000	4,000	468,205
Commercial paper	2,000	—	17,026
	¥130,285	¥59,685	\$1,109,092

The cost and related aggregate market values of money trusts as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cost	¥28,799	¥26,115	\$245,161
Market value	33,279	27,237	283,298
Net unrealized gain	¥ 4,480	¥ 1,122	\$ 38,137

The Company and their domestic consolidated subsidiaries recognized devaluation loss on marketable securities available for sale included in money trust if the market value is declined by 30% or more than their cost on the balance sheet date.

Devaluation loss on marketable securities available for sale included in money trust for the year ended March 31, 2006 was ¥26 million (\$221 thousand).

There was no devaluation loss on marketable securities available for sale included in money trust for the year ended March 31, 2005.

### 4. INVESTMENTS IN SECURITIES

The components of investments in securities as of March 31, 2006 and 2005 and their fair value and other related information by holding intention are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Domestic securities:			
Bonds	¥1,838,270	¥1,673,792	\$15,648,847
Stocks	2,049,616	1,476,624	17,447,995
Foreign securities	1,267,890	1,220,356	10,793,309
Other securities	106,544	93,873	906,989
	¥5,262,320	¥4,464,645	\$44,797,140

a) Trading securities included in investments in securities as of March 31, 2006 and 2005 were ¥13,419 million (\$114,233 thousand) and ¥10,327 million, respectively.

b) Information regarding marketable securities classified as held-to-maturity bonds as of March 31, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2006	2006	2006	2006	2006	2006
	Carrying value	Market value	Unrealized gain (loss)	Carrying value	Market value	Unrealized gain (loss)
Securities whose market value exceeds their carrying value:						
Domestic bonds	¥183,398	¥185,330	¥ 1,932	\$1,561,233	\$1,577,680	\$16,447
Foreign bonds	92,227	93,542	1,315	785,111	796,305	11,194
Subtotal	275,625	278,872	3,247	2,346,344	2,373,985	27,641
Securities whose carrying value exceeds their market value:						
Domestic bonds	300,168	292,529	(7,639)	2,555,274	2,490,244	(65,030)
Foreign bonds	41,043	40,524	(519)	349,391	344,973	(4,418)
Subtotal	341,211	333,053	(8,158)	2,904,665	2,835,217	(69,448)
Total	¥616,836	¥611,925	¥(4,911)	\$5,251,009	\$5,209,202	\$(41,807)



	Millions of yen		
	2005		
	Carrying value	Market value	Unrealized gain (loss)
Securities whose market value exceeds their carrying value:			
Domestic bonds	¥384,593	¥393,906	¥ 9,313
Foreign bonds	150,378	155,574	5,196
Subtotal	534,971	549,480	14,509
Securities whose carrying value exceeds their market value:			
Domestic bonds	65,668	64,496	(1,172)
Foreign bonds	4,489	4,481	(8)
Subtotal	70,157	68,977	(1,180)
Total	¥605,128	¥618,457	¥13,329

c) Underwriting-reserve-matching-bonds:

	Millions of yen			Thousands of U.S. dollars		
	2006			2006		
	Carrying value	Market value	Unrealized gain (loss)	Carrying value	Market value	Unrealized gain (loss)
Securities whose market value exceeds their carrying value:						
Domestic bonds	¥ 6,873	¥ 6,918	¥ 45	\$58,509	\$ 58,892	\$ 383
Securities whose carrying value exceeds their market value:						
Domestic bonds	73,082	71,981	(1,101)	622,133	612,760	(9,373)
	¥79,955	¥78,899	¥(1,056)	\$680,642	\$671,652	\$(8,990)

d) Information regarding marketable securities available for sale as of March 31, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2006			2006		
	Cost	Market value	Unrealized gain (loss)	Cost	Market value	Unrealized gain (loss)
Securities whose market value exceeds their cost:						
Domestic securities:						
Bonds	¥ 347,813	¥ 360,257	¥ 12,444	\$ 2,960,867	\$ 3,066,800	\$ 105,933
Stocks	615,144	1,971,086	1,355,942	5,236,605	16,779,484	11,542,879
Foreign securities	745,386	863,987	118,601	6,345,331	7,354,959	1,009,628
Other securities	64,256	82,090	17,834	546,999	698,817	151,818
Subtotal	1,772,599	3,277,420	1,504,821	15,089,802	27,900,060	12,810,258
Securities whose cost exceeds their market value:						
Domestic securities:						
Bonds	925,640	908,325	(17,315)	7,879,799	7,732,400	(147,399)
Stocks	6,309	5,059	(1,250)	53,707	43,066	(10,641)
Foreign securities	198,237	195,017	(3,220)	1,687,554	1,660,143	(27,411)
Other securities	35,570	35,004	(566)	302,801	297,982	(4,819)
Subtotal	1,165,756	1,143,405	(22,351)	9,923,861	9,733,591	(190,270)
Total	¥2,938,355	¥4,420,825	¥1,482,470	\$25,013,663	\$37,633,651	\$12,619,988

	Millions of yen		
	2005		
	Cost	Market value	Unrealized gain (loss)
Securities whose market value exceeds their cost:			
Domestic securities:			
Bonds	¥1,103,096	¥1,132,346	¥ 29,250
Stocks	559,342	1,359,705	800,363
Foreign securities	589,761	656,134	66,373
Other securities	69,069	79,075	10,006
Subtotal	2,321,268	3,227,260	905,992
Securities whose cost exceeds their market value:			
Domestic securities:			
Bonds	86,001	84,912	(1,089)
Stocks	50,677	45,624	(5,053)
Foreign securities	348,568	330,756	(17,812)
Other securities	22,799	22,590	(209)
Subtotal	508,045	483,882	(24,163)
Total	¥2,829,313	¥3,711,142	¥881,829

The Company and their domestic consolidated subsidiaries recognized devaluation loss on marketable securities available for sale if the market value is declined by 30% or more than their cost on the balance sheet date. Devaluation loss on marketable securities available for sale for the years ended March 31, 2006 and 2005 were ¥120 million (\$1,022 thousand) and ¥574 million, respectively.

e) Securities available for sale sold during each year were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Proceeds from sales	¥265,358	¥203,355	\$2,258,943
Gain on sales	41,512	42,046	353,384
Loss on sales	618	4,896	5,261

f) The redemption schedules as of March 31, 2006 and 2005 for available for sale securities and held-to-maturity bonds with maturity date were as follows:

	Millions of yen			
	2006			
	Due in 1 year or less	Due from 1 year to 5 years	Due from 5 years to 10 years	Due after 10 years
Domestic securities:				
Government bonds	¥ 25,128	¥ 340,244	¥190,047	¥315,716
Municipal bonds	19,794	121,572	86,493	2,402
Corporate bonds	79,547	288,879	260,802	102,797
Foreign bonds	84,131	315,370	232,896	142,582
Other securities	2,142	16,609	17,000	3,528
Total	¥210,742	¥1,082,674	¥787,238	¥567,025

	Millions of yen			
	2005			
	Due in 1 year or less	Due from 1 year to 5 years	Due from 5 years to 10 years	Due after 10 years
Domestic securities:				
Government bonds	¥ 53,283	¥205,374	¥189,359	¥197,143
Municipal bonds	10,040	148,265	96,536	2,771
Corporate bonds	90,297	307,542	272,577	96,435
Foreign bonds	117,042	293,404	280,779	147,223
Other securities	2,393	14,858	13,333	4,073
Total	¥273,055	¥969,443	¥852,584	¥447,645

	Thousands of U.S. dollars			
	2006			
	Due in 1 year or less	Due from 1 year to 5 years	Due from 5 years to 10 years	Due after 10 years
Domestic securities:				
Government bonds	\$ 213,910	\$2,896,433	\$1,617,834	\$2,687,631
Municipal bonds	168,503	1,034,920	736,299	20,448
Corporate bonds	677,169	2,459,173	2,220,158	875,092
Foreign bonds	716,191	2,684,685	1,982,600	1,213,773
Other securities	18,234	141,389	144,718	30,033
Total	\$1,794,007	\$9,216,600	\$6,701,609	\$4,826,977

g) Total interest and dividend income for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Interest on bank deposits	¥ 571	¥ 338	\$ 4,861
Interest on CP under resale agreements	6	4	51
Interest on call loans	5	6	43
Interest and dividends on securities	94,742	77,840	806,521
Interest on loans	7,810	9,446	66,485
Income from real estate	5,199	5,550	44,258
Total income from investment assets	108,333	93,184	922,219
Interest on other assets	1,988	1,327	16,923
Total interest and dividend income	¥110,321	¥94,511	\$939,142
Presentation in the consolidated statements of income:			
Interest and dividend income on deposits of premiums, etc.	¥ 45,685	¥46,295	\$388,908
Interest and dividend income	64,636	48,216	550,234
Total interest and dividend income	¥110,321	¥94,511	\$939,142

## 5. LOANS

As of March 31, 2006 and 2005, the balances of loans included the following risk-monitored loans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans to borrowers in bankruptcy	¥ 28	¥ 65	\$ 238
Overdue loans	4,981	7,941	42,403
Loans overdue for three months or more	—	1	—
Restructured loans	3,029	3,459	25,785
	¥8,038	¥11,466	\$68,426

Loans to borrowers in bankruptcy represent non-accrual loans to borrowers who are legally bankrupt as defined in Article 96-1-3 and 4 of the Japanese Tax Law Enforcement Regulation (Article 97 of 1965 Cabinet Order).

Overdue loans represent non-accrual loans other than (i) Loans to borrowers in bankruptcy and (ii) loans of which payments of interest are deferred in order to assist or facilitate the restructuring of borrowers in financial difficulties.

Loans overdue for three months or more represent loans on which the payment of principal and/or interest has not been received for three months or more from the due date, and which are not included in loans to borrowers in bankruptcy or overdue loans.

Restructured loans are loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.) and are not classified in any of the above categories.

## 6. PROPERTY AND EQUIPMENT

The components of property and equipment as of March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Land	¥ 106,812	¥ 108,380	\$ 909,271
Buildings	286,716	295,703	2,440,759
Furniture and equipment	60,535	64,709	515,323
Construction in progress	484	789	4,120
	454,547	469,581	3,869,473
Less accumulated depreciation	(224,138)	(229,885)	(1,908,045)
	¥ 230,409	¥ 239,696	\$ 1,961,428

## 7. INCOME TAXES

Income taxes applicable to the Company include corporation and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rates of approximately 36.09% for 2006 and 2005, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The provision for income taxes incurred is different from which would be obtained by applying the statutory tax rates to income before income taxes and minority interests due to the permanent difference and other items.

A reconciliation of effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2006 and 2005 to the statutory tax rate was as follows:

	2006	2005
Statutory tax rate	36.09%	36.09%
Effect of:		
Change in valuation allowance	9.87	7.18
Permanently nontaxable dividends received	(3.43)	(3.31)
Tax deductions	(1.64)	—
Permanently nondeductible expenses	1.06	1.32
Inhabitants' per capita taxes	0.43	0.57
Equity in losses of affiliates	—	0.17
Other, net	0.27	1.03
Effective tax rate	42.65%	43.05%

Deferred tax assets and liabilities as of March 31, 2006 and 2005 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets (liabilities):			
Underwriting reserves	¥ 173,321	¥ 172,775	\$ 1,475,449
Reserve for outstanding losses and claims	38,584	27,068	328,458
Accrued severance benefits	32,749	29,036	278,786
Devaluation loss on securities and real estate	30,961	35,524	263,565
Intangible fixed assets in tax matters	12,646	13,054	107,653
Tax loss carryforward	10,262	37,359	87,358
Unrealized gains on securities available for sale	(527,228)	(318,810)	(4,488,192)
Other, net	21,216	22,188	180,608
Valuation allowance	(40,182)	(28,751)	(342,062)
Net deferred tax liabilities	¥(247,671)	¥ (10,557)	\$(2,108,377)

## 8. ACCRUED SEVERANCE BENEFITS

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2006 and 2005 for the Company's and the consolidated subsidiaries' severance benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Retirement benefit obligation	¥(130,090)	¥(136,807)	\$(1,107,432)
Plan assets at fair value	10,197	6,969	86,805
Unfunded retirement benefit obligation	(119,893)	(129,838)	(1,020,627)
Unrecognized actuarial loss	27,423	33,979	233,447
Unrecognized prior service costs	1,381	10,927	11,757
Net retirement benefit obligation	(91,089)	(84,932)	(775,423)
Accrued severance benefits	¥ (91,089)	¥ (84,932)	\$ (775,423)

The government-sponsored portion of the benefits under the welfare pension fund plans has been included in the amounts shown in the above table.

The Company obtained an approval of liquidation of the Sompo Japan welfare pension fund from the Ministry of Health, Labor and Welfare on March 30, 2005. This resulted in a ¥9,364 million reversal of accrued severance benefits recognized in "Other special gains, net" for the year ended March 31, 2005.

In addition to the above, ¥1,142 million (\$9,722 thousand) has been calculated as reserves for benefits to cover expenditures for officers' retirement benefits (including pensions), and ¥927 million (\$7,891 thousand) provision of accrued severance benefits was recognized as "Other special gains, net" in correspondence to the prior years' service of the officers for the year ended March 31, 2006.

The components of severance benefit expenses for the years ended March 31, 2006 and 2005 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 7,641	¥12,605	\$ 65,046
Interest cost	1,899	7,416	16,165
Expected return on plan assets	(22)	(4,900)	(187)
Amortization of actuarial loss	3,334	7,871	28,382
Prior service costs	3,291	859	28,016
Subtotal	16,143	23,851	137,422
Payment into the defined contribution type pension plan	2,314	—	19,699
Total	¥18,457	¥23,851	\$157,121

The assumptions used in accounting for the above plans for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Discount rates	1.5 ~ 2.0%	1.5 ~ 2.0%
Expected return on plan assets	1.0%	1.0 ~ 3.0%

## 9. SHAREHOLDERS' EQUITY

In accordance with the Insurance Business Law of Japan, the Company has provided a legal reserve by appropriation of retained earnings, which is included in retained earnings. The Insurance Business Law of Japan provides that an amount equal to at least 20% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital equals 100% of the common stock. The legal reserve amounted to ¥26,400 million (\$224,738 thousand) and ¥24,600 million as of March 31, 2006 and 2005, respectively.

## 10. CASH AND CASH EQUIVALENTS

A reconciliation of "Cash and cash equivalents" in the consolidated statements of cash flows to "Cash" in the consolidated balance sheets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash	¥ 221,816	¥ 197,837	\$ 1,888,278
Short-term investments	130,285	59,685	1,109,092
Investments in securities	5,262,320	4,464,645	44,797,140
Short-term investments other than cash equivalents	(41,438)	(36,977)	(352,754)
Investments in securities other than cash equivalents	(5,246,829)	(4,450,745)	(44,665,268)
Cash and cash equivalents	¥ 326,154	¥ 234,445	\$ 2,776,488

## 11. IMPAIRMENT OF FIXED ASSETS

### (1) Method of grouping

The Company and the consolidated subsidiaries group their fixed assets by purposes of use and measure impairment loss for each of the group. Assets for insurance business operations are classified as a group. Lease assets and unused property, such as a building for lease, computer center and company housing etc, are classified as other groups based on identifiable cash flows.

### (2) The circumstances causing the impairment losses

The Company has accomplished its organization restructuring and its sales reorganization that resulted in some business premises being redundant.

Accordingly, the Company changed the purpose of these business premises into for lease or unused. Recoverable amount of some of these business premises significantly declined from their carrying value and impairment losses were recognized.

### (3) Impairment loss

Impairment losses on fixed assets for the years ended March 31, 2006 and 2005 are summarized as follows:

		Millions of yen		
		2006		
Purpose of use	Asset group	Land	Buildings	Total
Unused	Higashi Osaka building	¥—	¥233	¥233

		Millions of yen		
		2005		
Purpose of use	Asset group	Land	Buildings	Total
Lease	10 groups (Moriguchi building, etc.)	¥11,348	¥ 4,323	¥15,671

		Thousands of U.S. dollars		
		2006		
Purpose of use	Asset group	Land	Buildings	Total
Unused	Higashi Osaka building	\$—	\$1,983	\$1,983

### (4) Recoverable amount

The impairment loss is recognized when carrying amount of property exceeds its recoverable amount. Recoverable amount used for the measurement of impairment loss on lease assets is determined at net realizable value on sale or future cash flows discounted at rate ranging from 5.7% to 9.5% for the year ended March 31, 2005. Net realizable values are determined based on real estate appraisal and tax basis value. Recoverable amount for unused assets is determined at net realizable value on sale.

## 12. LEASES

The following pro forma amounts represented the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2006 and 2005, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

		Millions of yen		Thousands of U.S. dollars
		2006	2005	2006
Furniture and equipment:				
Acquisition costs		¥2,347	¥5,448	\$19,980
Accumulated depreciation		1,081	4,196	9,202
Accumulated impairment loss		—	—	—
Net book value		¥1,266	¥1,252	\$10,778

Lease payments relating to finance leases accounted for as operating leases amounted to ¥934 million (\$7,951 thousand) and ¥1,364 million for the years ended March 31, 2006 and 2005, respectively.

Future minimum lease payments subsequent to March 31, 2006 for noncancelable operating leases and for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars	
	Operating leases	Finance leases	Operating leases	Finance leases
2007	¥113	¥ 502	\$ 962	\$ 4,273
2008 and thereafter	92	764	783	6,504
Total	¥205	¥1,266	\$1,745	\$10,777

### 13. DERIVATIVES

The Company and domestic consolidated subsidiaries enter into forward foreign exchange contracts, currency options positions and currency swaps to reduce their exposure to fluctuations in foreign exchange rates relating to their assets denominated in foreign currencies. They also enter into interest rate swaps to reduce their exposure to fluctuations in interest rates relating to their debt securities and loans. In addition, they enter into equity swaps to offset their exposure to fluctuations in stock prices.

On the other hand, the Company and domestic consolidated subsidiaries enter into forward foreign exchange contracts, currency options positions, stock price index futures, bond futures, bond forward, credit derivatives, weather derivatives and earthquake derivatives to gain investment income or premium income up to the limits permitted under their internal risk management policies.

The contract amounts of those transactions at March 31, 2006 and 2005 and the related market values were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2006		2005		2006	
	Contract amount	Market value	Contract amount	Market value	Contract amount	Market value
Forward foreign exchange contracts:						
Short positions	¥110,612	¥111,121	¥108,433	¥112,539	\$941,619	\$945,952
Long positions	48,955	49,708	118,309	121,649	416,745	423,155
Currency options positions:						
Short positions:						
Call options	7,200		—		61,292	
(Options premiums)	(50)	(57)	(—)	(—)	(426)	(485)
Long positions:						
Call options	—		3,000		—	
(Options premiums)	(—)	(—)	(10)	(—)	(—)	(—)
Put options	6,889		2,962		58,645	
(Options premiums)	(50)	(27)	(210)	(152)	(426)	(230)
Currency swaps	—	—	4,000	10	—	—
Interest rate swaps	—	—	1,000	27	—	—
Bond forward:						
Short positions	—	—	—	—	—	—
Long positions	3,859	3,846	—	—	32,851	32,740
Credit derivatives:						
Short positions:	9,778		89,930		83,238	
(Premiums)	(20)	(20)	(725)	(570)	(170)	(170)
Long positions:	—		2,900		—	
(Premiums)	(—)	(—)	(15)	(11)	(—)	(—)
Weather derivatives:						
Short positions:	187		860		1,592	
(Premiums)	(9)	(8)	(51)	(51)	(77)	(68)
Long positions:	100		50		851	
(Premiums)	(—)	(—)	(—)	(—)	(—)	(—)
Earthquake derivatives:						
Short positions:	1,910		1,320		16,259	
(Premiums)	(82)	(2)	(59)	(21)	(698)	(17)
Long positions:	1,909		1,320		16,251	
(Premiums)	(71)	(1)	(53)	(18)	(604)	(9)

\*1. The market value of the forward foreign exchange contracts was based on the forward rates as of March 31, 2006 and 2005.

\*2. Derivative instruments to which hedge accounting is applied are excluded from the above table.

### 14. SEGMENT INFORMATION

The Company and consolidated subsidiaries operate principally in two business segments; property and casualty insurance and life insurance.

Information with respect to the two segments for the years ended March 31, 2006 and 2005 is summarized as follows:

	Millions of yen			
	2006			
	Property and casualty insurance	Life insurance	Adjustments and eliminations	Consolidated
Ordinary income	¥1,722,074	¥209,400	¥ —	¥1,931,474
Adjustments and eliminations	7,334	29	(7,363)	—
Total	1,729,408	209,429	(7,363)	1,931,474
Ordinary expense	1,612,398	211,566	(7,363)	1,816,601
Ordinary profit (loss)	117,010	(2,137)	—	114,873
Assets	5,927,210	849,994	(2,391)	6,774,813
Depreciation	10,590	1,509	—	12,099
Impairment loss	233	—	—	233
Capital investment	6,064	100	—	6,164

	Millions of yen			
	2005			
	Property and casualty insurance	Life insurance	Adjustments and eliminations	Consolidated
Ordinary income	¥1,716,042	¥183,759	¥ —	¥1,899,801
Adjustments and eliminations	7,043	21	(7,064)	—
Total	1,723,085	183,780	(7,064)	1,899,801
Ordinary expense	1,649,772	187,778	(6,993)	1,830,557
Ordinary profit (loss)	73,313	(3,998)	(71)	69,244
Assets	5,140,534	737,008	(2,683)	5,874,859
Depreciation	11,880	984	—	12,864
Impairment loss	15,671	—	—	15,671
Capital investment	7,924	444	—	8,368

	Thousands of U.S. dollars			
	2006			
	Property and casualty insurance	Life insurance	Adjustments and eliminations	Consolidated
Ordinary income	\$14,659,692	\$1,782,582	\$ —	\$16,442,274
Adjustments and eliminations	62,433	247	(62,680)	—
Total	14,722,125	1,782,829	(62,680)	16,442,274
Ordinary expense	13,726,041	1,801,021	(62,680)	15,464,382
Ordinary profit (loss)	996,084	(18,192)	—	977,892
Assets	50,457,223	7,235,839	(20,354)	57,672,708
Depreciation	90,151	12,846	—	102,997
Impairment loss	1,983	—	—	1,983
Capital investment	51,622	851	—	52,473

The investment activities were considered as a part of insurance business rather than a separate.

Information related to geographical segments and overseas sale was not disclosed because overseas segments were immaterial.

## 15. STOCK OPTIONS

During the year ended March 31, 2006, stock options were granted to directors and officers of the Company. The number of options granted was 733 and related terms of the options are as follows:

Exercise price	Numbers of stocks issued
¥1,148 (\$ 9.8)	368 thousand
¥1,665 (\$14.2)	365 thousand

## 16. SUBSEQUENT EVENTS

The following appropriations of retained earnings were approved at a meeting of the shareholders held on June 28, 2005.

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥13.0 = \$0.111 per share)	¥12,795	\$108,921



## Report of Independent Auditors

The Board of Directors  
Sompo Japan Insurance Inc.

We have audited the accompanying non-consolidated balance sheets of Sompo Japan Insurance Inc. as of March 31, 2006 and 2005, and the related non-consolidated statements of income and shareholders' equity for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Sompo Japan Insurance Inc. at March 31, 2006 and 2005, and the non-consolidated results of their operations for the years then ended in conformity with accounting principles generally accepted in Japan.

*Supplemental Information*

As described in Note 1, effective the year ended March 31, 2006, the Company has changed its method of accounting for officers' retirement benefits from a cash basis to an accrual basis in accordance with internal regulations and presented as part of accrued severance benefits.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

*Ernst & Young Shin Nihon*

June 28, 2006

## Non-Consolidated Balance Sheets

Sompo Japan Insurance Inc. March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>ASSETS</b>			
Cash	¥ 186,255	¥ 162,897	\$1,585,554
Short-term investments (Note 3)	120,185	47,568	1,023,112
Investments in securities (Note 4)	4,546,230	3,866,653	38,701,200
Loans (Note 5)	448,525	463,126	3,818,209
Accrued investment income	12,580	13,184	107,091
Property and equipment, at cost (Note 6)	450,785	466,467	3,837,448
Less accumulated depreciation	(222,503)	(228,556)	(1,894,126)
	228,282	237,911	1,943,322
Insurance business balances receivable:			
Premiums receivable and agents' balances	110,919	101,782	944,233
Reinsurance balances recoverable	116,602	120,175	992,611
Other	9,620	11,889	81,893
	237,141	233,846	2,018,737
Other assets	175,590	155,199	1,494,764
Reserve for possible loan losses	(20,023)	(23,154)	(170,452)
Reserve for possible losses on investment securities	(4)	(150)	(34)
<b>TOTAL ASSETS</b>	<b>¥5,934,761</b>	<b>¥5,157,080</b>	<b>\$50,521,503</b>

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Liabilities:			
Underwriting funds:			
Reserve for outstanding losses and claims (Note 13)	¥ 632,095	¥ 586,687	\$ 5,380,906
Underwriting reserves (Notes 13 and 14)	3,312,902	3,295,787	28,202,111
	<b>3,944,997</b>	<b>3,882,474</b>	<b>33,583,017</b>
Insurance business balances payable:			
Reinsurance balances payable	89,591	92,287	762,671
Other	5,794	6,438	49,324
	<b>95,385</b>	<b>98,725</b>	<b>811,995</b>
Accrued taxes			
Accrued severance benefits (Note 8)	16,413	3,572	139,721
Reserve for decline in value of assets	89,911	84,112	765,395
Other liabilities	24,001	17,547	204,316
Deferred tax liabilities (Note 7)	111,263	115,436	947,161
	<b>253,072</b>	<b>11,586</b>	<b>2,154,354</b>
Total liabilities	<b>4,535,042</b>	<b>4,213,452</b>	<b>38,605,959</b>
Shareholders' equity (Notes 9 and 16):			
Common stock:			
Authorized 2,000,000,000 shares, issued 987,733,424 shares in 2005 and 2006	70,000	70,000	595,897
Additional paid-in capital	24,230	24,230	206,265
Legal reserve	26,400	24,600	224,738
Retained earnings	321,317	263,862	2,735,311
Unrealized gains on securities available for sale	960,629	563,658	8,177,654
Treasury stock, 3,592,881 shares in 2005 and 3,508,140 shares in 2006, at cost	(2,857)	(2,722)	(24,321)
Total shareholders' equity	<b>1,399,719</b>	<b>943,628</b>	<b>11,915,544</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>¥5,934,761</b>	<b>¥5,157,080</b>	<b>\$50,521,503</b>

See accompanying notes to non-consolidated financial statements.

## Non-Consolidated Statements of Income

Sompo Japan Insurance Inc. For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
<b>Ordinary income</b>			
Underwriting income:			
Net premiums written (Note 13)	¥1,370,920	¥1,351,915	\$11,670,384
Deposits of premiums by policyholders	157,477	192,802	1,340,572
Interest and dividend income on deposits of premiums, etc. (Note 4)	45,685	46,295	388,908
Reversal of underwriting reserves	—	42,942	—
Other underwriting income	7,092	2,701	60,373
	1,581,174	1,636,655	13,460,237
Investment income:			
Interest and dividend income (Note 4)	49,355	36,411	420,150
Realized gain on sales of securities	41,446	41,272	352,822
Other investment income	7,815	3,130	66,528
	98,616	80,813	839,500
Other ordinary income	16,876	18,049	143,662
Total ordinary income	1,696,666	1,735,517	14,443,399
<b>Ordinary expenses</b>			
Underwriting expenses:			
Net losses paid (Note 13)	776,042	813,097	6,606,299
Loss adjustment expenses	63,986	62,904	544,701
Net commissions and brokerage fees (Note 13)	226,182	218,514	1,925,445
Maturity refunds and dividends to policyholders	235,363	272,940	2,003,601
Provision for reserve for outstanding losses (Note 13)	45,454	47,808	386,941
Provision for underwriting reserves (Note 13)	13,625	—	115,987
Other underwriting expenses	2,546	2,337	21,674
	1,363,198	1,417,600	11,604,648
Investment expenses:			
Realized loss on sales of securities	547	4,870	4,657
Devaluation loss on securities	308	1,626	2,622
Other investment expenses	6,285	13,716	53,502
	7,140	20,212	60,781
Operating, general and administrative expenses	210,917	222,711	1,795,497
Other ordinary expenses	1,122	758	9,552
Total ordinary expenses	1,582,377	1,661,281	13,470,478
<b>Ordinary profit</b>	114,289	74,236	972,921
<b>Special gains and losses</b>			
Provision for reserve for decline in value of assets	(6,448)	(6,277)	(54,891)
Impairment loss (Note 10)	(233)	(15,671)	(1,983)
Other special gains net	9,453	43,745	80,472
	2,772	21,797	23,598
<b>Income before income taxes</b>	117,061	96,033	996,519
<b>Income taxes</b> (Note 7):			
Current	16,648	847	141,722
Deferred	32,555	38,288	277,135
<b>Net income</b>	¥ 67,858	¥ 56,898	\$ 577,662
		Yen	U.S. dollars (Note 2)
Net income per share:			
Basic	¥ 68.94	¥ 57.80	\$ 0.587
Diluted	68.89	57.39	0.586
Cash dividends per share attributable to the year	13.00	9.00	0.111

See accompanying notes to non-consolidated financial statements.

## Non-Consolidated Statements of Shareholders' Equity

Sompo Japan Insurance Inc. For the years ended March 31, 2006 and 2005

	Thousands	Millions of yen					
	Thousands of shares of common stock	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Unrealized gains on securities available for sale	Treasury stock
<b>Balance at March 31, 2004</b>	987,733	¥70,000	¥24,230	¥22,900	¥217,083	¥497,354	¥(2,511)
Net income	—	—	—	—	56,898	—	—
Cash dividends	—	—	—	—	(8,366)	—	—
Transfer to legal reserve	—	—	—	1,700	(1,700)	—	—
Directors' bonuses	—	—	—	—	(45)	—	—
Increase of treasury stock – net	—	—	—	—	(8)	—	(211)
Net change during the year	—	—	—	—	—	66,304	—
<b>Balance at March 31, 2005</b>	987,733	¥70,000	¥24,230	¥24,600	¥263,862	¥563,658	¥(2,722)
Net income	—	—	—	—	67,858	—	—
Cash dividends	—	—	—	—	(8,857)	—	—
Transfer to legal reserve	—	—	—	1,800	(1,800)	—	—
Amount of unappropriated retained profits due to merger	—	—	—	—	254	—	—
Increase of treasury stock – net	—	—	—	—	—	—	(135)
Net change during the year	—	—	—	—	—	396,971	—
<b>Balance at March 31, 2006</b>	<b>987,733</b>	<b>¥70,000</b>	<b>¥24,230</b>	<b>¥26,400</b>	<b>¥321,317</b>	<b>¥960,629</b>	<b>¥(2,857)</b>

	Thousands of U.S. dollars (Note 2)						
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Unrealized gains on securities available for sale	Treasury stock	
<b>Balance at March 31, 2005</b>	\$595,897	\$206,265	\$209,415	\$2,246,208	\$4,798,314	\$(23,172)	
Net income	—	—	—	577,662	—	—	
Cash dividends	—	—	—	(75,398)	—	—	
Transfer to legal reserve	—	—	15,323	(15,323)	—	—	
Amount of unappropriated retained profits due to merger	—	—	—	2,162	—	—	
Increase of treasury stock – net	—	—	—	—	—	(1,149)	
Net change during the year	—	—	—	—	3,379,340	—	
<b>Balance at March 31, 2006</b>	<b>\$595,897</b>	<b>\$206,265</b>	<b>\$224,738</b>	<b>\$2,735,311</b>	<b>\$8,177,654</b>	<b>\$(24,321)</b>	

See accompanying notes to non-consolidated financial statements.

## Notes to Non-Consolidated Financial Statements

Sompo Japan Insurance Inc. March 31, 2006

### 1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying non-consolidated financial statements of Sompo Japan Insurance Inc. (the "Company") have been prepared on the basis of the same accounting policies as those discussed in Note 1 to the consolidated financial statements except as described below:

#### (1) Basis of preparation

The accompanying non-consolidated financial statements of the Company have been compiled from the financial statements prepared by the Company as required by the Securities and Exchange Law of Japan and have been prepared on the basis of the statutory accounting principles applicable to property and casualty insurance companies generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In addition, the notes to the non-consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

#### (2) Foreign currency translation

All revenues and expenses arising from transactions in foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gains or losses are credited or charged to income.

#### (3) Investments in securities

Trading securities are carried at fair value and held-to-maturity bonds are carried at amortized cost. Marketable securities available for sale are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities available for sale are carried at cost or amortized cost. Shares of subsidiaries and affiliated companies are stated at cost. Cost of securities sold is determined by the moving average method.

When an investment in non-marketable securities is considered permanently impaired, it is written down to its estimated realizable value and is treated as a realized loss on an investment in the financial statements.

#### (4) Accrued severance benefits

Effective the year ended March 31, 2006, the Company has changed its method of accounting for officers' retirement benefits from a cash basis to an accrual basis in accordance with internal regulations and presented as part of accrued severance benefits.

This change is made because an accrual accounting for officers' retirement benefits becomes more common practice and the internal regulations concerning the benefits are revised in this year. The change is intended to present operating results and financial position more appropriately through allocation of cost of the benefits over an officers' service period.

The effect of this change is charged to "Loss adjustment expenses", "Operating, general and administrative expenses" and "Other special gains, net" and, as a result, to decrease ordinary profit by ¥214 million (\$1,822 thousand) and to decrease income before income tax by ¥1,142 million (\$9,722 thousand) for the year ended March 31, 2006.

### 2. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥117.47 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2006. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

### 3. SHORT-TERM INVESTMENTS

Short-term investments as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Time deposits	¥ 9,938	¥11,362	\$ 84,599
CP under resale agreements	19,999	5,000	170,248
Money trusts	33,248	27,206	283,034
Call loans	55,000	4,000	468,205
Commercial paper	2,000	—	17,026
	¥120,185	¥47,568	\$1,023,112

The cost and related aggregate market values of money trusts as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cost	¥28,768	¥26,084	\$244,897
Market value	33,248	27,206	283,034
Net unrealized gain	¥ 4,480	¥ 1,122	\$ 38,137

The Company recognized devaluation loss on marketable securities available for sale included in money trust if the market value is declined by 30% or more than their cost on the balance sheet date.

Devaluation loss on marketable securities available for sale included in money trust for the year ended March 31, 2006 was ¥26 million (\$221 thousand).

There was no devaluation loss on marketable securities available for sale included in money trust for the year ended March 31, 2005.

### 4. INVESTMENTS IN SECURITIES

The components of investments in securities as of March 31, 2006 and 2005 and their fair value and other related information by holding intention are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Domestic securities:			
Bonds	¥1,229,054	¥1,177,959	\$10,462,705
Stocks	2,099,905	1,539,427	17,876,096
Foreign securities	1,111,703	1,056,648	9,463,718
Other securities	105,568	92,619	898,681
	¥4,546,230	¥3,866,653	\$38,701,200

a) The Company did not have any marketable securities classified as trading securities as of March 31, 2006 and 2005.

b) The Company did not have any marketable securities classified as held-to-maturity bonds as of March 31, 2006 and 2005.

C) Information regarding marketable securities available for sale as of March 31, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2006			2006		
	Cost	Market value	Unrealized gain (loss)	Cost	Market value	Unrealized gain (loss)
Securities whose market value exceeds their cost:						
Domestic securities:						
Bonds	¥ 342,811	¥ 355,253	¥ 12,442	\$2,918,286	\$ 3,024,202	\$ 105,916
Stocks	614,642	1,969,393	1,354,751	5,232,332	16,765,072	11,532,740
Foreign securities	745,336	863,934	118,598	6,344,904	7,354,508	1,009,604
Other securities	64,251	82,083	17,832	546,957	698,757	151,800
Subtotal	1,767,040	3,270,663	1,503,623	15,042,479	27,842,539	12,800,060
Securities whose cost exceeds their market value:						
Domestic securities:						
Bonds	887,814	872,481	(15,333)	7,557,794	7,427,267	(130,527)
Stocks	6,309	5,059	(1,250)	53,707	43,066	(10,641)
Foreign securities	143,843	140,921	(2,922)	1,224,508	1,199,634	(24,874)
Other securities	34,601	34,036	(565)	294,552	289,742	(4,810)
Subtotal	1,072,567	1,052,497	(20,070)	9,130,561	8,959,709	(170,852)
Total	¥2,839,607	¥4,323,160	¥1,483,553	\$24,173,040	\$36,802,248	\$12,629,208

	Millions of yen		
	2005		
	Cost	Market value	Unrealized gain (loss)
Securities whose market value exceeds their cost:			
Domestic securities:			
Bonds	¥1,068,656	¥1,097,838	¥ 29,182
Stocks	558,825	1,358,353	799,528
Foreign securities	589,711	656,079	66,368
Other securities	67,818	77,823	10,005
Subtotal	2,285,010	3,190,093	905,083
Securities whose cost exceeds their market value:			
Domestic securities:			
Bonds	79,089	78,013	(1,076)
Stocks	50,676	45,624	(5,052)
Foreign securities	310,817	293,005	(17,812)
Other securities	22,797	22,588	(209)
Subtotal	463,379	439,230	(24,149)
Total	¥2,748,389	¥3,629,323	¥880,934

The Company recognized devaluation loss on marketable securities available for sale if the market value is declined by 30% or more than their cost on the balance sheet date. Devaluation loss on marketable securities classified as securities available for sale for the years ended March 31, 2006 and 2005 were ¥120 million (\$1,022 thousand) and ¥574 million, respectively.

d) Securities classified as securities available for sale sold during each year were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Proceeds from sales	¥246,987	¥200,951	\$2,102,554
Gain on sales	41,446	41,272	352,822
Loss on sales	547	4,870	4,657



e) The redemption schedules as of March 31, 2006 and 2005 for available for sale securities and held-to-maturity bonds with maturity date were as follows:

	Millions of yen			
	2006			
	Due in 1 year or less	Due from 1 year to 5 years	Due from 5 years to 10 years	Due after 10 years
Domestic securities:				
Government bonds	¥ 18,469	¥314,403	¥167,221	¥110,007
Municipal bonds	12,131	107,592	26,921	—
Corporate bonds	71,808	222,039	104,248	74,213
Foreign bonds	49,259	209,833	175,558	136,073
Other securities	2,143	16,609	17,000	3,528
Total	¥153,810	¥870,476	¥490,948	¥323,821

	Millions of yen			
	2005			
	Due in 1 year or less	Due from 1 year to 5 years	Due from 5 years to 10 years	Due after 10 years
Domestic securities:				
Government bonds	¥ 34,440	¥188,550	¥177,326	¥ 91,463
Municipal bonds	7,043	127,537	38,772	1,772
Corporate bonds	85,711	240,214	109,684	75,442
Foreign bonds	71,322	214,838	189,822	138,776
Other securities	2,393	14,858	13,334	4,073
Total	¥200,909	¥785,997	¥528,938	¥311,526

	Thousands of U.S. dollars			
	2006			
	Due in 1 year or less	Due from 1 year to 5 years	Due from 5 years to 10 years	Due after 10 years
Domestic securities:				
Government bonds	\$ 157,223	\$2,676,454	\$1,423,521	\$ 936,469
Municipal bonds	103,269	915,910	229,173	—
Corporate bonds	611,288	1,890,176	887,444	631,761
Foreign bonds	419,333	1,786,269	1,494,492	1,158,364
Other securities	18,243	141,389	144,718	30,033
Total	\$1,309,356	\$7,410,198	\$4,179,348	\$2,756,627

f) Total interest and dividend income for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	¥	¥	\$
Interest on bank deposits	257	234	2,188
Interest on CP under resale agreements	6	4	51
Interest on call loans	5	6	43
Interest and dividends on securities	80,219	66,633	682,889
Interest on loans	7,502	9,188	63,863
Income from real estate	5,240	5,649	44,607
Total income from investment assets	93,229	81,714	793,641
Interest on other assets	1,811	992	15,417
Total interest and dividend income	¥95,040	¥82,706	\$809,058
Presentation in the non-consolidated statements of income:			
Interest and dividend income on deposits of premiums, etc.	¥45,685	¥46,295	\$388,908
Interest and dividend income	49,355	36,411	420,150
Total interest and dividend income	¥95,040	¥82,706	\$809,058

## 5. LOANS

As of March 31, 2006 and 2005, the balances of loans included the following risk-monitored loans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans to borrowers in bankruptcy	¥ 28	¥ 65	\$ 238
Overdue loans	4,937	7,877	42,028
Loans overdue for three months or more	—	—	—
Restructured loans	3,029	3,459	25,785
	¥7,994	¥11,401	\$68,051

Loans to borrowers in bankruptcy represent non-accrual loans to borrowers who are legally bankrupt as defined in Article 96-1-3 and 4 of the Japanese Tax Law Enforcement Regulation (Article 97 of 1965 Cabinet Order).

Overdue loans represent non-accrual loans other than (i) Loans to borrowers in bankruptcy and (ii) loans of which payments of interest are deferred in order to assist or facilitate the restructuring of borrowers in financial difficulties.

Loans overdue for three months or more represent loans on which the payment of principal and/or interest has not been received for three months or more from the due date, and which are not included in loans to borrowers in bankruptcy or overdue loans.

Restructured loans are loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.) and are not classified in any of the above categories.

## 6. PROPERTY AND EQUIPMENT

The components of property and equipment as of March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Land	¥ 106,345	¥ 108,020	\$ 905,295
Buildings	284,511	293,926	2,421,989
Furniture and equipment	59,445	63,732	506,044
Construction in progress	484	789	4,120
	450,785	466,467	3,837,448
Less accumulated depreciation	(222,503)	(228,556)	(1,894,126)
	¥ 228,282	¥ 237,911	\$ 1,943,322

## 7. INCOME TAXES

Income taxes applicable to the Company include corporation and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rates of approximately 36.09% for 2006 and 2005, respectively.

The provision for income taxes incurred is different from which would be obtained by applying the statutory tax rates to income before income taxes and minority interests due to the permanent difference and other items.

A reconciliation of the effective tax rates reflected in the non-consolidated statements of income for the years ended March 31, 2006 and 2005 to the statutory tax rate was as follows:

	2006	2005
Statutory tax rate	36.09%	36.09%
Effect of:		
Change in valuation allowance	9.53	5.85
Permanently nontaxable dividends received	(3.39)	(3.11)
Permanently nondeductible expenses	0.88	1.06
Other, net	(1.08)	0.86
Effective tax rate	42.03%	40.75%

Deferred tax assets and liabilities as of March 31, 2006 and 2005 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets (liabilities):			
Underwriting reserves	¥ 169,518	¥ 171,205	\$ 1,443,075
Reserve for outstanding losses and claims	36,241	25,004	308,514
Accrued severance benefits	32,449	28,752	276,232
Devaluation loss on securities and real estate	30,957	35,520	263,531
Intangible fixed assets in tax matters	11,218	12,040	95,497
Tax loss carryforward	—	27,034	—
Unrealized gains on securities available for sale	(527,384)	(318,298)	(4,489,521)
Other, net	21,451	23,526	182,608
Valuation allowance	(27,522)	(16,369)	(234,290)
Net deferred tax assets (liabilities)	¥(253,072)	¥ (11,586)	\$(2,154,354)

## 8. ACCRUED SEVERANCE BENEFITS

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the non-consolidated balance sheets as of March 31, 2006 and 2005 for the Company's severance benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Retirement benefit obligation	¥(126,592)	¥(133,945)	\$(1,077,654)
Plan assets at fair value	7,427	4,804	63,225
Unfunded retirement benefit obligation	(119,165)	(129,141)	(1,014,429)
Unrecognized actuarial loss	27,829	34,037	236,903
Unrecognized prior service costs	1,425	10,992	12,131
Net retirement benefit obligation	(89,911)	(84,112)	(765,395)
Accrued severance benefits	¥ (89,911)	¥ (84,112)	\$ (765,395)

The government-sponsored portion of the benefits under the welfare pension fund plans has been included in the amounts shown in the above table.

The Company obtained an approval of liquidation of the Sompo Japan welfare pension fund from the Ministry of Health, Labor and Welfare on March 30, 2005. This resulted in a ¥9,364 million reversal of accrued severance benefits recognized in "Other special gains, net" for the year ended March 31, 2005.

In addition to the above, ¥1,142 million (\$9,722 thousand) has been calculated as reserves for benefits to cover expenditures for officers' retirement benefits (including pensions), and ¥927 million (\$7,891 thousand) provision of accrued severance benefits was recognized as "Other special gains, net" in correspondence to the prior years' service of the officers for the year ended March 31, 2006.

The components of severance benefit expenses for the years ended March 31, 2006 and 2005 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 7,290	¥12,340	\$ 62,058
Interest cost	1,850	7,370	15,749
Expected return on plan assets	—	(4,880)	—
Amortization of actuarial loss	3,323	7,855	28,288
Prior service costs	3,311	879	28,186
Subtotal	15,774	23,564	134,281
Payment into the defined contribution type pension plan	2,274	—	19,358
Total	¥18,048	¥23,564	\$153,639

The assumptions used in accounting for the above plans for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Discount rates	1.5%	1.5%
Expected return on plan assets	0.0%	3.0%

## 9. LEGAL RESERVE

In accordance with the Insurance Business Law of Japan, the Company has provided a legal reserve by appropriation of retained earnings. The Insurance Business Law of Japan provides that an amount equal to at least 20% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital equals 100% of the common stock.

## 10. IMPAIRMENT LOSS

See Note 11 to the consolidated financial statements.

## 11. LEASES

The following pro forma amounts represented the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2006 and 2005, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Furniture and equipment:			
Acquisition costs	¥1,889	¥4,912	\$16,081
Accumulated depreciation	825	3,900	7,023
Accumulated impairment loss	—	—	—
Net book value	¥1,064	¥1,012	\$ 9,058

Lease payments relating to finance leases accounted for as operating leases amounted to ¥806 million (\$6,861 thousand) and ¥1,225 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2006 and 2005, respectively.

Future minimum lease payments subsequent to March 31, 2006 for noncancelable operating leases and for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen		Thousands of U.S. dollars	
	Operating leases	Finance leases	Operating leases	Finance leases
2007	¥ 86	¥ 423	\$ 732	\$ 3,601
2008 and thereafter	67	641	570	5,457
Total	¥153	¥1,064	\$1,302	\$ 9,058

## 12. DERIVATIVES

The Company enters into forward foreign exchange contracts, currency options positions and currency swaps to reduce its exposure to fluctuations in foreign exchange rates relating to its assets denominated in foreign currencies. The Company also enters into interest rate swaps to reduce its exposure to fluctuations in interest rates relating to its debt securities and loans. In addition, the Company enters into equity swaps to offset its exposure to fluctuations in stock prices.

On the other hand, the Company enters into forward foreign exchange contracts, currency options positions, stock price index futures, bond futures, bond forward, credit derivatives, weather derivatives and earthquake derivatives to gain investment income or premium income up to the limits permitted under its internal risk management policies.

The contract amounts of those transactions at March 31, 2006 and 2005 and the related market values were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2006		2005		2006	
	Contract amount	Market value	Contract amount	Market value	Contract amount	Market value
Forward foreign exchange contracts:						
Short positions	¥110,612	¥111,121	¥108,433	¥112,539	\$941,619	\$945,952
Long positions	48,955	49,708	118,309	121,649	416,745	423,155
Currency options positions:						
Short positions:						
Call options	7,200	—	—	—	61,292	—
(Options premiums)	(50)	(57)	(—)	(—)	(426)	(485)
Long positions:						
Put options	6,889	—	—	—	58,645	—
(Options premiums)	(50)	(27)	(—)	(—)	(426)	(230)
Currency swaps	—	—	4,000	10	—	—
Interest rate swaps	—	—	1,000	27	—	—
Bond forward:						
Short positions	—	—	—	—	—	—
Long positions	3,859	3,846	—	—	32,851	32,740
Credit derivatives:						
Short positions:	9,778	—	80,153	—	83,238	—
(Premiums)	(20)	(20)	(705)	(551)	(170)	(170)
Weather derivatives:						
Short positions:	187	—	860	—	1,592	—
(Premiums)	(9)	(8)	(51)	(51)	(77)	(68)
Long positions:	100	—	50	—	851	—
(Premiums)	(—)	(—)	(—)	(—)	(—)	(—)
Earthquake derivatives:						
Short positions:	1,910	—	1,320	—	16,259	—
(Premiums)	(82)	(2)	(59)	(21)	(698)	(17)
Long positions:	1,909	—	1,320	—	16,251	—
(Premiums)	(71)	(1)	(53)	(18)	(604)	(9)

\*1. The market value of the forward foreign exchange contracts was based on the forward rates as of March 31, 2006 and 2005.

\*2. Derivative instruments to which hedge accounting is applied are excluded from the above table.

### 13. REINSURANCE

Reinsurance amounts included in the financial statements for the years ended March 31, 2006 and 2005 are as follows:

#### a) Reserve for outstanding losses and claims

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Reserve for outstanding claims (before deducting ceded reserve for outstanding claims, excluding insurances stated in (ii))	¥617,567	¥597,198	\$5,257,231
Ceded reserve for outstanding claims relating to the above	44,370	68,344	377,713
Difference (i)	573,197	528,854	4,879,518
Reserve for outstanding claims involved in earthquake insurance and compulsory automobile liability insurance (ii)	58,898	57,833	501,388
Total (i + ii)	¥632,095	¥586,687	\$5,380,906

#### b) Underwriting reserves

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Ordinary underwriting reserve (before deducting ceded underwriting reserve)	¥ 919,315	¥ 906,241	\$ 7,825,955
Ceded underwriting reserve relating to the above	31,784	32,473	270,571
Difference (i)	887,531	873,768	7,555,384
Other underwriting reserve (ii)	2,425,371	2,422,019	20,646,727
Total (i + ii)	¥3,312,902	¥3,295,787	\$28,202,111

#### c) Net premiums written

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Premiums written	¥1,671,027	¥1,658,714	\$14,225,138
-) Reinsurance premiums ceded	300,107	306,799	2,554,754
Net premiums written	¥1,370,920	¥1,351,915	\$11,670,384

#### d) Net losses paid

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Losses paid	¥1,016,215	¥1,071,080	\$8,650,847
-) Reinsurance recoverable	240,173	257,983	2,044,548
Net losses paid	¥ 776,042	¥ 813,097	\$6,606,299

#### e) Net commissions and brokerage fees

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Commissions and brokerage fees	¥245,080	¥237,831	\$2,086,320
-) Ceded reinsurance commissions received	18,898	19,317	160,875
Net commissions and brokerage fees	¥226,182	¥218,514	\$1,925,445

f) Provision for underwriting reserves

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Provision for ordinary underwriting reserve (before deducting ceded underwriting reserve)	¥ 9,885	\$ 84,149
Provision for ceded underwriting reserve relating to the above	(655)	(5,576)
Difference (i)	10,540	89,725
Provision for other underwriting reserve (ii)	3,085	26,262
Total (i + ii)	¥13,625	\$115,987

g) Provision for reserve for outstanding losses

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Provision for reserve for outstanding claims (before deducting provision for ceded reserve for outstanding claims, excluding insurances stated in (ii))	¥ 20,433	\$ 173,942
Provision for ceded reserve for outstanding claims relating to the above	(23,956)	(203,933)
Difference (i)	44,389	377,875
Provision for reserve for outstanding claims involved in earthquake insurance and compulsory automobile liability insurance (ii)	1,065	9,066
Total (i + ii)	¥ 45,454	\$ 386,941

#### 14. POLICYHOLDERS' DEPOSIT FUNDS

Underwriting reserves include premium reserve and policyholders' deposit funds for long-term saving type products. Policyholders deposit funds for long-term saving type products represent an accumulation of account deposits and credited income. Underwriting reserves as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
(a) Premium reserve	¥1,743,468	¥1,684,244	\$14,841,815
(b) Policyholders' deposit funds	1,569,434	1,611,543	13,360,296
	¥3,312,902	¥3,295,787	\$28,202,111

\* The catastrophe reserve which is included in premium reserve were ¥384,597 million (\$3,274,002 thousand) and ¥371,340 million as of March 31, 2006 and 2005, respectively.

#### 15. STOCK OPTIONS

See Note 15 to the consolidated financial statements.

#### 16. SUBSEQUENT EVENT

See Note 16 to the consolidated financial statements.

**Balance Sheets** (Sompo Japan Insurance Company of America)

December 31,	Thousands of U.S. dollars	
	2005	2004
<b>ASSETS</b>		
Cash and deposits	\$ 4,047	\$ 7,817
Investments in securities	468,063	459,762
Property and equipment	95	154
Other assets	44,340	48,643
Reserve for possible loan losses	(5,998)	(6,973)
Total assets	\$510,547	\$509,403
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Reserve for outstanding losses and claims	\$245,142	\$237,983
Underwriting reserves	24,429	26,295
Other liabilities	47,045	48,564
Total liabilities	316,616	312,842
Shareholders' equity:		
Common stock	12,058	12,058
Additional paid-in capital	258,851	258,852
Retained earnings	(76,978)	(74,349)
Total shareholders' equity	193,931	196,561
Total liabilities and shareholders' equity	\$510,547	\$509,403



## Statements of Operations (Sompo Japan Insurance Company of America)

Years ended December 31,	Thousands of U.S. dollars	
	2005	2004
Ordinary income		
Underwriting income:		
Net premiums written	\$63,420	\$ 71,772
Reversal of reserve for outstanding losses	—	1,685
Reversal of underwriting reserves	1,866	887
	65,286	74,344
Investment income:		
Interest and dividend income	17,176	11,932
Realized gain on sales of securities	3	—
	17,179	11,932
Other ordinary income	111	46
Total ordinary income	82,576	86,322
Ordinary expenses		
Underwriting expenses:		
Net losses paid	39,946	51,928
Loss adjustment expenses	8,456	8,238
Net commissions and brokerage fees	(5,501)	3,136
Provision for reserve for outstanding losses	7,159	8,129
	50,060	71,431
Investment expenses:		
Realized loss on sales of securities	43	14
	43	14
Operating, general and administrative expenses	30,445	24,444
Other ordinary expenses	4,222	1,049
Total ordinary expenses	84,770	96,938
Ordinary loss	(2,194)	(10,616)
Loss before income taxes	(2,194)	(10,616)
Income taxes	(129)	(345)
Net loss	\$ (2,065)	\$(10,271)

## Balance Sheets (Sompo Japan Insurance Company of Europe Limited)

December 31,	Thousands of Great Britain pounds		Thousands of U.S. dollars
	2005	2004	2005
<b>ASSETS</b>			
Cash and deposits	£ 6,796	£ 35,795	\$ 11,727
Investments in securities	146,381	113,570	252,593
Property and equipment	47	53	81
Other assets	20,182	23,207	34,826
Total assets	£173,406	£172,625	\$299,227
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Liabilities:			
Reserve for outstanding losses and claims	£ 85,400	£ 90,589	\$147,366
Underwriting reserves	7,973	8,069	13,758
Other liabilities	14,750	10,242	25,452
Total liabilities	108,123	108,900	186,576
Shareholders' equity:			
Common stock	128,700	128,700	222,083
Retained earnings	(63,417)	(64,975)	(109,432)
Total shareholders' equity	65,283	63,725	112,651
Total liabilities and shareholders' equity	£173,406	£172,625	\$299,227

## Statements of Operations (Sompo Japan Insurance Company of Europe Limited)

Years ended December 31,	Thousands of Great Britain pounds		Thousands of U.S. dollars
	2005	2004	2005
Ordinary income			
Underwriting income:			
Net premiums written	£17,073	£18,407	\$29,461
Reversal of reserve for outstanding losses	3,119	—	5,382
Reversal of underwriting reserves	—	1,350	—
	20,192	19,757	34,843
Investment income:			
Interest and dividend income	5,263	4,332	9,082
Realized gain on sales of securities	97	—	167
Other investment income	776	618	1,339
	6,136	4,950	10,588
Total ordinary income	26,328	24,707	45,431
Ordinary expenses			
Underwriting expenses:			
Net losses paid	13,999	17,656	24,156
Net commissions and brokerage fees	(2,026)	(785)	(3,496)
Provision for reserve for outstanding losses	—	3,742	—
Provision for underwriting reserves	63	—	109
	12,036	20,613	20,769
Investment expenses:			
Realized loss on sales of securities	321	123	554
Other investment expenses	596	984	1,028
	917	1,107	1,582
Operating, general and administrative expenses	6,785	5,942	11,708
Other ordinary expenses	4,142	—	7,148
Total ordinary expenses	23,880	27,662	41,207
Ordinary profit (loss)	2,448	(2,955)	4,224
Income (Loss) before income taxes	2,448	(2,955)	4,224
Income taxes	890	(46)	1,536
Net Income (loss)	£ 1,558	£ (2,909)	\$ 2,688

BRANCHES AND LIAISON OFFICES ABROAD

EUROPE

**London**

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**Dubai**

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**Istanbul**

c/o Strateji Insurance & Reinsurance brokerage Inc.  
Cayiryolu Sk. No.:11 Sayar Is Merkezi K.:6  
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**Toronto**

Sun Life Financial Tower, Suite 2420, P.O.Box 39  
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Fax. 1-416-368-7400

ASIA & AUSTRALASIA

**Hong Kong**

Room 1901, Lincoln House, Taikoo Place,  
979 King's Road, Island East, Hong Kong, S.A.R.,  
The People's Republic of China  
Tel. 852-2831-9980 Fax. 852-2573-2072

**Taipei**

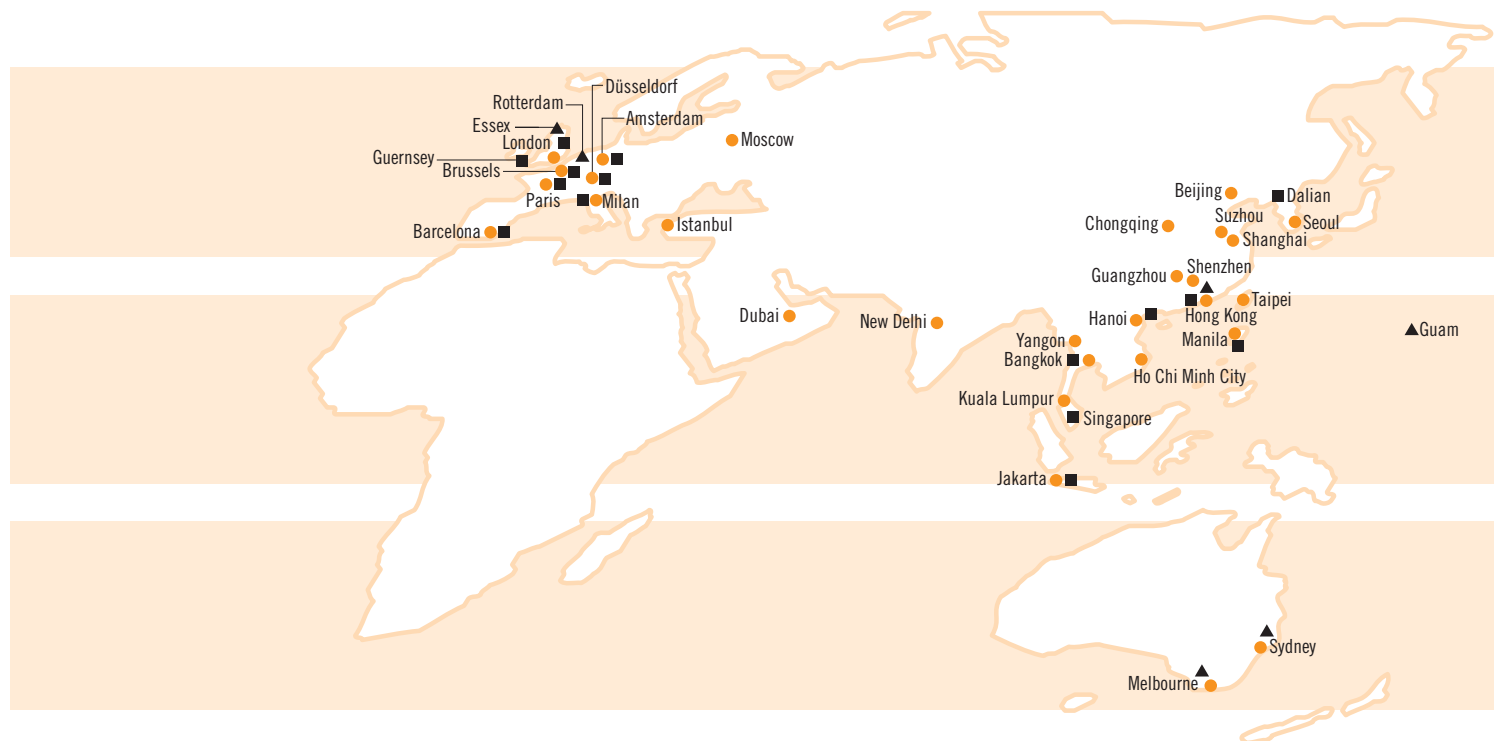
Room C, 10th Floor, Shen Hsiang Tang Sung Chiang  
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**Shenzhen**

Room 507, China Resources Building, 5001,  
ShennanEast Road, LuohuArea, Shenzhen City,  
Guandong Province, The People's Republic of China  
Tel. 86-755-8266-8721 Fax. 86-755-8266-8934



### Shanghai

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Shanghai, The People's Republic of China  
Tel. 86-21-5407-5828 Fax. 86-21-5407-6055

### Suzhou

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Suzhou Industrial Park, Suzhou, Jiang Su Province,  
The People's Republic of China  
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### Guangzhou

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### Chongqing

Room 502, Chongqing Guest House Business Mansion,  
No. 283 Min Sheng Road, Yu Zhong District,  
Chongqing, The People's Republic of China  
Tel. 86-23-63740709 Fax. 86-23-63740694

### Seoul

7th Floor Seoul Finance Center, 84 Taeyung-ro 1-ka,  
Chung-ku, Seoul, Korea  
Tel. 82-2-757-0297 Fax. 82-2-757-0929

### Singapore

50 Raffles Place, #03-03 Singapore Land Tower,  
Singapore 048623, Republic of Singapore  
Tel. 65-6223-5293 Fax. 65-6225-7947

### Kuala Lumpur

Sompo Japan Department, Malaysia National Insurance  
Berhad (9557T), Level 11, Tower 1, MNI Twins 11, Jalan  
Pinang, 50450 Kuala Lumpur, Malaysia  
Tel. 60-3-2164-5925 Fax. 60-3-2164-5927

### Jakarta

c/o PT Sompo Japan Insurance Indonesia, 18th Floor,  
Midplaza Building, Jl. Jend. Sudirman Kav. 10-11,  
Jakarta 10220, Republic of Indonesia  
Tel. 62-21-570-6230 Fax. 62-21-5737040

### Manila

c/o PGA Sompo Japan Insurance Inc., 5th Floor,  
Corinthian Plaza, 121 Paseo de Roxas, Legaspi Village,  
Makati, Metro Manila, Philippines  
Tel. 63-2-811-3160 Fax. 63-2-811-3278

### Bangkok

12th Floor, Abdulrahim Place, 990 Rama 4 Road, Silom,  
Bangrak, Bangkok 10500, Thailand  
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### Sydney

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Sydney, New South Wales 2000, Australia  
Tel. 61-2-9390-6280 Fax. 61-2-9390-6445

### Melbourne

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### Hanoi

11th Floor, Hanoi Tung Shing Square, Unit 1102,  
2 Ngo Quyen Street, Hoan Kiem District, Hanoi, Vietnam  
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### Ho Chi Minh City

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Yangon, Myanmar  
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Fax. 95-1-255403

### New Delhi

c/o Mr. J.N. Bagga/Advisor  
B-432, New Friends Colony, New Delhi 110065, India  
Tel. 91-11-26832518, 91-11-26843078  
Fax. 91-11-51628965



## SUBSIDIARIES AND AFFILIATED COMPANY OFFICES ABROAD

### UNITED KINGDOM

#### **Sompo Japan Claim Services (Europe) Limited**

Level 4, 155 Bishopsgate, London EC2M 3AY, U.K.

#### **Sompo Japan Insurance Company of Europe Limited**

##### **LONDON**

Level 4, 155 Bishopsgate, London EC2M 3AY, U.K.

##### **DÜSSELDORF**

Xantener Strasse 12, 40474 Düsseldorf, Germany

##### **BRUSSELS**

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##### **AMSTERDAM**

World Trade Center A-12, Strawinskylaan 1209, 1077 XX Amsterdam, The Netherlands

##### **PARIS**

31, Place de la Madeleine, 75008 Paris, France

##### **MILAN**

Via Spadari 9, 20123 Milano, Italy

##### **BARCELONA**

Torre Mapfre-Villa Olimpica Calle de la Marina, 16-18, Planta 36 08005, Barcelona, Spain

#### **Sompo Japan Corporate Member Limited**

Level 4, 155 Bishopsgate, London EC2M 3AY, U.K.

#### **Sompo Japan Asset Management (Europe) Limited**

City Tower, Level 16, 40 Basinghall Street, London EC2V 5DE, U.K.

#### **Nissan Insurance Company (Europe) Ltd.**

Level 4, 155 Bishopsgate, London EC2M 3AY, U.K.

### GUERNSEY

#### **Ark Re Limited**

P.O. Box 33, Maison Trinity, Trinity Square, St. Peter Port, Guernsey, GY1 4AT. Channel Islands

### U.S.A.

#### **Sompo Japan Insurance Company of America**

##### **NEW YORK**

Two World Financial Center, 43rd Floor, 225 Liberty Street, New York, New York 10281-1058, U.S.A.

##### **LOS ANGELES**

633 West Fifth Street, Suite 800, Los Angeles, CA90071, U.S.A.

##### **CHICAGO**

120 North La Salle Street, Suite 1220, Chicago, Illinois 60602, U.S.A.

##### **ATLANTA**

6 Concourse Parkway, Suite 2130, Atlanta, Georgia 30328, U.S.A.

##### **NASHVILLE**

725 Cool Springs Blvd., Suite 110, Franklin TN 37067, U.S.A.

##### **SAN FRANCISCO**

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#### **Sompo Japan Fire & Marine Insurance Company of America**

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#### **Sompo Japan Claim Services (America), Inc.**

Two World Financial Center, 43rd Floor, 225 Liberty Street, New York, New York 10281-1058, U.S.A.

#### **Yasuda Enterprise Development America Inc.**

435 Tasso Street, Suite 205, Palo Alto, California 94301, U.S.A.

#### **SJA Insurance Agency, LLC**

13850 Ballantyne Corporate Place, 2nd Floor, Charlotte, North Carolina, 28277 U.S.A.

### BERMUDA

#### **Eterna Insurance Company Limited**

Wessex House, 45 Reid Street, 4th Floor, P.O. Box HM 2461, Hamilton HMJX, Bermuda

### BRAZIL

#### **Yasuda Seguros S.A.**

##### **SÃO PAULO**

Rua Cubatão 320 Paraíso São Paulo-SP CEP 04013-001 Brasil

##### **RIO DE JANEIRO**

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#### **Vistomar s/c Ltda Servicos de Vistoria**

Rua Cubatão, 320, 12° and. São Paulo-SP-Brasil

#### **Sompo Japan do Brasil s/c Ltda.**

Rua Cubatão, 320-Paraíso São Paulo-SP-CEP 04013-001-Brasil

### MEXICO

#### **Sompo Japan Insurance De Mexico, S.A. de C.V.**

Av. Insurgentes Sur 1196, Piso8 Col. Tlacoquemecatl del Valle, C.P. 03200, México, D.F., México

### CHINA

#### **William S.T. Lee Insurance Company Limited**

Room 1901, Lincoln House, Taikoo Place, 979 King's Road, Island East, Hong Kong, S.A.R., The People's Republic of China

#### **Sompo Japan Insurance (China) Co., Ltd.**

10F, Dalian Senmao Building, 147 Zhongshan Road, Xigang District, Dalian 116011, The People's Republic of China

#### **Sompo Japan Reinsurance Company Limited**

Room 1908, Lincoln House, Taikoo Place, 979 King's Road, Island East, Hong Kong, S.A.R., The People's Republic of China

## UNDERWRITING AGENCIES

### SINGAPORE

**Sompo Japan Insurance Company (Asia) Pte Ltd.**  
50 Raffles Place, #03-03 Singapore Land Tower,  
Singapore 048623, Republic of Singapore

### INDONESIA

**PT Sompo Japan Insurance Indonesia**  
18th Floor, Midplaza Building, Jl. Jend. Sudirman Kav.  
10-11, Jakarta 10220, Republic of Indonesia

### PHILIPPINES

**PGA Sompo Japan Insurance Inc.**  
5th Floor, Corinthian Plaza, 121 Paseo de Roxas, Legaspi  
Village, Makati, Metro Manila, Philippines

### THAILAND

**Sompo Japan Service (Thailand) Co., Ltd.**  
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Bangrak, Bangkok 10500, Thailand

**Sompo Japan Insurance (Thailand) Co., Ltd.**  
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Bangrak, Bangkok 10500, Thailand

### VIETNAM

**United Insurance Company of Vietnam**

#### HANOI

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Quyen Street, Hoan Kiem District, Hanoi, Vietnam

#### HO CHI MINH CITY

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District 1, Ho Chi Minh City, Vietnam

### THE NETHERLANDS

#### ROTTERDAM

**Erasmus Verzekeringen B.V.**  
P.O. Box 1033, 3000 BA Rotterdam, The Netherlands

### U.S.A.

**Universe Insurance Underwriters Inc.**  
P.O. Box 11559, Tamuning, Guam 96931 M.I., U.S.A.

### CANADA

#### Ace INA Insurance

The Exchange Tower, 130 King Street West, 12th Floor,  
Toronto, Ontario M5X 1A6, Canada

### CHINA

#### William S.T. Lee Insurance Company Limited

Room 1901, Lincoln House, Taikoo Place, 979 King's Road,  
Island East, Hong Kong, S.A.R.,  
The People's Republic of China

#### Sompo Japan Reinsurance Company Limited

Room 1908, Lincoln House, Taikoo Place, 979 King's Road,  
Island East, Hong Kong, S.A.R.,  
The People's Republic of China

### AUSTRALIA

#### Allianz Australia Insurance Limited

##### SYDNEY

Allianz Centre, 2 Market Street, Sydney,  
New South Wales 2000, Australia

##### MELBOURNE

Level 3, 601 Bourke Street, Melbourne, Victoria 3000,  
Australia

---

**President and Chief Executive Officer**

Masatoshi Sato

---

**Director, Senior Managing Executive Officer**

Yoshio Ito

Yukio Nakamura

Hideo Suzuki

---

**Director, Managing Executive Officer**

Osamu Yoneyama

Takaaki Komatsu

Junichiro Okawa

Jun Mochizuki

Koki Kazuma

Hisashi Nakano

---

**Standing Corporate Auditor**

Ichiro Suzuki

---

**Corporate Auditor**

Tsuneo Ando

---

**Auditor**

Yoshiki Yagi

Tohru Tsuji

Toshiaki Hasegawa

---

**Senior Managing Executive Officer**

Tsuneo Matsumoto

Yoichi Takamiya

---

**Managing Executive Officer**

Mitsuo Nishimura

Mitsuhiko Fuse

Keishiro Kinoshita

Kenichi Tomita

Hiroshi Kudo

Hiroshi Oguchi

Kazunori Kameyama

Takakazu Sugishita

Syuichi Murakami

Ryosuke Hoshino

Tetsutaka Nagaoka

Toshio Mitsuuchi

Yukio Ito

Akihiro Okuhara

Eiichi Yoshimitsu

Koichi Sakonju

Jiro Handa

---

**Executive Officer**

Kazunori Nakamura

Akira Shinozaki

Ken Endo

Toshio Asano

Toshio Matsuzaki

Toshiro Umezaki

Mitsuhiko Fukui

Hideaki Anzai

Masami Ishii

Takeshi Oiwa

Kengo Sakurada

Hiroshi Inagaki

Fumiaki Akaike



<b>Head Office</b>	26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8338, Japan Tel: 03-3349-3111 URL: <a href="http://www.sompo-japan.co.jp">http://www.sompo-japan.co.jp</a>
<b>Founded</b>	October 1, 1888
<b>Paid-in Capital</b>	¥70,000 million
<b>Total Assets</b>	¥5,934,761 million
<b>Net Premiums Written</b>	¥1,370,920 million
<b>Offices</b>	Domestic 322 Overseas 31
<b>Agencies</b>	60,427
<b>Employees</b>	14,394
<b>Independent Certified Public Accountants</b>	Ernst & Young Shin Nihon
<b>Number of Shares of Common Stock Issued</b>	987,733,424
<b>Stock Exchange Listings</b>	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo
<b>Stock Transfer Agent</b>	<b>Mizuho Trust &amp; Banking Co., Ltd.</b> 2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan
<b>General Meeting of Shareholders</b>	Held within four months of April 1
<b>Investor Relations</b>	<b>Investor Relations Office, Corporate Planning Department Sompo Japan Insurance Inc.</b>  26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8338, Japan
<b>Ratings</b> (as of July 1, 2006)	AA- (Standard and Poor's) Aa3 (Moody's) AA (Japan Rating and Investment Information, Inc.) AA+ (Japan Credit Rating Agency)

**Domestic Subsidiaries and Associated Companies**

(as of July 1, 2006)

- Hitachi Capital Insurance Corporation
- Saison Automobile and Fire Insurance Co., Ltd.
- Sompo Japan Himawari Life Insurance Co., Ltd.
- Sompo Japan DIY Life Insurance Co., Ltd.
- Sompo Japan Claims Services Inc.
- Sompo Japan Commercial Line Services Inc.
- Sompo Japan Heartful Line Inc.
- Insurance Management Services Co., Ltd.
- Healthcare Frontier Japan Inc.
- Sompo Japan Risk Management Inc.
- Sompo Japan Agency Support Inc.
- Japan Insurance Services Inc.
- Japan Insurance Agency Saitamanishi Inc.
- Taisho Sangyo Kabushiki Kaisha
- Area Support Japan Lloyd Co., Ltd.
- Area Support Japan 302 Enterprises Co., Ltd.
- Area Support Japan Watarase Holding Co., Ltd.
- Sompo Japan DC Securities Co., Ltd.
- Sompo Japan Asset Management Co., Ltd.
- Yasuda Enterprise Development Co., Ltd.
- Sompo Japan Credit Inc.
- Sompo Japan Building Management Inc.
- Sompo Japan Printing Services Inc.
- Sompo Japan Information Services Inc.
- Sompo Japan System Solutions Inc.
- Sompo Japan Research Institute Inc.
- Sompo Japan Fine Art Foundation
- Sompo Japan Foundation
- Sompo Japan Environment Foundation

# SOMPO JAPAN INSURANCE INC.

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