

ANNUAL REPORT  
2007

SOMPO  
JAPAN

**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

- |                                      |  |
|--------------------------------------|--|
| <b>Service, not sales</b>            | We will supply the best coverage for the client’s particular situation and the finest service in the event of need         |
| <b>Shareholder value</b>             | We will identify specific measures to increase shareholder value and put them into practice                                |
| <b>Set and stick to high targets</b> | We will take bold action to keep ahead, refusing to be deterred by any obstacle, to meet the high targets we set ourselves |
| <b>Stimulating work environment</b>  | We will create a workplace that is open and filled with stimulation, inspiring each other to improve                       |
| <b>Spirit of fairness</b>            | We will act with a spirit of fairness and integrity based on high ethical standards and rational judgement                 |

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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.

# FINANCIAL HIGHLIGHTS

## CONSOLIDATED FINANCIAL HIGHLIGHTS IN FY2006

	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Net premiums written	<b>¥1,386,663</b>	¥1,394,784	¥1,376,233	<b>\$11,742,425</b>
Total interest and dividend income	<b>132,127</b>	110,321	94,511	<b>1,118,867</b>
Net income	<b>61,944</b>	67,377	51,766	<b>524,549</b>
Total assets	<b>7,002,180</b>	6,774,813	5,874,859	<b>59,295,283</b>

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥118.09=U.S.\$1.00, the approximate rate prevailing at March 31, 2007.  
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 FY2006

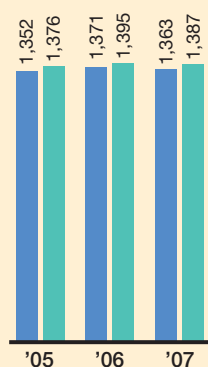
	Millions of Yen			Thousands of U.S. Dollars
	2007	2006	2005	2007
Net premiums written	<b>¥1,362,785</b>	¥1,370,920	¥1,351,915	<b>\$11,540,224</b>
Total interest and dividend income	<b>113,625</b>	95,040	82,706	<b>962,190</b>
Net income	<b>48,159</b>	67,858	56,898	<b>407,816</b>
Total assets	<b>6,029,789</b>	5,934,761	5,157,080	<b>51,060,962</b>

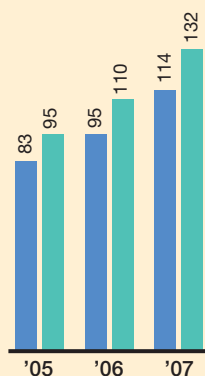
	Percent		
Loss ratio	<b>64.3</b>	61.3	64.8
Expense ratio	<b>30.9</b>	30.3	30.9

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥118.09=U.S.\$1.00, the approximate rate prevailing at March 31, 2007.  
2. Total interest and dividend income comprises "Interest and dividend income on deposits of premiums, etc." and net "Interest and dividend income."

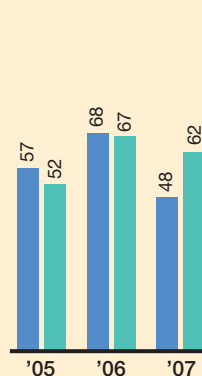
**Net Premiums Written**  
(¥ billion)



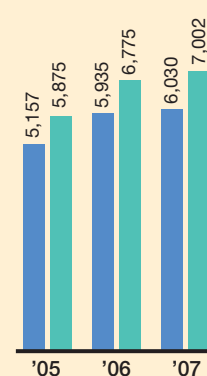
**Total Interest and Dividend Income**  
(¥ billion)



**Net Income**  
(¥ billion)



**Total Assets**  
(¥ billion)



Consolidated  
Non-Consolidated

## Delivering on its vision, Sompo Japan is moving steadily ahead, earning the trust of customers and becoming a company that fulfills their needs.

Five years have passed since July 1, 2002, when Sompo Japan Insurance Inc. was founded on the idea of “a new business presence suited to a new age.” We immediately set to work to realize our vision of a new “comprehensive service provider group for risk and asset management.”

Delivering on this business vision, we are moving steadily ahead, earning the trust of our customers and becoming a corporation that fulfills their needs.

As a company united behind the goals of restoring trust, contributing to society and putting the customer first, we continue to implement initiatives to “provide outstanding solutions for risk and asset management,” in accordance with our management philosophy.

We highly appreciate your continued support and assistance.

### From Restoring Trust to Continuous Growth

In the year under review, we revised the medium-term business plan launched in 2006 and formulated the Sompo Japan Regeneration Plan, which is based on the business improvement Plan presented to the Financial Services Agency (FSA) on June 26, 2006 and the views expressed by our employees and customers.

The Regeneration Plan will execute the three basic policies of restoring trust, contributing to

society, and putting the customer first. On this foundation, the Plan sets out the direction in which we must lead in order to properly realize its management philosophy. With the Regeneration Plan, we will bring our full powers to bear on improving the effectiveness of corporate governance, risk management and compliance and creating a transparent corporate culture, as we strive to improve our business characteristics and our management quality. In addition, we intend to strike a balance between expansion of our existing business and strengthening our profitability by aggressively investing management resources in our growth strategy.

For our property and casualty insurance business, we will construct new business models, particularly in the domestic retail market, which includes not only individuals, but also small- and mid-size corporations, large corporate occupational groups and organizations. These new business models will serve as the foundation for a continuous expansion of our scale of business, and thereby increase group earnings.

Specifically, we have identified ways to increase our service quality for customers through such measures as enhancing call centers; innovating products, operations and computer systems, and introducing leading-edge systems to enhance information sharing among employees.

In the Company and the Group market, we are strengthening our activities towards industries and markets where growth and expansion are

expected, putting forth proposals for comprehensive risk management, and building up domestic and international support frameworks.

We are providing on-target handling of system revisions made in preparation for the privatization of Japan Post, and the lifting of all restrictions on over-the-counter sales by financial institutions. Capitalizing on our advantages, we are thinking up more ways to steadily capture more business opportunities.

Moreover, we are also revising our business processes in such areas as rules and regulations, building up education and training to accompany a substantial increase in employees in the claims payment division, and implementing initiatives to improve the quality of accident handling services. On top of that, we are constructing an insurance payment system that is timely, appropriate and without leaks.

Overseas, we are promoting full-scale business development in regions with strong prospects for market growth and expansion, such as the ASEAN region and the BRIC countries (Brazil, Russia, India and China), with the intent of expanding group profits.

In asset management, we aim to improve profitability and operational efficiency, as we shift our basic concept from risk reduction to enhancement of expected returns. We are also reviewing our investment portfolio to adapt to changes in the economy and market environment.

From the point of view of expanding our group profits, we will put more efforts into the life insurance business and defined contribution pension plans (DC) as we steadily execute our business plans.

In the life insurance business, we will actively work to develop new markets with unique business models by enhancing insurance agents' training and develop products that fit customer needs, as we put forward proposals to customers



developed in the property and casualty insurance business.

In the DC business, we will attain top industry status by enhancing our bundled services (providing operations management in a consolidated form), which have already received high praise from customers.

In the future, the Sompo Japan Group will make maximum use of synergies among businesses—including property and casualty insurance, life insurance and defined contribution pensions—as we bring about growth in each business area, strive to improve profitability and operating efficiency in asset management, and aim to realize sustainable growth as a corporate group.

A handwritten signature in black ink, reading "M. Sato". The signature is stylized and cursive.

Masatoshi Sato  
President and Chief Executive Officer

## Our Business Strategy

We aim to strengthen the presence of Sompo Japan by accepting new challenges and freely exploring new ideas beyond the traditional scope of the non-life insurance business. Our goal is to achieve new growth and success as a comprehensive service provider group for risks and asset management.

## Basic Management Policy

We will realize our vision of Sompo Japan as a comprehensive service provider group for risks and asset management by dynamically developing our business under the following management philosophy:

- 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.

## Sompo Japan Regeneration Plan

In May 2006, Financial Services Agency (FSA) issued a directive partially suspending the business operations of Sompo Japan and ordering improvements in its business operations. The reasons for this directive included partial failures to pay incidental insurance

claims, and irregularities relating to the life insurance business. Sompo Japan subsequently submitted a business improvement plan.

We revised the medium-term business plan launched in FY 2006 and formulated the Sompo Japan Regeneration Plan based on dialog with employees and other stakeholders.

Under the Regeneration Plan, we aim to combine quantitative growth with reinforced earning performance by enhancing the effectiveness of our corporate governance, risk management and compliance systems; by creating structures to support a free and open corporate culture; by improving our corporate fundamentals and management quality; and by dynamically investing management resources in growth strategies centered on our retail business in Japan.

We will work to achieve sustainable growth through the continuing implementation of initiatives designed to restore the customers’ confidence, contribute to society, and fulfill our commitment to putting the customer first.

## Management Target

Under the medium-term management plan launched in FY 2006, we adopted management targets based on indicators of scale and profitability. The following numerical targets have been revised to reflect the aims of the Regeneration Plan, and Sompo Japan will work to maximize shareholder value by achieving them.

### Management Target (Amended on November 22, 2006)

#### 1. Scale

Net premiums written (non-consolidated)

→ FY 2008      ¥1,450 billion

Average annual growth of 2.8% from FY 2007 to FY 2008

\* This growth rate is relative to the business forecasts for FY 2006, as published on November 22, 2006.

#### 2. Profitability

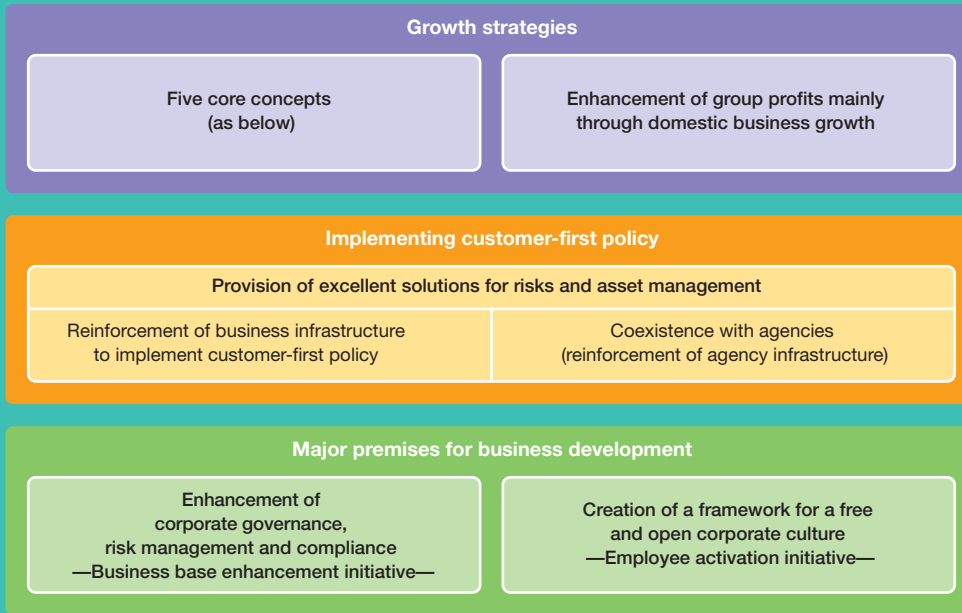
Adjusted consolidated ROE\*

→ FY 2010      13%

\*Adjusted consolidated = ROE  
Consolidated net income – consolidated gains on sales and unrealized losses on shares and real estate (after taxes)

Average balance of (consolidated net assets – unrealized gains on shares (after taxes))

## Overview of Sompo Japan Regeneration Plan



**First priority** Implementation of business improvement plan

### Five Core Concepts

1. Designating domestic business as core business domain
2. Improving front-line productivity and making more time available for sales efforts by enhancing “pro-active sales infrastructure”
3. Creating new business models, primarily in retails market
4. Reinforcing life insurance business and defined contribution pension business, and further investment in new business
5. Contributing to profits through overseas profitable business

### Shareholder Returns

Sompo Japan’s policy on shareholder returns is to maintain steady growth in actual dividend payments. Our medium- to long-term target for the dividend on equity (DOE)\* is 2%. In line with this policy, the dividend per share for FY 2006 was increased by ¥3 over the previous year’s level to ¥16. We will continue our efforts to maximize shareholder value and raise shareholder returns.

$$*DOE = \frac{\text{Total dividend}}{\text{Consolidated net assets (average balance)}}$$

**Non-Life Insurance Business**

Yasuda Fire & Marine Insurance Company was established in 1888 as Japan's first fire insurance company. Nissan Fire & Marine Insurance Company, Japan's first personal accident insurance company, was founded in 1911. Taisei Fire & Marine Insurance Company was established in Taiwan in 1920. With the subsequent growth of motor vehicle use in Japan, automobile insurance became the main source of expansion for these three companies.

These three companies, together with Dai-ichi Property & Casualty Insurance Co., Ltd., a wholly owned subsidiary of Dai-ichi Mutual Life Insurance Company founded in 1996, merged to form Sompo

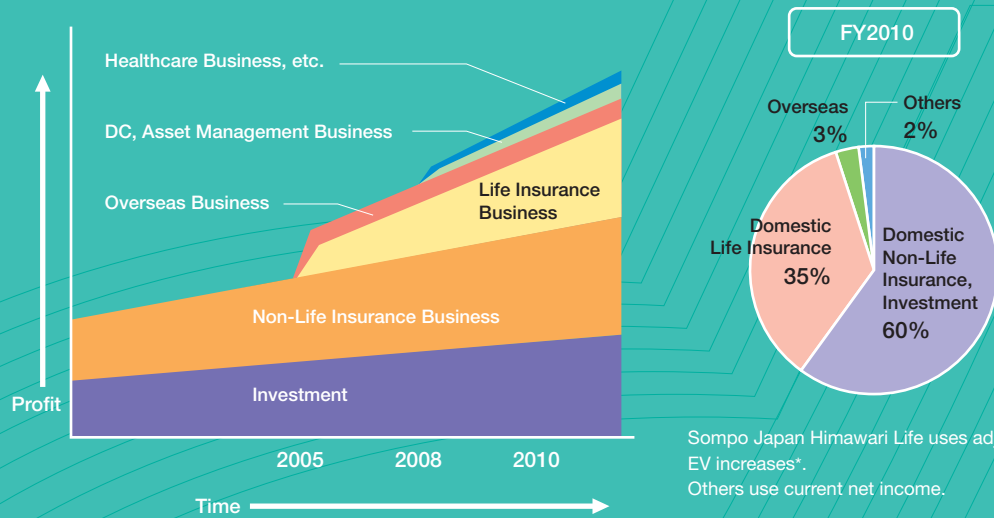
Japan in 2002. Ranked second in Japan in terms of net premiums written, Sompo Japan has emerged from a prolonged period of industry restructuring as a major presence in the Japanese insurance market.

The merger has brought synergy benefits based on decades of knowledge and experience in product development, services and marketing. The resulting capabilities in these areas are reflected in Sompo Japan's strong customer support.

**Life Insurance Business**

Sompo Japan Himawari Life was established in 1981 as the Japanese subsidiary of CIGNA

Medium-Term Corporate Vision



Sompo Japan Himawari Life uses adjusted EV increases\*. Others use current net income.

\* The impacts of  
 (1) interest rate fluctuations  
 (2) discount rate fluctuations  
 (3) capital increases and shareholder dividends are deducted from the EV increase.



Corporation, which is based in Philadelphia, U.S.A. In 1983, it formed a business alliance with The Yasuda Fire & Marine Insurance Company (now Sampo Japan), and in December 2001 it became a wholly-owned subsidiary of that company.

With a long record of achievement as a foreign-owned life insurance company, Sampo Japan Himawari Life led the Japanese life and non-life insurance industry in the introduction of third-sector insurance products, such as medical insurance, and remains a leading provider of these products. Its extensive product range also includes a variety of death cover products, such as income guarantee insurance with no surrender value. With this unique line-up of products backed by specialist knowledge and years of experience, Sampo Japan Himawari Life is able to meet a wide range of customer needs.

In February 2007, the company's capital was increased by ¥20 billion. This increase, which brings the sum of capital and capital reserve to ¥27.25 billion, will give us increased freedom and flexibility to pursue strategies for even greater gain in this core business area for the Sampo Japan Group.

Sampo Japan DIY Life Insurance Co., Ltd. markets life insurance products using non-face-to-face methods, such as mail order, telephone sales and Internet sales. Its core products are one-year term life insurance, which allow customers to review their insurance needs according to their life stage by adding riders for various types of cover, such as hospitalization, cancer and income replacement insurance. These products are very popular with customers who want to design their own insurance products.

Our goal is to build Japan's strongest and best-integrated life and non-life insurance Group. We are working toward this goal in partnership with Dai-ichi Mutual Life Insurance Company, which has further strengthened our extensive product range with its own unique service systems and product concepts, which have all been carefully designed to meet customer needs.

### Defined Contribution (DC) Pension Business

Established in May 1999 as Yasuda Kasai CIGNA Securities Co., Ltd., Sampo Japan DC Securities Co., Ltd. specializes in defined contribution pension products. It began to offer products and services in November 2001.

Sampo Japan DC Securities offers business proprietors and pension scheme members convenient solutions in the form of bundled services that encompass

all aspects of DC scheme management, including scheme design, investment education, member account management and record management. In addition to the timely, efficient establishment of schemes, it also maintains the quality and consistency of member services after establishment. Thanks to this bundled approach, Sampo Japan DC Securities is able to combine low prices with enhanced flexibility and convenience and consistent, high-quality investment education. The package also includes in-depth briefings when schemes are established, highly effective scheme design consultation services, and a full range of bilingual services. Sampo Japan DC Securities has gained top ratings in customer satisfaction surveys conducted by independent organizations. Its security systems are also extremely effective. In 2006, it achieved certification under the ISMS standard, and in September 2006 it was authorized to use the "Privacy Mark."

Sampo Japan DC Securities also acts as a managing institution in the area of personal DC pension products for self-employed people and employees of companies without corporate pension schemes. It has been working to popularize these products since April 2002 by offering quality services through a nationwide network of agencies and branches.

### Healthcare Business

Healthcare is defined as the maintenance and promotion of health and the prevention of disease. This area has come under increasing attention because of current social trends in Japan, including a falling birthrate and an aging population, as well as changes in the disease mix and the rising incidence of lifestyle-related diseases.

Established in 2005 as a joint venture with Omron Healthcare Co., Ltd. and NTT Data Corporation, Healthcare Frontier Japan Inc. (HFJ) is working to meet these needs as Sampo Japan's first strategic subsidiary in the healthcare field by offering new services designed to help customers improve their lifestyles. On April 2, 2007, Sampo Japan also established Sampo Japan Healthcare Services Inc. (SJHS). SJHS has started to offer healthcare services in the area of employee mental health, which has become an extremely important management issue for Japanese companies.



## Compliance

As a corporation and member of society, Sampo Japan has a special responsibility to contribute to the public benefit. Above all, as an insurance company, we play a very public role and must earn the trust of society by meeting its expectations through dealings that are transparent, fair and appropriate. Sampo Japan aims to be a corporation that enjoys the confidence of its customers, the local community and all of its shareholders; conducts itself according to the norms of society; and tirelessly promotes compliance.

## Compliance Preparedness

Sampo Japan makes compliance a prerequisite for all of its business development.

To guarantee fairness, appropriateness and greater transparency in our business operations, we have placed our internal control system under review by a "second pair of eyes" from outside the company, through the establishment of the Business Audit and Compliance Committee in September 2006 (within the Internal Audit Department), and by appointing its chairman and a majority of its members from the outside. The committee receives progress reports on compliance measures being implemented and offers advice to an advisory panel of the Board of Directors (the Compliance Implementation Department in the Compliance Department) and to all company divisions.

The Compliance Implementation Department consists of corporate directors and executive officers and is responsible for company-wide compliance promotion activities, including proposing and implementing a

policy and a plan for compliance promotion.

Also, Regional Compliance Committees were set up in all regional headquarters in March 2006 and placed under the Compliance Implementation Department in September 2006. This enables the company to increase awareness and understanding of the state of business operations at local offices while, under direction from the Compliance Implementation Department, make company-wide compliance improvements.

In addition, to promptly discover and resolve compliance-related problems, the company utilizes information from such sources as the Internal Audit Department and the network of compliance promotion officers, who have been appointed to all local departments as well as the headquarters.

## Compliance Promotion

Annual compliance is driven by the basic policy of the promotion plan set by the Board of Directors at the beginning of the year. Upon receiving the basic policy, each department draws up and carries out its own action plan. The status of the company-wide compliance promotion plan and the departmental action plans are deliberated by the Compliance Implementation Department, which reports to the Board of Directors. In this way, Sampo Japan can maintain a better overview of compliance promotion initiatives across the company.

## Compliance Initiatives

Sampo Japan is striving to strengthen compliance throughout the entire Sampo Japan Group by focusing on the following initiatives:

**The 2007 Basic Compliance Promotion Policy**  
**Continuous assertion and demonstration of management's commitment to compliance**

The management team is making its position on compliance clear by conducting business in a manner that enables its stance on compliance to be shared by employees and insurance agencies.

- Communications from top management

**Strengthening management prowess and promoting employee practices based on strict compliance and high ethical standards**

Strengthening management's prowess will enable it to set a clear example to employees, and firmly instill in them an understanding of the importance of compliance.

- Reinforcing the education and training of Sompo Japan's officers and employees, starting with management training
- Emphasizing compliance in the human resources evaluation and commendation programs

**Building the capacity for proper insurance sales solicitation and insurance payments**

We are working hard to regain the confidence of our customers by building the capacity for proper insurance sales solicitation and insurance payments based

on a harmonious relationship with insurance agencies.

- Implementing effective compliance training of insurance agents
- Supervising and directing insurance agents on appropriate business procedures

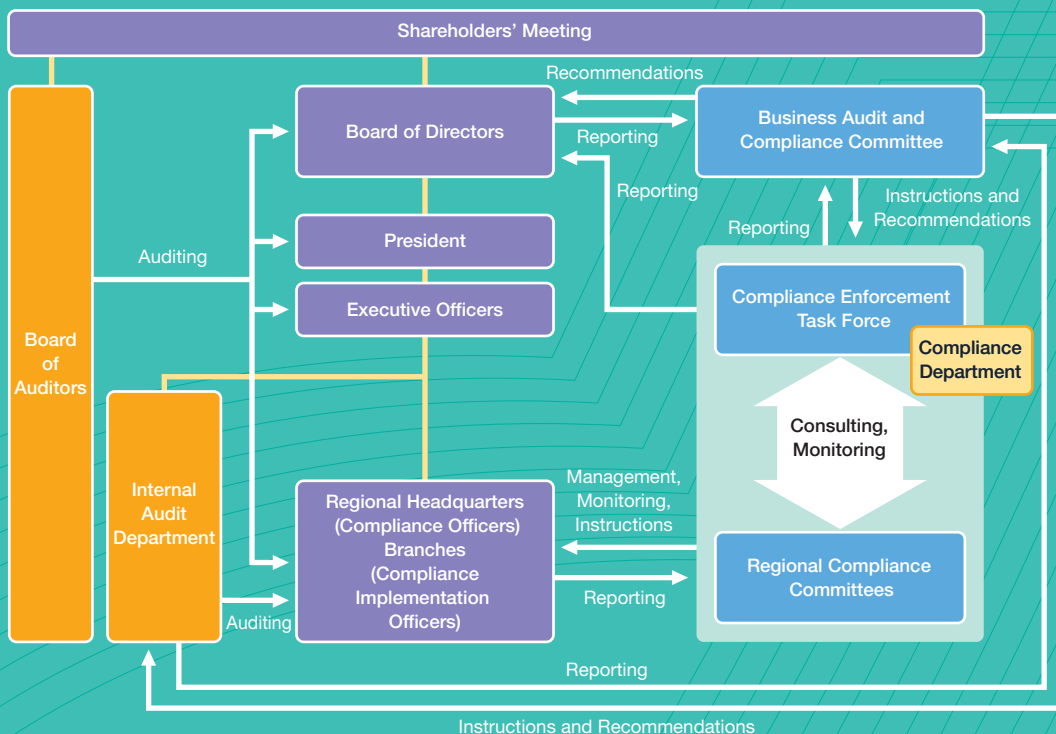
**Putting in place an effective mechanism for the prompt understanding and resolution of problems**

To increase the effectiveness of compliance meetings, as well as inspections and audits at local departments and branch offices, Sompo Japan is undertaking initiatives to promote active communications in the workplace, grasp problems quickly and resolve problems through a team approach.

**Compliance Hotline**

Sompo Japan is actively resolving compliance problems by offering direct consultation to handle compliance concerns from company staff, through an internal compliance hotline that was set up in the Compliance Department in May 2002 and an external hotline that was set up in an outside law office in December 2005. Consultation is provided during normal business hours via telephone, e-mail, and in writing.

**Internal Management System**



## Risk Management System

### Integrated Risk Management System

As the management environment surrounding the insurance business changes, insurance companies face increasingly diverse and complex risks. For this reason, it is now crucial for insurance companies to have an accurate understanding and appropriate control of risk.

In accordance with a Board of Directors' policy to build an internal control system, Sampo Japan keeps its internal rules for risk management in good order and, based on them, constructs a solid risk management framework.

The Board of Directors and the Senior Executive Committee discuss and approve the principal policies for risk management as well as the related business

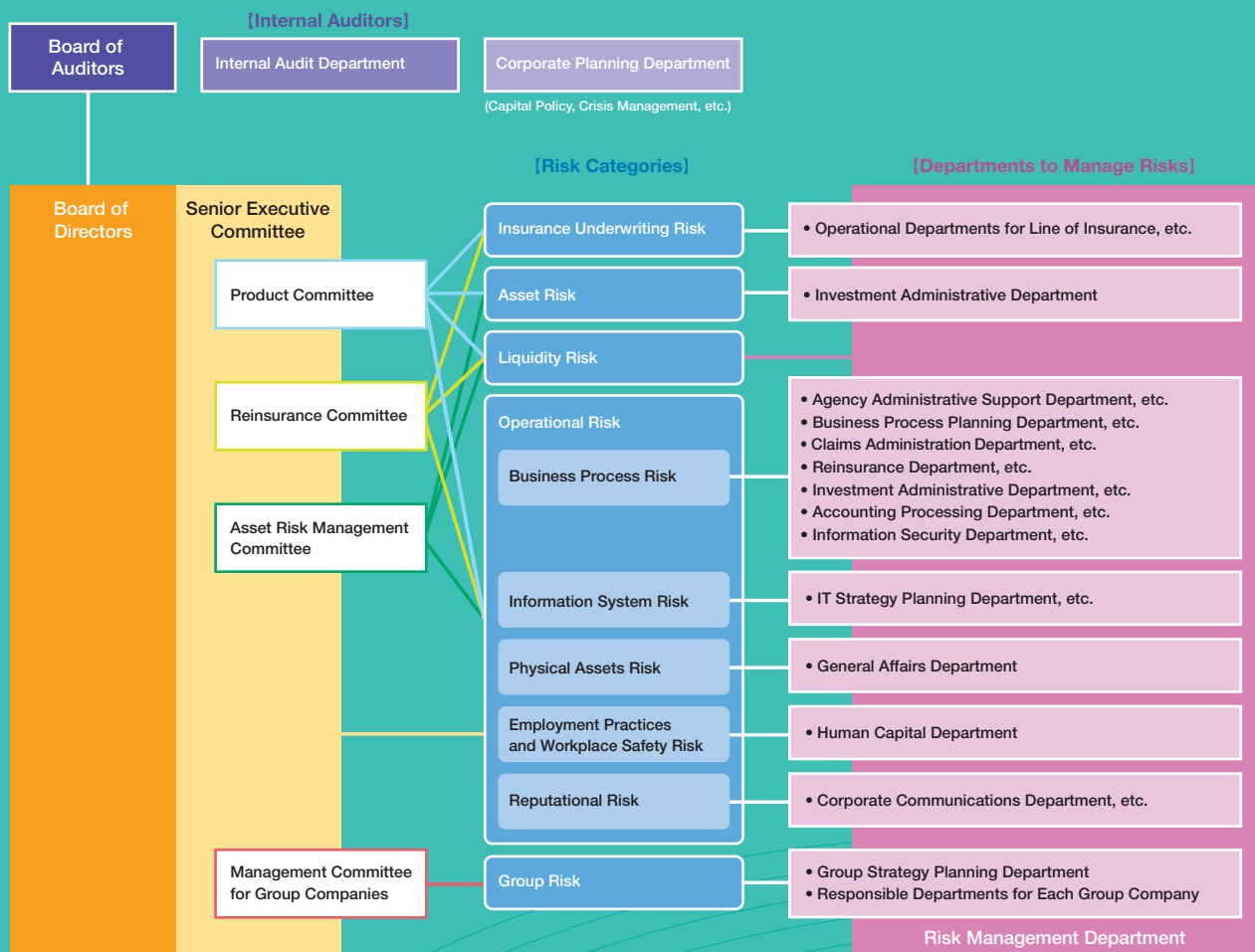
strategy and take active steps to strengthen our risk management. Moreover, dedicated committees are established and each committee is authorized to make appropriate decisions.

As an insurance company, it is essential for Sampo Japan to strike a balance between effective control of insurance underwriting risk, asset risk and operational risk on the one hand, and improvement of profitability on the other hand. To this end, we use an integrated risk calculation method, based on a Tail Value at Risk (TVaR) measure, as the basis of our financial soundness.

### Insurance Underwriting Risk Management

Sampo Japan carries out profitability analysis on an ongoing basis and puts in place underwriting standards for each line of insurance, as well as conducts a

## Integrated Risk Management System



quantitative analysis of insurance underwriting risk.

In development and revision of insurance products, we not only address insurance underwriting risk but also examine such areas as compliance, sales forecasts, system development, and the moral hazard involved in insurance products.

Furthermore, we avoid over-concentration of risk by establishing retention limits for each product and diversifying risk through reinsurance arrangements. In addition, we establish reinsurance strategies, making full use of stress testing, in which we measure overall results of large natural catastrophes.

#### **Asset Risk Management**

Sompo Japan uses a proprietary, comprehensive financial risk management model to integrate market risk, credit risk, real estate risk and interest rate risk of savings-type insurance.

In stress testing, we assume the largest market decline and the highest default rate in the past and measure the impact upon the current value of assets, profits and other key indicators.

In order to avoid excessive accumulation of exposure for specific debtors, we manage credit risk by placing credit limits for each debtor by means of an internal credit rating system. We write off assets and provide appropriate reserves based on strict self-assessment standards.

#### **Liquidity Risk Management**

Sompo Japan manages liquidity risk by monitoring cash flows on a daily basis, and by securing enough liquid assets to meet projected insurance claims that may be caused by a large natural disaster.

#### **Operational Risk Management**

Operational risk is categorized as business process risk, information system risk, physical assets risk, employment practices and workplace safety risk, and reputational risk. We strive to prevent occurrence of these risks and/or minimize losses, assigning the most suitable departments to manage them.

#### **Group Risk Management**

Sompo Japan manages risks of Group companies in order to ensure financial soundness of the Group as a whole and that of each Group company as well. Moreover, Sompo Japan provides support and guidance for Group companies so that they can construct risk management frameworks and implement risk management systems.

## **Reinsurance**

### **Principle for Retention and Reinsurance Cession**

The principle for retention and reinsurance cession is determined in consideration of the composite factors such as the status of risk and capital, volatility of the underwriting result and the reinsurance market environment. Internal guidelines for reinsurer's security are set up to avoid possible deterioration of reinsurance recoverables due to the reinsurers' insolvency. In accordance with the guidelines, Sompo Japan selects the reinsurers with certain credit rating level or above to mitigate the credit risk. Furthermore, the cession to any one reinsurer is limited to avoid excessive accumulation.

### **Protection for Natural Catastrophic Risks**

Sompo Japan quantifies the probable maximum loss arising out of natural catastrophic event across the class of business, utilizing stochastic models including in-house ones.

The optimal retention and reinsurance for natural catastrophic risks is determined through careful deliberation by the Management Board. The material factors are considered such as status of risk and capital affected by the worst case scenario, status of catastrophic loss reserves, and efficiency and sustainability of the reinsurance scheme, when the reinsurance scheme is developed.

### **Principle for Inward Reinsurance Underwriting**

Sompo Japan has a conservative underwriting principle, selecting risks with the following considerations.

- Evaluate contract individually in view of the balance between risk and return
- Examine underwriting result of acceptances periodically and reflect the result in our policy
- Evaluate the exposure quantitatively and stochastically utilizing models to underwrite natural catastrophic risks
- Diversify the portfolio to avoid significant accumulation or excessively uneven distribution of exposure over countries or regions.

We monitor reinsurance market trends closely and respond to the changes of the market without delay.

## Developing Insurance Solicitation Policy

In April 2007, Sompo Japan introduced a policy confirmation checklist system that allows customers to personally verify that they have been fully informed by agency staff and are completely satisfied with the content of insurance policies before they sign.

### (1) Appropriateness of Insurance Policies

In December 2006, the General Insurance Association of Japan decided that all non-life insurance companies should check the content of their individual policies and premiums for all insurance products. This followed a campaign to normalize fire insurance products for each category of building.

In response to this initiative, Sompo Japan has decided to review and check the appropriateness of its individual policies during the current fiscal year.

### (2) Written Confirmation of Intent

Financial Services Agency has issued amended general supervision guidelines for insurance companies. The changes included the introduction in April 2007 of a system requiring insurance companies to obtain a written confirmation of intent from the customer before an insurance policy agreement is signed.

### (3) Policy Confirmation Checklists

Sompo Japan introduced policy confirmation checklists in April 2007 as a way of achieving the goals described in (1) and (2) above. These checklists are used to confirm the appropriateness of insurance policies, including policies that are about to mature, and ensure that policies reflect the intentions of customers.

## Reinforcement of Insurance Payment Management Systems

Sompo Japan has taken steps to restore public confidence and improve the quality of its accident response services following administrative action taken against it in 2006.

On August 25, 2006, the Board of Directors of Sompo Japan adopted a policy concerning the establishment of insurance payment management systems to ensure the timely and appropriate payment of all claims. This policy, which is based on the Financial Services Agency's general supervision guidelines for insurance companies, defines procedures in a number of areas. These areas include the involvement of senior management in claim payment operations, the allocation of resources to claim payment depart-

ments, the improvement of claim payment department and related management operations, the training of front-line personnel, and measures to ensure a timely and appropriate response to customers. Under this policy, we are taking specific steps to build a completely customer-focused insurance claim payment management system.

We are also establishing a system to review progress and identify problems on a quarterly basis. This system will ensure the involvement of senior management by requiring reports on these reviews to be submitted to the Board of Directors.

## Marketing & Contact Center Planning Office and Customer Relations Office

Sompo Japan values all customer feedback. We have established specialist units and enhanced call center systems to ensure that all customer comments are carefully heeded. Through initiatives such as these, we are working to provide our customers with peace of mind through our services.

### Marketing & Contact Center Planning Office—Analysis of All Customer Feedback

Established in April 2006, the Marketing & Contact Center Planning Office is the link between customer feedback and management policies. Inquiries, opinions, requests and complaints from customers are not simply filed away. We comprehensively analyze this feedback to identify underlying issues and needs. Useful ideas or information that can be used to make improvements are shared at regular meetings with relevant departments. This system allows customer feedback to be used in the development and improvement of products and services.

### Customer Relations Office

This unit was created in July 2006. In the past, customer feedback was shared only within the departments concerned, which did not always receive the support and follow-up they needed to provide solutions. The content of complaints and complaint trends was simply analyzed and reported to management.

The Customer Relations Office provides appropriate support and follow-up services for departments involved in the processing of complaints. We also analyze the circumstances and causes of complaints and help the departments concerned to avoid repetitions by providing recommendations and advice. Sompo Japan will continue to ensure that customer complaints are reflected in improvements to its services.



### Corporate Governance Policy and Basic Policy on the Establishment of Internal Control Systems

#### Corporate Governance Policy

Sompo Japan provides various economic entities, including consumers and businesses, with cover against different types of risk. We firmly believe that insurance companies have a mission and a public responsibility to contribute to the maintenance of national living standards and economic development through these activities, and that sound, effective corporate governance is essential to the fulfillment of this role.

This perception is reflected in the following corporate governance policy, which was adopted by resolution of the Board of Directors on September 25, 2006. Under this policy, we will maintain high standards of soundness and transparency in our corporate governance systems.

#### Overview of Governance Organization

Sompo Japan operates under the "company with auditors" structure. Our directors have extensive knowledge of the insurance business, and their management decisions are checked by corporate auditors. We have also adopted an executive officer system, under which executive functions are separated from the supervisory role of the Board of Directors. This structure combines effective management supervision with the efficient performance of business operations. In addition to these structures, we have also established committees comprised mainly of outside experts. Their task is to maintain

high standards of soundness and transparency by exposing our corporate governance structure to external scrutiny.

#### Basic Policy on the Establishment of Internal Control Systems

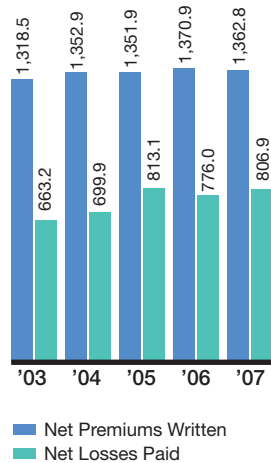
Sompo Japan believes that sound business development depends not only on the timely and efficient performance of business operations, but also on the promotion of compliance in all facets of corporate activities, as well as the establishment of sophisticated and highly independent risk management systems covering insurance underwriting and asset management. The specialist units that we have established for these purposes are the Compliance Department, Business Audit Department and Risk Management Department. To maintain independence and enhance the effectiveness of internal control systems, the officers responsible for these three departments avoid concurrent responsibilities in income-generating departments.

At its meeting on April 28, 2006, the Board of Directors passed a resolution adopting a basic policy on the establishment of internal control systems. This policy was partially amended on June 26, 2006, March 16, 2007 and May 1, 2007.

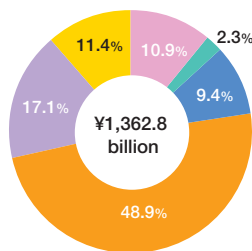
Directors perform their duties in accordance with laws and regulations, the articles of association, and the management philosophy of the Sompo Japan Group. They are also establishing systems to improve the quality of corporate governance and ensure that Sompo Japan conducts its business operations in an appropriate manner.

## UNDERWRITING OPERATIONS

**Net Premiums Written and Net Losses Paid (¥ billion)**

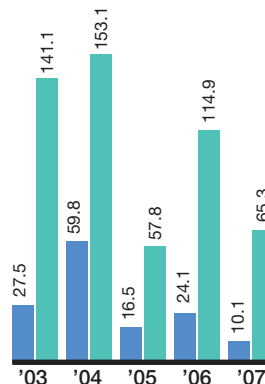


**Breakdown of Net Premiums Written (For the year ended March 31, 2007)**



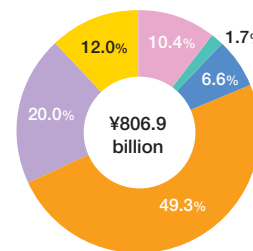
- Fire and Allied
- Marine
- Personal Accident
- Voluntary Automobile
- Compulsory Automobile Liability
- Other

**Underwriting Profit (¥ billion)**



- Underwriting Profit
- Underwriting Balance

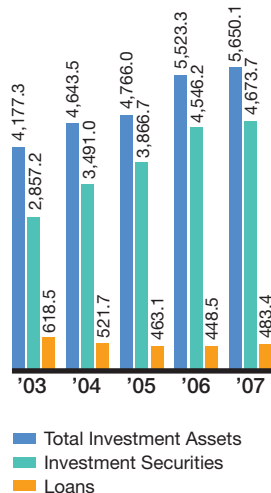
**Breakdown of Net Losses Paid (For the year ended March 31, 2007)**



- Fire and Allied
- Marine
- Personal Accident
- Voluntary Automobile
- Compulsory Automobile Liability
- Other

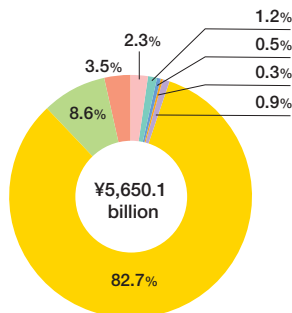
## INVESTMENT OPERATIONS

**Investment Assets (¥ billion)**



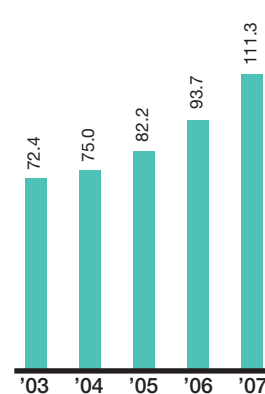
- Total Investment Assets
- Investment Securities
- Loans

**Breakdown of Investment Assets (March 31, 2007)**



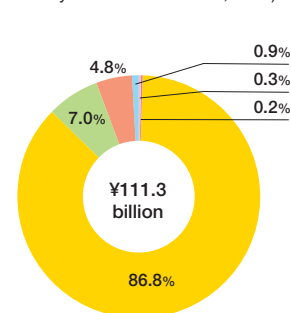
- Deposits
- Call Loans
- CP under Resale Agreements
- Monetary Receivables
- Money Trusts
- Securities
- Loans
- Real Estate

**Interest and Dividend Income on Investment Assets (¥ billion)**



- Interest and Dividend Income

**Breakdown of Interest and Dividend Income on Investment Assets (For the year ended March 31, 2007)**

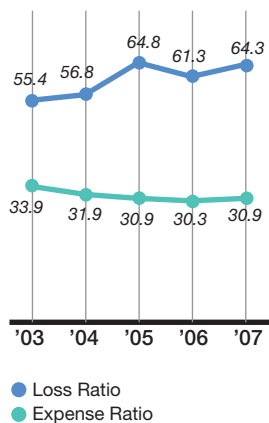


- Deposits
- Monetary Receivables
- Securities
- Loans
- Real Estate
- Other

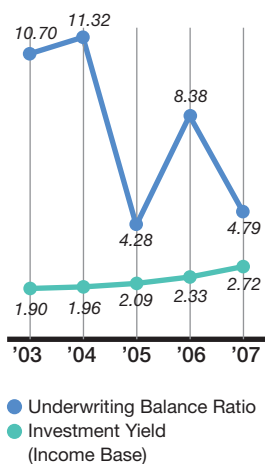


## OPERATING INDICATORS

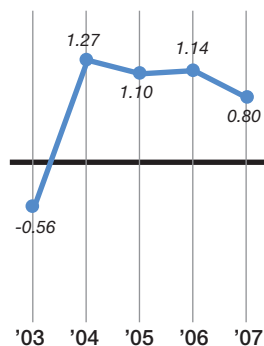
**Loss Ratio and Expense Ratio (%)**



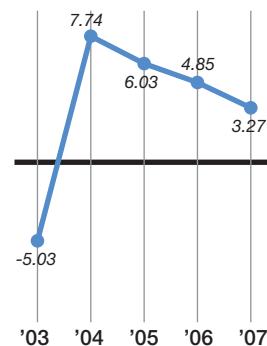
**Underwriting Balance Ratio and Investment Yield (Income base) (%)**



**Return on Assets (%)**

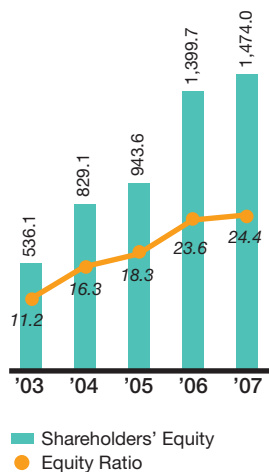


**Return on Equity (%)**

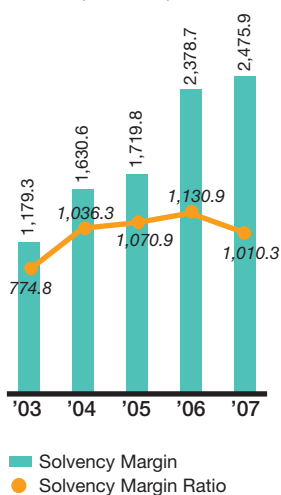


## FINANCIAL SOUNDNESS

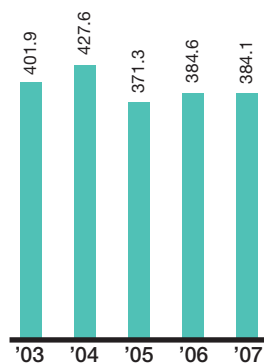
**Shareholders' Equity Ratio (¥ billion/%)**



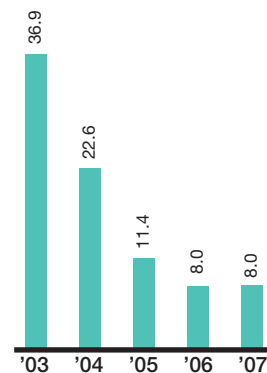
**Solvency Margin (¥ billion/%)**



**Catastrophic Loss Reserves (¥ billion)**



**Risk-Monitored Loans (¥ billion)**



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.

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

### Worldwide Service Network

Sompo Japan aims to support Japanese companies expanding globally 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 almost the entire world, including North America (comprising the United States, Canada and Mexico, with the regional base in New York), South America (regional base in Sao Paulo), Europe, Africa and the Middle East (regional base in London), East Asia (regional base 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.

Furthermore, in the past two years, we have established three representative offices: the Moscow office in December 2005, the Dubai office in January 2006,

and the Seoul office in June 2006.

At present, we have offices and subsidiaries in 26 countries providing sophisticated insurance services and risk management expertise, with approximately 130 expatriates from Japan working together with highly motivated local employees.

#### Reinsurance

Reinsurance Department offers worldwide reinsurance services in Tokyo and Hong Kong. Particularly for insurance companies 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 East Asian economies continue to expand, many companies from all over the world, including Japan, are making inroads into these markets, especially in China.

In June 2007, Sompo Japan Insurance (China) Co., Ltd., Sompo Japan's Dalian subsidiary, received approval from the China Insurance Regulatory Commission to establish a Shanghai branch office. The establishment of the Shanghai office will enhance Sompo Japan's presence in the East China region, and make it the first Japanese insurance company to have underwriting capabilities in both Dalian and Shanghai.

#### 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. The network consists of Asian subsidiaries in Indonesia, the Philippines, Thailand and Vietnam, as well as the hub subsidiary in Singapore, which also operates a liaison office in Myanmar.

Sompo Japan's Australian branch office has more than 35 years of operating history.

This year, some 35 years after we first set up our Malaysia office in 1972, we have developed our business in this country drastically by purchasing a 30% equity stake of Berjaya General Insurance Bhd. Subsequently, the company changed its name to Berjaya Sompo Insurance Berhad to reflect this partnership and will provide a range of first-class insurance products and services nationwide.

In November 2006, we signed a contract to establish a non-life insurance company in India with partners that include two state-run banks and one private bank, creating the first non-life insurance business to be accepted by a state-run bank in India. Aiming to start operations within 2007, we are currently finalizing the launch preparations and have dispatched seven Japanese staff members to Mumbai.

### **Europe**

Sompo Japan has been serving clients in Europe for about 50 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 companies.

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, which has its main regional base in New York. The company has branch offices in Los Angeles, Chicago, Atlanta, San Francisco and Nashville, and also operates SJA Insurance Agency, LLC in Charlotte, North Carolina, to strengthen its own underwriting capability and administrative processing functions. In addition, Sompo Japan provides insurance services in Canada through its Toronto office and in Mexico by its subsidiary, Sompo Japan Insurance De Mexico, S.A. de C.V., which started 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 provides services for the insurance needs of affiliates of Japanese companies, but the majority of its clients are local businesses and individuals.

ERM: ENTERPRISE RISK MANAGEMENT

ERM (Enterprise Risk Management) has been attracting attention anew as corporations are required to establish internal control systems in accordance with the Japanese Companies Act, effective from May 1, 2006, and the Financial Instruments and Exchange Law (Japanese version of the Sarbanes-Oxley Act) promulgated on June 14, 2006.

ERM provides comprehensive management of all phenomena that create obstacles and instability in business operations. It is concerned not only with the risks of accidents and disasters, but also with any risks including management risk, financial risk and operational risk.

Sompo Japan Risk Management (SJRM) has been offering corporate ERM through its support and consulting for the establishment of risk management systems. In April 2007, SJRM organized the ERM Research and Development Department and increased the number of personnel researching solutions in risk finance and related fields. This strengthened the research and the development of support offerings from ERM.

Meanwhile, SJRM expanded the number of consultants in the Risk Management Office, which was renamed the ERM Office and responsible for providing consulting for identifying potential risks, quantifying the scale of losses and prioritizing the risks to be addressed.

In addition, SJRM has set up partnerships with consulting firms that specialize in management risk and financial risk, providing services in these areas.

Appropriate measures should be taken against the potential risks identified. This includes, for example, providing Business Continuity Management (BCM) as a measure to reduce the risk of business interruptions.

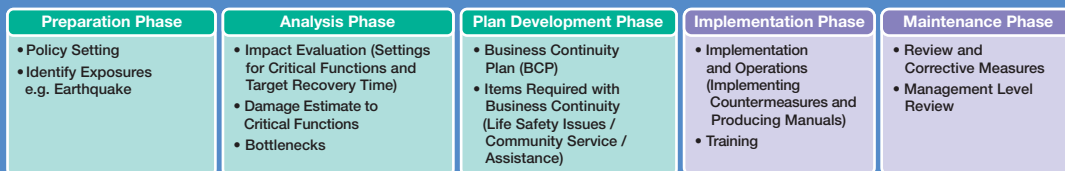
**BCM (Business Continuity Management) Consulting**

The continued occurrences of natural disasters, information system interruptions, product recalls, terrorism and other risks are causing an increasingly risk-filled climate for businesses. To minimize these types of risks, it is essential to build a crisis management system that establishes a rapid decision-making framework for upper management before a disaster occurs, and provides for effective handling of the recovery afterwards.

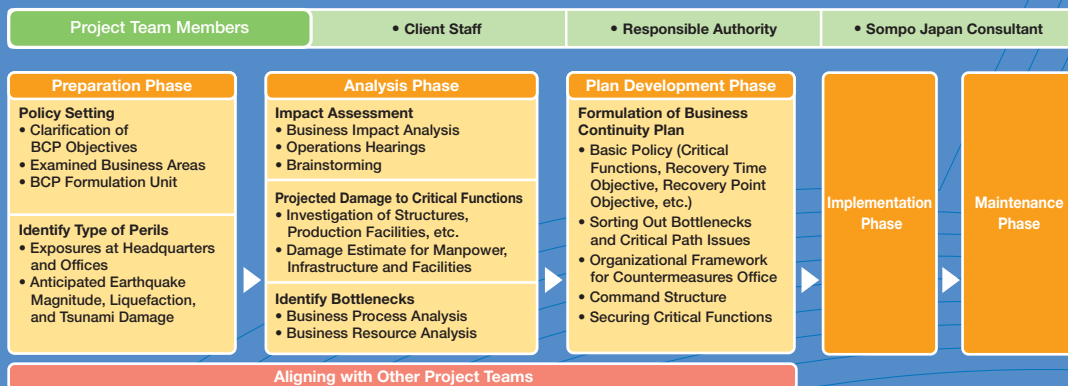
**Business Continuity Management (BCM) for Disasters**

To ensure that business can continue during disasters like earthquakes and fires, and to ensure that critical operations can be promptly restored near to the level that existed before the event, precautions are crucial. SJRM provides BCM consulting services that make good use of lessons learned from past disasters, and

Key Elements of Consulting



Phased Development of BCP



expertise and know-how in specialty fields. The consulting services include formulation of business continuity plans based on the evaluation of business impact, and providing training sessions assuming that disasters actually occur.

#### BCM Consulting for Overseas Crisis Management

In other countries, there are such risks emerging that have a major impact on corporate activities as frequent terrorist explosions around the world, ethnic and religious strife, potential pandemics like avian flu, and large-scale natural disasters including Hurricane Katrina and the 2004 earthquake and tsunami off the coast of Sumatra.

It is becoming increasingly important for businesses with an overseas presence to provide for the safety of employees stationed abroad, and to make preparations for accidents, events and disasters that can interrupt business.

In September 2006, SJRM launched a comprehensive overseas crisis management and BCM consulting services to support risk measures for corporations that are expanding internationally.

#### In addition to ERM, SJRM is proceeding with business-academia alliances with the aim of developing new management approaches

##### Association with Graduate School of Public Policy at The University of Tokyo in the Field of Risk Management

In October 2006, Sompo Japan entered into an association with Graduate School of Public Policy (GraSPP) at The University of Tokyo on Risk Management, which focuses on endowed-lectures and joint research.

There is a course on Risk Management and Public Policy provided, and lectures on risk management delivered. And, the two parties have been engaged in joint research on risk management over a three-year period. This research focuses on the development of new approaches to risk management and the appropriate public policy measures for the same.

#### Asset Management Policy

##### Basic Investment Policy

We establish it as our basic investment policy “to maximize the total return with providing an appropriate degree of risk control”. While paying a full consideration on safety, liquidity, and profitability, as is appropriate for an insurance company to do in



#### Areas Covered by Sompo Japan's BCM Solutions for Businesses Overseas

##### Accident and Disaster Risk

- Fire
- Explosion
- Traffic Accident
- Aircraft Accident

##### Natural Disaster Risk

- Flood
- Hurricane
- Earthquake
- Tsunami

##### Man-Made Disaster Risk

- Terrorism
- Abduction
- Blackmail
- Anti-Japanese Movement
- Labor Dispute
- Civil Disorder
- War

##### Infectious Disease Risk

- SARS
- Avian Flu
- Human Pandemic Influenza

the area of asset management, we conduct our investment activity fiducially.

##### Asset and Liability Management

To meet with the liability of savings-type accounts, we are taking appropriate investment steps to secure stable earnings that can cover the payment of maturity refunds and other underwriting costs by using the Asset and Liability Management approach (ALM).

##### Strengthen the Efficiency and Flexibility of Our Asset Management Operations

To maintain a sound asset quality, we firmly commit to strengthen efficiency and flexibility of our asset management operations further, through a tireless effort to advance our investment skills and investment management structure.

CSR APPROACHES

**Corporate Social Responsibility Approaches Working for a Sustainable Society**

Sompo Japan established the Corporate Social Responsibility (CSR) Office in December 2003, which expanded activity from a Global Environment Office established in 1992. We are undertaking various challenges related to CSR, to address a wide range of CSR-related issues such as the environment, human rights and corporate citizenship, through active engagement with diverse stakeholders.

**Highlights**

**Strong Performance by Sompo Japan's Eco-Fund "Beech Forest"**

In prompt response to the demand of society, Sompo Japan developed an investment trust product, the "Sompo Japan Green Open" (known as the "Beech Forest" (Buna no Mori)), together with Sompo Japan Group company Sompo Japan Asset Management Co., Ltd and Sompo Japan Risk Management Inc. The fund, which invests in companies undertaking business activities while paying due heed to the environment, was launched in September 1999.

The base value of Beech Forest has maintained strong performance ever since its launch eight and a half years ago, outperforming the TOPIX (Tokyo Stock Price Index), which is used as a performance guide, by 18.83% (as of March 31, 2007). External rating agencies have rated Beech Forest as a product that meets the requirements for a defined contribution (DC) pension scheme (the Japanese version of a 401k plan), and it has been adopted as an investment product in a number of corporate DC pension plan schemes. Beech Forest was awarded the Outstanding Fund Award in the Defined Contribution Pension Plan Domestic Equities category of the R&I Fund Awards 2007.

The Sompo Japan Group has made Beech Forest available in its lineup of investment products for individual DC pension schemes, and has also developed a privately-placed eco-fund aimed at pensions and a privately-placed eco-fund aimed at the institutional investor, in FY 2006.

**Included in Dow Jones Sustainability Index of Socially Responsible Investment, for Seven Consecutive Years (Sompo Japan Shares Recommended in SRI Index)**

Sompo Japan is the only Japanese insurance company

to be included in the Dow Jones Sustainability Index, a socially responsible stock index jointly developed by SAM Group Holding AG (Switzerland) and Dow Jones Inc. (US), for seven consecutive years. Sompo Japan is also included, and its shares recommended for investment, in the FTSE4Good, a sustainability index developed in the UK; the Ethibel Sustainability Index (ESI), developed in Belgium; and the Japanese Morningstar SRI Index.



**Toward Resolving Environmental Issues**

Under "Sompo Japan Environmental Principles," positive efforts are being made toward environmental sustainability from three perspectives: (1) provision of financial products, insurance products and services; (2) minimize own ecological footprint; and (3) corporate citizenship in partnership with NGOs.

**Provision of Financial Products, Insurance Products and Services**

Sompo Japan is working proactively to develop and provide financial products, insurance products and services that make a contribution to the environment.

**Environmental Risk Insurance and Weather Derivative for Climate Change**

Sompo Japan provides a range of insurance products covering environmental and climatic risks, such as medical waste emissions liability insurance, industrial waste emissions liability insurance, soil pollution insurance, and the weather derivative for wind power producer, and solar power user.

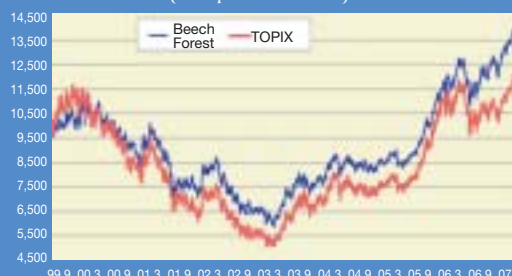
**Ecological Footprint**

Sompo Japan's Head Office and the Data Processing Center have both acquired ISO 14001 certification in environmental management. In FY 2002, the Data Processing Center became the first domestic financial institution to achieve zero emissions by reducing its output of solid waste destined for landfill sites to zero. Moreover, Sompo Japan's own environmental management system, the E-Koto Project, has been introduced into regional office and branch buildings across the country, with specific reduction targets set for electricity, gas, water and paper, and activities have been developed to conserve resources and energy.



Brochure for eco-fund

Performance of the eco-fund "Beech Forest" (Compared to TOPIX)



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

## Corporate Citizenship Activities

The "Sompo Japan Corporate Citizenship Principles" was formulated in October 2002. The policy made it clear that Sompo Japan was committed to carrying out ongoing social contribution activities to bring value to sustainable society and its wide range of stakeholders. We have been strengthening our collaboration with CSOs (Civil Society Organizations, also known as NGOs) in practicing these activities.

Sompo Japan is making proactive efforts centered on the activities of foundations in three key areas: arts and culture, welfare and the environment.

### Efforts in the Area of Art and Culture

#### The Seiji Togo Memorial Sompo Japan Museum of Art and the Sompo Japan Fine Art Foundation

To mark the completion of the Head Office in 1976, The Sompo Japan Fine Art Foundation was established and the Seiji Togo Memorial Sompo Japan Museum of Art opened its doors on the building's 42nd floor. The museum aims to provide a space for as many people as possible to appreciate art, and houses many works by Seiji Togo as well as works from Japan and overseas collected during his lifetime. The museum has built up an extensive collection currently on display, including works by Grandma Moses and Van Gogh's "Sunflowers," along with works by artists from the later impressionist school such as Gauguin, Cezanne and Renoir. Exhibitions held during FY 2006 included "Masters of Contemporary Botanical Art: The Botanical Art Renaissance," "Joy Pop! Pop Art from the 1960s to the 2000s," and "400 Years of European Painting: Masterpieces from Vienna Art Academy," attracting some 150,000 visitors. Altogether, more than 3.95 million people have enjoyed the collection since its opening.

### 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 of ¥1.88 billion was awarded to welfare groups and organizations for people with disabilities from year 1977 to 2006.

### Public Seminars on the Environment

Sompo Japan has joined with a NGO and the Sompo Japan Environment Foundation to host a series of open public seminars on the environment. Entering its 14th year in FY2006, this seminar has been attended by approximately 11,800 people, such as company representatives, government officials, NGOs and students, providing extensive knowledge on the issue.

### Enhancing Stakeholder Engagement

In order to further Sompo Japan's CSR, two-way communication with a wide range of stakeholders is indispensable for the promotion of CSR. Sompo Japan is working to create and enhance opportunities for communication and engagement with diverse stakeholders.

### Publication of the CSR Communication Report and CSR Dialog

The CSR Communication Report, which presents a general overview of Sompo Japan's CSR initiatives, is published every year since 1998. The 2006 CSR Communication Report presented the company's CSR activities in general to domestic and international stakeholders across a broad spectrum, thus enhancing company-stakeholder communication. The report is available both in Japanese and English, in addition the report is available in Braille. As for communication with external stakeholders, we continued dialog on CSR issues through the web-based Sompo Japan Communication site.

### In Collaboration with Global Networks Relating to CSR

We became a signatory to the UNEP Statement of Environmental Commitment by the Insurance Industry (UNEPFI) in 1995, and later we became a signatory of UN Global Compact. We also have been a member of the World Business Council for Sustainable Development (WBCSD) since its establishment. In 2005, we announced our participation in the Carbon Disclosure Project (CDP), an international effort by global institutional investors aiming to promote corporate effort to counter climate change. In 2006, we became the first Japanese insurance company to sign the UNEP Principle for Responsible Investment.



World Business Council for Sustainable Development



A vehicle donated to a welfare organization by the Sompo Japan Foundation



Van Gogh's "Sunflowers", displayed at the Seiji Togo Memorial Sompo Japan Museum of Art



Public seminars on the environment



CSR Communication Report 2006

ENHANCING OUR ABILITY TO MEET CUSTOMER NEEDS

**Cooperative Agreement Concluded with the Development Bank of Japan to Support Corporate Disaster Prevention Initiatives**

Sompo Japan has concluded a cooperative agreement with the Development Bank of Japan aimed at supporting corporate disaster prevention initiatives centering on business continuity planning (BCP). Under this agreement, Sompo Japan has introduced insurance premium discounts plan for comprehensive corporate insurance policy covering additional expenses and loss of profits during a disaster—so-called business interruption insurance.

Under this discount plan a disaster prevention rating will be obtained using the Development Bank of Japan's finance for developing disaster management, and companies with favorable risk conditions—mitigated according to the judgment of Sompo Japan—will be eligible for discounts of business interruption insurance. Companies eligible for Interest Plan I will have a maximum discount of 5% while those eligible for Interest Plan II will have a maximum of 10%. Also, Sompo Japan Risk Management Inc. will offer fee-based Business Continuity Management (BCM) consulting to interested companies.

**Establishment of Sompo Japan Healthcare Services Inc.**

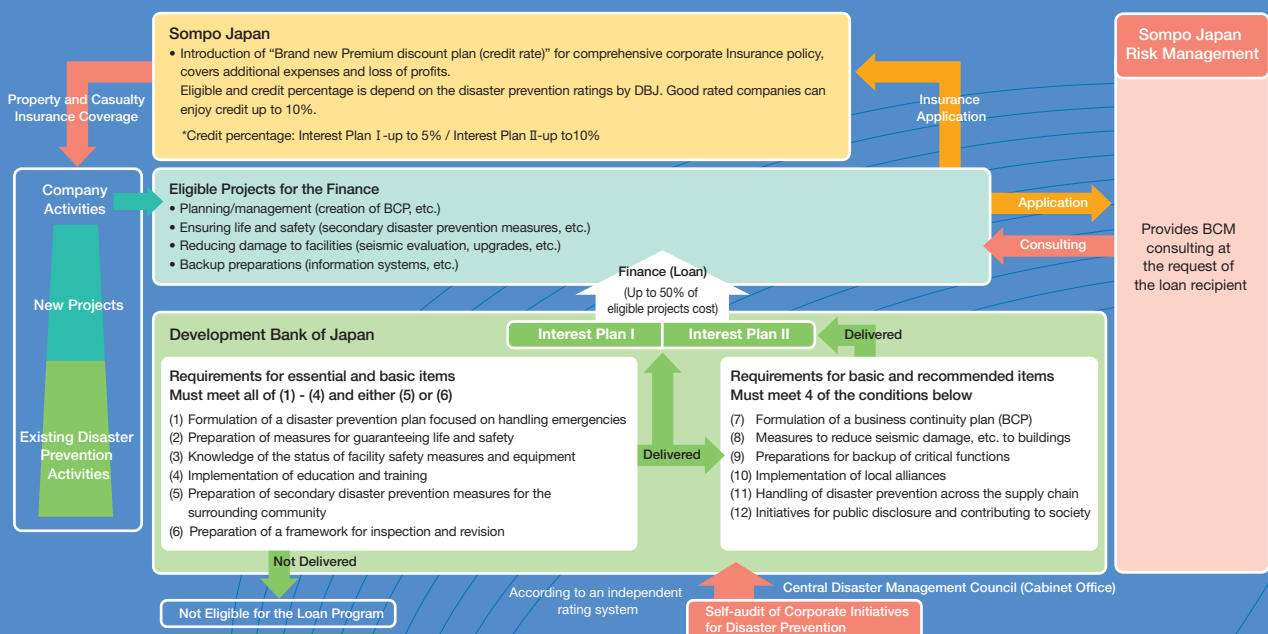
In April 2007, Sompo Japan established and contributed 100% of the capital for Sompo Japan Healthcare Services Inc., with the objective of providing comprehensive mental healthcare support services for corporate employees. Employee mental health is currently a critical issue for Japanese companies.

Sompo Japan Healthcare Services is developing unprecedented and innovative services, as well as a nationwide service delivery system, by advancing alliances with businesses and individual experts who have expertise and/or experience in the field of mental health.

Because of its growth potential and the rising healthcare needs of Japanese society, the healthcare field has been positioned as Sompo Japan's fourth strategic business sector. The company's first step in this field was the establishment of Healthcare Frontier Japan Inc. in October 2005. Since its foundation, this company has been providing support services for the prevention of lifestyle-related diseases. Demand for such services is expected to expand as a result of medical



**Improvement of Disaster Prevention and Streamlined Non-life Insurance for a Loan Program Based on Disaster Prevention Ratings**



\* Examinations and decisions for the discount program of Sompo Japan and the loan program of the Development Bank of Japan are performed independently by the respective organizations.



reforms planned for 2008.

Through the creation of Sampo Japan Healthcare Services Inc., Sampo Japan aligns health promotion and disease prevention services for both physical and mental ailments.

### Enhancing Training and Consulting for Insurance Agents

#### Establishment of Sampo Japan Human Resource Development Inc.

In April 2007, Sampo Japan established Sampo Japan Human Resource Development Inc. to provide high-quality training, education and consulting grounded in the insurance agent's perspective. With the present movement for fundamental reform of the means of selling insurance, it is crucial to improve the operations of insurance agents and enhance their sales methods so that they can better provide insurance services that meet customers' needs.

With these factors fueling the demand for high-quality training of insurance agents, the various training activities hitherto conducted by each division of Sampo Japan, are now being consolidated into the new company. The new entity aims to provide efficient, high-quality training by sharing its training know-how.

### Sampo Japan Opens Two New Call Centers to Enhance Customer Service

Sampo Japan has set up two new regional call centers using highly qualified staff from the local areas. These call centers not only enable Sampo Japan to strengthen its insurance services and guarantee a high-quality response to customer inquiries, they also increase cost efficiency by making use of the lower personnel and operating costs found outside of Tokyo. Also, by erecting call centers in multiple locations, Sampo Japan is well prepared to keep its business running in the event of local disasters.

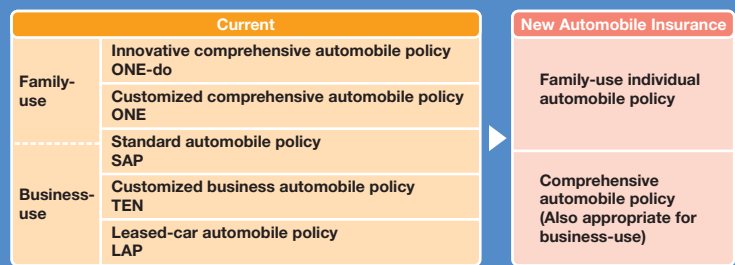
The Saga Dondondon call center, Sampo Japan's first regional call center, opened in May 2006 in the city of Saga in Saga Prefecture. This was followed by the opening of the Sapporo call center in April 2007 in Hokkaido. In addition to handling customer inquiries, the Sapporo call center also responds to inquiries from insurance agents, thereby helping them meet customer needs quickly and accurately.

The designs of the conference room and lounge in the Sapporo call center take environ-

mental considerations into account and have also enabled a contribution to the local economy by using desks, tables and other wood products made from *karamatsu* (Japanese larch), cut by forest-thinning methods.

### Major Revision of Automobile Insurance—Primary Products Reduced from Five to Two, Number of Riders Halved

From February 2008, the five major existing automobile insurance products will be aligned and consolidated into two. Furthermore, in a move to simplify the complex product structure of automobile insurance, special clauses will be rationalized and consolidated, with the aim of halving the number of such clauses. With these new products, Sampo Japan aims to provide products that customers find easy to understand and use.



### New Internet Service for Writing of Compulsory Automobile Liability Insurance—Enhancing Convenience and Stopping the Spread of Uninsured Mopeds and Scooters

On October 31, 2006, Sampo Japan started the i-JIBAI Internet service for writing policies covering mopeds and scooters, which are outside of the vehicle inspection system, through direct sales of compulsory automobile liability insurance.

By enabling online application and credit card payments, i-JIBAI will give customers an easy and cashless way to join the insurance plan from their home PC, 24 hours a day and 365 days a year. In addition, by promoting the compulsory automobile liability insurance program, i-JIBAI can play a role in reducing the number of uninsured mopeds and

scooters and providing for relief of traffic accident victims.



### **Simplifying and Integrating Procedures for Miscellaneous Casualty Insurance**

With the aim of providing products that customers find easy to understand and easy to use, Sampo Japan has simplified and integrated such procedures as paying and returning insurance premiums. From August 2007, the new integrated procedures apply to approximately 40 Miscellaneous Casualty Insurance Products, such as General Liability, Workers Compensation and Machinery & Erection, which together cover around 700,000 active policies. The new systems have the following three features:

- (1) As the numbers of policies in which premiums can be handled by automatic bank withdrawals are to be increased, cashless policy procedures will be promoted.
- (2) More policies with insurance premiums exceeding ¥300,000 can be converted into installment plans free of surcharge. In addition, the installment plan surcharge is reduced from 10% to 5% for policies under ¥300,000 for customers paying installments by bank transfer.
- (3) Premium return for mid-term modification or cancellation of an insurance contract are to be calculated using the monthly prorating method instead of the short-term rating method.

### **EU Product Recall Information Available in Japan for the First Time**

The European Commission has given Sampo Japan Risk Management Inc. (SJRMI) the right to use a Japanese language version of the "Rapid Alert System for non-food consumer products (RAPEX)," a rapid alert system used by European Union (EU) member states to exchange information when a product is deemed a serious health and safety risk to consumers within the EU. SJRMI is the first Japanese company to acquire this right.

In June 2007, this information was translated and released in Japan for the first time ever as the European Product Recall Bulletin. With this move, product recall information is now available for Japan, the U.S., and Europe through the Japan Product Recall Bulletin, the U.S. Product Recall Bulletin and the European Product Recall Bulletin. All three are now being supplied through the SJRMI PL Club, a membership system through which companies can receive information about product liabilities.

### **Sampo's Overseas Business**

"Contribution to group profits through overseas businesses" is one of the five core concepts in our Regeneration Plan, the new medium-term business plan of Sampo Japan.

#### **Earning Profits in All Major Overseas Affiliates**

In the financial results for FY 2006, all major overseas direct insurance affiliates generated profits. These companies include consolidated subsidiaries such as Sampo Japan Insurance Company of America, Sampo Japan Insurance Company of Europe Limited, Yasuda Seguros S.A. (Brazil), Sampo Japan Insurance Co. (Asia) Pte Ltd. and Sampo Japan Insurance (China) Co., Ltd.

#### **Acquisition of 30% Stake in a Malaysian Insurance Company**

In December of 2006, we concluded a contract in Kuala Lumpur, Malaysia, to acquire a 30% stake in the Malaysian non-life insurance company, Berjaya General Insurance Berhad. The agreement was reached with the non-life insurer's holding company, Berjaya Capital Berhad. In February 2007, we started a new corporate framework by changing the name of the company to Berjaya Sampo Insurance Berhad and dispatching Sampo Japan executives to the new company.

Through our participation in the management of Berjaya Sampo Insurance Berhad, we will now be providing even more advanced customer services in Malaysia, and strengthen our presence in the country.

#### **Contract Signed for Establishment of a Non-Life Insurance Company in India**

In November 2006, we signed a contract to establish a non-life insurance company in India with partners that include two state-run banks and one private bank, creating the first non-life insurance business to be accepted by a state-run bank in India. Aiming to start operations within 2007, we are currently preparing to run the company and have dispatched seven Japanese staff members to Mumbai.

#### **Regulatory Approval for Setting Up a Shanghai Branch of our Chinese Subsidiary**

In June 2007, Sampo Japan China received approval from the China Insurance Regulatory Commission to establish its Shanghai branch. The newly approved Shanghai branch will enhance Sampo Japan's sales capability in the East China region, and make us the first Japanese insurance company to have operating permission in both Dalian and Shanghai.

## Net Premiums Written by Category (Millions of yen)

Years ended March 31,	2007	2006	2005	2004	2003
Fire and Allied Insurance	¥ 148,865	¥ 152,077	¥ 150,367	¥ 157,448	¥ 153,957
Marine Insurance	31,050	28,362	25,199	24,849	22,904
Personal Accident Insurance	127,747	127,634	120,795	114,802	112,992
Voluntary Automobile Insurance	666,900	674,073	669,097	673,589	643,628
Compulsory Automobile Liability Insurance	232,716	237,918	244,156	241,858	196,708
Other Insurances	155,507	150,856	142,300	140,331	134,095
Total	¥1,362,785	¥1,370,920	¥1,351,915	¥1,352,877	¥1,264,284

## Highlights of the Year under Review

In May 2006, Sampo Japan received administrative orders from the Financial Services Agency (FSA) to suspend some operations and to improve business operations. Reasons include improper nonpayment of incidental insurance benefits and inappropriate acts associated with the marketing of life insurance.

In response to the order, the Company submitted its business improvement plan to the FSA in June 2006. Subsequently, the Company revised its medium-term business plan, launched in fiscal 2006, and established the Sampo Japan Regeneration Plan (hereinafter, "Regeneration Plan") on the basis of the aforementioned business improvement plan and various opinions received from employees and other relevant parties. In line with the Regeneration Plan, all of us at Sampo Japan will unite to tackle our top priority tasks—to recover customer trust, to contribute to society, and to reinforce our customer-first policy—with the aim of moving into a new stage of sustainable growth.

In the domestic non-life insurance business, we concentrated our efforts on strengthening our business foundation. This resulted in a drop in mainstay automobile and fire insurance revenues. However, revenues from personal accident insurance, marine insurance and general liability insurance increased year to year. In the period ahead, we will implement our growth strategies to enlarge the scale of business and enhance our earning power, aiming to attain sustainable growth.

In the insurance underwriting business, underwriting profit diminished due to the impact of typhoons and other natural disasters. As for asset management, interest and dividend income increased against the backdrop of strong corporate profits.

## Overview of the Insurance Underwriting Business

Net premiums written in underwriting income fell by 0.6% from the previous year to ¥1,362,785 million, while net losses paid in underwriting expenses rose by 4.0% to ¥806,872 million. As a consequence, the loss ratio was up by 3.0 percentage points from the previous year to 64.3%. Operating costs and general administrative expenses associated with insurance underwriting increased by 4.8% to ¥198,858 million. The expense ratio rose by 0.6 percentage point, to 30.9%.

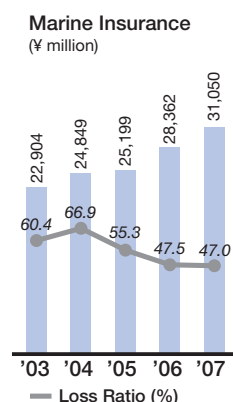
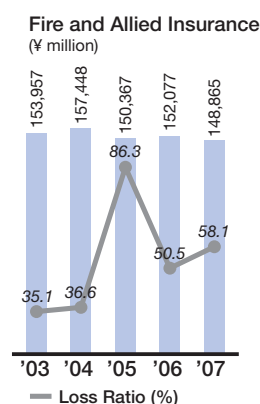
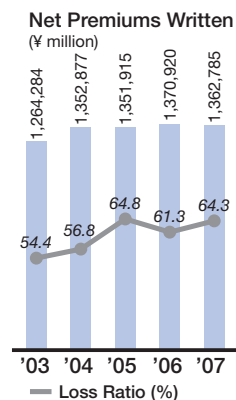
As a result, the net underwriting balance, obtained by deducting net losses paid, loss adjustment expenses, net commissions and brokerage fees, and operating, general and administrative expenses associated with insurance underwriting from net premiums written, dropped by ¥49,599 million from the previous year to ¥65,291 million. After adjustment for such items as deposits of premiums by policyholders, maturity refunds and dividends to policyholders, provision for reserve for outstanding losses and claims, and reversal of underwriting reserves, net underwriting profit amounted to ¥10,128 million.

## Fire and Allied Insurance

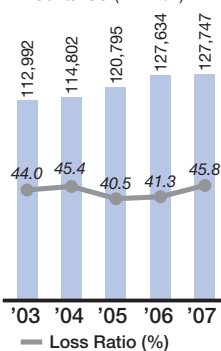
Affected by a fall in long-term contracts related to housing loans and other negative factors, net premiums written dropped by 2.1% from the previous year to ¥148,865 million. The loss ratio rose by 7.6 percentage points to 58.1%.

## Marine Insurance

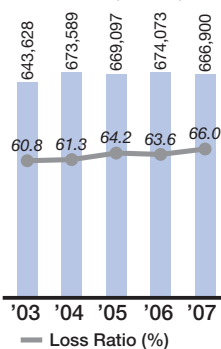
Brisk cargo movement associated with import-export trade and solid sales of hull insurance pushed net premiums written up by 9.5% from the previous year to ¥31,050 million. The loss ratio was down by 0.5 percentage point to 47.0%.



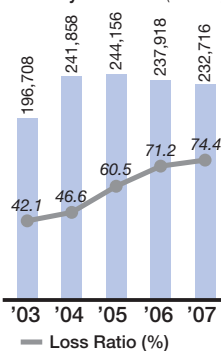
### Personal Accident Insurance (¥ million)



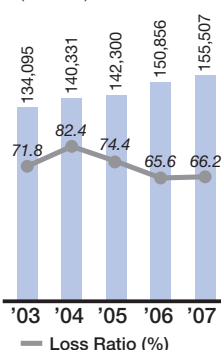
### Voluntary Automobile Insurance (¥ million)



### Compulsory Automobile Liability Insurance (¥ million)



### Other Insurances (¥ million)



### Personal Accident Insurance

Lifted by factors including strong sales of group medical insurance and other third-sector insurance products, net premiums written increased by 0.1% from the previous year to ¥127,747 million. The loss ratio rose by 4.5 percentage points to 45.8%.

### Voluntary Automobile Insurance

A drop in both unit prices and the number of policies in the non-fleet contracts sector caused net premiums written to diminish by 1.1% from the previous year to ¥666,900 million. The loss ratio increased by 2.4 percentage points to 66.0%.

### Compulsory Automobile Liability Insurance

The revision to the standard premium rate and other factors pushed net premiums written down by 2.2% from the previous year to ¥232,716 million. The loss ratio rose by 3.2 percentage points to 74.4% due to the impact of the abolishment of the government re-insurance scheme, among other factors.

### Other Insurances

Solid sales of general liability insurance and other products led net premiums written to increase 3.1% from the previous year to ¥155,507 million. The loss ratio was up by 0.6 percentage point to 66.2%.

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

Years ended March 31,	2007		2006		2005		2004	
	Net Losses Paid	Loss Ratio	Net Losses Paid	Loss Ratio	Net Losses Paid	Loss Ratio	Net Losses Paid	Loss Ratio
Fire and Allied Insurance	¥84,100	58.1%	¥74,049	50.5%	¥126,893	86.3%	¥ 55,605	36.6%
Marine Insurance	13,623	47.0%	12,416	47.5	12,987	55.2	15,387	66.9
Personal Accident Insurance	53,527	45.8%	48,052	41.3	44,534	40.5	46,790	45.4
Voluntary Automobile Insurance	397,805	66.0%	393,717	63.6	395,819	64.2	375,609	61.3
Compulsory Automobile Liability Insurance	160,849	74.4%	155,311	71.2	133,212	60.5	97,863	46.6
Other Insurances	96,968	66.2%	92,497	65.6	99,652	74.4	108,654	82.4
Total	¥806,872	64.3%	¥776,042	61.3%	¥813,097	64.8%	¥699,908	56.8%

## Overview of Asset management

Total assets at the end of the fiscal year under review rose by ¥95,028 million from the previous year to ¥6,029,789 million. Investment assets, such as securities and loans, grew by ¥126,724 million to ¥5,650,071 million.

Unrealized gains (paper gains) on securities and money trusts increased by ¥62,201 million from a year earlier to ¥1,550,214 million. Unrealized gains on securities available for sale (in the net assets section) after deducting the corresponding value of corporate income taxes rose by ¥38,640 million to ¥999,269 million.

With regard to asset management, we continued our efforts to strengthen and improve our risk management system and to attain greater investment efficiency, while paying sufficient attention to safety and liquidity.

During the fiscal year under review, interest and dividend income rose by ¥18,585 million from the previous year to ¥113,625 million, as improving corporate profits and efforts to enhance investment efficiency resulted in a rise in dividends on the equity portfolio. Investment income after adjustment for such items as realized gain on sales of securities and transfer of interest and dividend income on deposits of premiums, etc. increased by ¥7,820 million from the prior year to ¥106,436 million.

Investment expenses, such as devaluation loss on securities and realized loss on sales of securities, rose by ¥7,995 million from the previous year to ¥15,135 million.

### Assets by Category (millions of yen)

Years ended March 31,	2007	2006	2005	2004	2003
Cash	¥ 118,582	¥ 186,255	¥ 162,897	¥ 200,796	¥ 206,726
Short-Term Investments	158,938	120,185	47,568	171,178	181,357
Investments in Securities	4,673,746	4,546,230	3,866,653	3,491,036	2,875,170
Loans	483,417	448,525	463,126	521,734	618,491
Accrued Investment Income	12,454	12,580	13,184	11,671	9,778
Tangible Fixed Assets, at Cost	447,266	450,785	466,467	513,494	557,934
Less Accumulated Depreciation	(225,650)	(222,503)	(228,556)	(238,769)	(242,515)
Intangible Fixed Assets	762	—	—	—	—
Premiums Receivable and Agents' Balances	113,677	110,919	101,782	86,133	75,407
Reinsurance Balances Recoverable	109,868	116,602	120,175	117,426	126,125
Other Business Balances Receivable	8,962	9,620	11,889	9,596	7,675
Other Assets	149,445	175,590	155,199	152,357	177,459
Deferred Tax Assets	—	—	—	64,144	221,124
Reserve for Possible Loan Losses	(15,915)	(20,023)	(23,154)	(28,352)	(28,695)
Reserve for Possible Losses on Investment Securities	(5,763)	(4)	(150)	(159)	(171)
Total	¥6,029,789	¥5,934,761	¥5,157,080	¥5,072,285	¥4,785,865

### Solvency Margin Ratio (%)

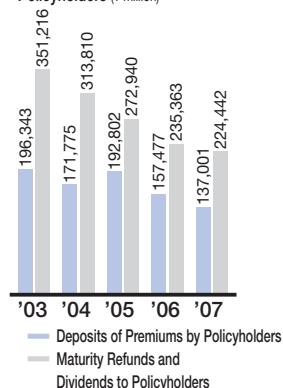
Years ended March 31,	2007	2006	2005	2004
Solvency Margin (a) (Millions of yen)	¥2,475,904	¥2,378,680	¥1,719,839	¥1,630,598
Risk Total (b) (Millions of yen)	490,115	420,688	321,187	314,691
Solvency Margin Ratio (c=a/(b/2))	1,010.3%	1,130.9%	1,070.9%	1,036.3%

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

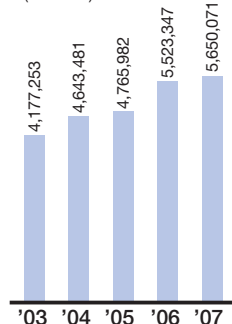
### Ordinary Profit and Net income

Ordinary income in fiscal 2006 came to ¥1,687,096 million, a ¥9,570 million drop from the previous year, while ordinary expenses increased by ¥12,951 million to ¥1,595,328 million. Although provision for reserve for outstanding losses and provision for underwriting reserves both decreased, a rise in net losses paid caused ordinary profit to drop by ¥22,521 million to ¥91,768 million. All told, net income stood at ¥48,159 million, a fall of ¥19,699 million year on year.

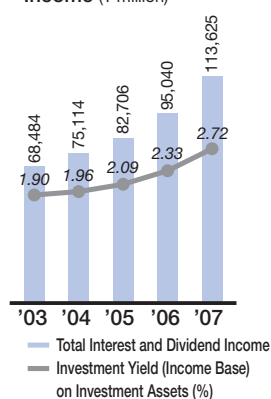
Deposits of Premiums by Policyholders and Maturity Refunds and Dividends to Policyholders (¥ million)



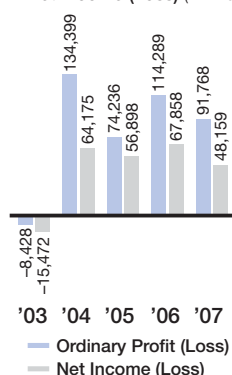
Investment Assets (¥ million)



Total Interest and Dividend Income (¥ million)



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



## Profit and Loss

In the non-life insurance industry, marine insurance and general liability insurance in the corporate business insurance sector showed strong performance during the fiscal year under review, reflecting the recovery of the Japanese economy. Meanwhile, with problems surfacing in the industry, including nonpayment of automobile insurance and third-sector insurance benefits, insurance companies' most urgent task was to improve their business operations.

In May 2006, Sampo Japan received administrative orders from the Financial Services Agency (FSA) to suspend some operations and to improve business operations. Reasons included improper nonpayment of incidental insurance benefits and inappropriate acts associated with the marketing of life insurance. In response to the order, the Company submitted its business improvement plan to the FSA in June 2006.

During the fiscal year under review, interest and dividend income increased in terms of asset management, while net premiums written and life insurance premiums dropped in the insurance underwriting business. As a result, consolidated ordinary income fell by ¥29,874 million from the previous year to ¥1,901,600 million.

Despite an increase in net losses paid due to natural disasters, consolidated ordinary expenses fell by ¥25,542 million year on year to ¥1,791,059 million. A key factor behind this drop was that provisions for underwriting reserves fell significantly.

Consolidated ordinary profit, calculated by deducting ordinary expenses from ordinary income, came to ¥110,541 million, a drop of ¥4,332 million from the previous year. By type of business, the non-life insurance business reported ordinary profit of ¥101,775 million, while the life insurance business generated ¥8,766 million, attaining profitability on a consolidated basis for the first time.

Net income fell by ¥5,433 million from the previous year to ¥61,944 million. The group-to-parent-net income ratio came to 1.29, exceeding 1 for the first time, reflecting such factors as the profitability of the life insurance business.

## Segment Review

In the non-life insurance business, our efforts were focused on establishing an appropriate internal system and rebuilding the business base. This led to a decline in revenues from mainstay automobile and fire insurance, pushing net premiums written down by ¥8,121 million from the previous year to ¥1,386,663 million. Ordinary income (net premiums written plus investment income and other items) fell by ¥29,811 million to ¥1,699,597 million.

Ordinary expenses dropped by ¥14,576 million from the previous year to ¥1,597,822 million, although losses paid for damage from typhoons and other natural disasters increased, the provision for underwriting reserves reported the previous year was reversed, and provision for reserve for outstanding losses diminished.

In the life insurance business, life insurance premiums written diminished by ¥3,512 million from the previous year to ¥192,997 million for reasons including sluggish sales of new insurance policies at Sampo Japan Himawari Life Insurance Co., Ltd. As a consequence, ordinary income fell by ¥2,280 million to ¥207,149 million.

Ordinary expenses fell by ¥13,183 million from the prior year to ¥198,383 million. The reason for this decline was that the provision for underwriting reserves diminished as the standard underwriting reserve at Sampo Japan Himawari Life Insurance Co., Ltd was smaller than the previous year.

## Financial Position

Net cash provided by operating activities diminished by ¥70,393 million from the previous year to ¥180,656 million. This drop resulted primarily from a sharp increase in net losses paid due to natural disasters.

Net cash used in investing activities was ¥213,647 million, a rise of ¥60,501 million. Factors behind this included a drop in the amount of investment securities sold and an increase in loans made.

Net cash used in financing activities rose by ¥3,751 million to ¥12,904 million due to an increase in dividends paid.

As a result of the above, cash and cash equivalents at the end of the fiscal year under review was ¥282,109 million, a drop of ¥44,045 million compared with the end of the previous fiscal year.

# CONSOLIDATED FINANCIAL STATEMENTS

## 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, 2007 and 2006, and the related consolidated statements of income, changes in net assets, 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, 2007 and 2006, 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 related accrual 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, 2007 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 27, 2007

# CONSOLIDATED BALANCE SHEETS

Sompo Japan Insurance Inc. March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
<b>ASSETS</b>			
Cash (Note 10)	¥ 169,665	¥ 221,816	\$ 1,436,743
Short-term investments (Notes 3 and 10)	174,785	130,285	1,480,100
Investments in securities (Notes 4 and 10)	5,486,282	5,262,320	46,458,481
Loans (Note 5)	494,867	458,164	4,190,592
Accrued investment income	16,912	16,432	143,213
Tangible fixed assets, at cost (Note 6)	451,485	454,547	3,823,228
Less accumulated depreciation	(227,606)	(224,138)	(1,927,394)
	223,879	230,409	1,895,834
Intangible fixed assets	28,340	—	239,986
Insurance business balances receivable:			
Premiums receivable and agents' balances	122,764	118,993	1,039,580
Reinsurance balances recoverable	114,984	119,637	973,698
Other	9,116	10,112	77,195
	246,864	248,742	2,090,473
Other assets	168,346	193,006	1,425,574
Deferred tax assets (Note 7)	9,051	5,833	76,645
Excess of cost of investments over net assets acquired	—	28,713	—
Reserve for possible loan losses	(16,807)	(20,903)	(142,324)
Reserve for possible losses on investment securities	(4)	(4)	(34)
<b>Total assets</b>	<b>¥7,002,180</b>	<b>¥6,774,813</b>	<b>\$59,295,283</b>



	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Underwriting funds:			
Reserve for outstanding losses and claims	¥ 698,476	¥ 695,167	\$ 5,914,777
Underwriting reserves	4,193,207	4,103,328	35,508,570
	4,891,683	4,798,495	41,423,347
Insurance business balances payable:			
Reinsurance balances payable	93,862	94,943	794,834
Other	5,631	6,039	47,684
	99,493	100,982	842,518
Accrued taxes	22,997	19,979	194,741
Accrued severance benefits (Note 8)	94,960	91,089	804,132
Reserve for decline in value of assets	30,700	24,058	259,971
Other liabilities	128,438	124,653	1,087,628
Deferred tax liabilities (Note 7)	279,165	253,504	2,364,003
Total liabilities	5,547,436	5,412,760	46,976,340
Net assets (Notes 9 and 16):			
Common stock:			
Authorized 2,000,000,000 shares, issued 987,733,424 shares in 2006 and 2007	70,000	70,000	592,768
Additional paid-in capital	24,230	24,230	205,182
Retained earnings	362,683	313,357	3,071,242
Treasury stock, 3,508,140 shares in 2006 and 3,266,091 shares in 2007, at cost	(2,833)	(2,857)	(23,990)
Total shareholders' equity	454,080	404,730	3,845,202
Unrealized gains on securities available for sale	998,702	959,486	8,457,126
Translation adjustments	1,092	(2,633)	9,247
Stock options (Note 15)	315	—	2,668
Minority interests	555	470	4,700
Total net assets	1,454,744	1,362,053	12,318,943
Total liabilities and net assets	¥7,002,180	¥6,774,813	\$59,295,283

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF INCOME

Sompo Japan Insurance Inc. For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
<b>Ordinary income</b>			
Underwriting income:			
Net premiums written	¥1,386,663	¥1,394,784	\$11,742,425
Deposits of premiums by policyholders	137,001	157,477	1,160,141
Interest and dividend income on deposits of premiums, etc. (Note 4)	45,826	45,685	388,060
Life insurance premiums written	192,997	196,509	1,634,321
Other underwriting income	2,983	7,619	25,260
	1,765,470	1,802,074	14,950,207
Investment income:			
Interest and dividend income (Note 4)	86,301	64,636	730,807
Realized gain on sales of securities	30,996	41,512	262,478
Other investment income	8,134	10,371	68,879
	125,431	116,519	1,062,164
Equity in profit of affiliates	—	302	—
Other ordinary income	10,699	12,579	90,600
<b>Total ordinary income</b>	<b>1,901,600</b>	<b>1,931,474</b>	<b>16,102,971</b>
<b>Ordinary expenses</b>			
Underwriting expenses:			
Net losses paid	820,083	791,268	6,944,559
Loss adjustment expenses	69,711	64,986	590,321
Net commissions and brokerage fees	245,160	253,749	2,076,044
Maturity refunds and dividends to policyholders	224,442	235,363	1,900,601
Life insurance claims paid, etc.	36,122	36,898	305,885
Provision for reserve for outstanding losses	37,663	46,828	318,935
Provision for underwriting reserves	82,970	128,214	702,600
Other underwriting expenses	587	2,552	4,971
	1,516,738	1,559,858	12,843,916
Investment expenses:			
Realized loss on sales of securities	1,983	618	16,792
Devaluation loss on securities	3,109	318	26,327
Other investment expenses	10,128	6,529	85,766
	15,220	7,465	128,885
Operating, general and administrative expenses	256,187	246,466	2,169,421
Equity in losses of affiliates	1,311	—	11,102
Other ordinary expenses	1,603	2,812	13,573
<b>Total ordinary expenses</b>	<b>1,791,059</b>	<b>1,816,601</b>	<b>15,166,897</b>
<b>Ordinary profit</b>	<b>110,541</b>	<b>114,873</b>	<b>936,074</b>
<b>Special gains and losses</b>			
Provision for reserve for decline in value of assets	(6,642)	(6,475)	(56,245)
Impairment loss (Note 11)	(791)	(233)	(6,698)
Other special gains, net	(8,655)	9,432	(73,292)
	(16,088)	2,724	(136,235)
<b>Income before income taxes and minority interests</b>	<b>94,453</b>	<b>117,597</b>	<b>799,839</b>
Income taxes (Note 7):			
Current	33,848	21,462	286,629
Deferred	(1,440)	28,692	(12,194)
	32,408	50,154	274,435
Minority interests	101	66	855
<b>Net income</b>	<b>¥ 61,944</b>	<b>¥ 67,377</b>	<b>\$ 524,549</b>
		Yen	U.S. dollars (Note 2)
Net income per share:			
Basic	¥62.93	¥68.46	\$0.533
Diluted	62.88	68.40	0.532
Cash dividends per share attributable to the year	16.00	13.00	0.135

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Sompo Japan Insurance Inc. For the years ended March 31, 2007 and 2006

	Thousands		Millions of yen						
	Thousands of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unrealized gains on securities available for sale	Translation adjustments	Stock options	Minority interests
<b>Balance at March 31, 2005</b>	987,733	¥70,000	¥24,230	¥254,744	¥(2,722)	¥563,709	¥(7,666)	¥ —	¥396
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	—	74
<b>Balance at March 31, 2006</b>	987,733	¥70,000	¥24,230	¥313,357	¥(2,857)	¥959,486	¥(2,633)	¥ —	¥470
Net income	—	—	—	61,944	—	—	—	—	—
Cash dividends	—	—	—	(12,795)	—	—	—	—	—
Other increase in retained earnings	—	—	—	198	—	—	—	—	—
Increase in treasury stock-net	—	—	—	(21)	24	—	—	—	—
Changes in other than shareholders' equity, net	—	—	—	—	—	39,216	3,725	315	85
Total changes	—	—	—	49,326	24	39,216	3,725	315	85
<b>Balance at March 31, 2007</b>	<b>987,733</b>	<b>¥70,000</b>	<b>¥24,230</b>	<b>¥362,683</b>	<b>¥(2,833)</b>	<b>¥998,702</b>	<b>¥ 1,092</b>	<b>¥315</b>	<b>¥555</b>

	Thousands of U.S. dollars (Note 2)								
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Unrealized gains on securities available for sale	Translation adjustments	Stock options	Minority interests	
<b>Balance at March 31, 2006</b>	\$592,768	\$205,182	\$2,653,544	\$(24,193)	\$8,125,040	\$(22,297)	\$ —	\$3,980	
Net income	—	—	524,549	—	—	—	—	—	
Cash dividends	—	—	(108,350)	—	—	—	—	—	
Other increase in retained earnings	—	—	1,677	—	—	—	—	—	
Increase in treasury stock-net	—	—	(178)	203	—	—	—	—	
Changes in other than shareholders' equity, net	—	—	—	—	332,086	31,544	2,668	720	
Total changes	—	—	417,698	203	332,086	31,544	2,668	720	
<b>Balance at March 31, 2007</b>	<b>\$592,768</b>	<b>\$205,182</b>	<b>\$3,071,242</b>	<b>\$(23,990)</b>	<b>\$8,457,126</b>	<b>\$ 9,247</b>	<b>\$2,668</b>	<b>\$4,700</b>	

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Sompo Japan Insurance Inc. For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
<b>Operating activities</b>			
Income before income taxes and minority interests	¥ 94,453	¥ 117,597	\$ 799,839
Depreciation	10,020	12,099	84,851
Impairment loss	791	233	6,698
Net amortization of excess of cost of investments over net assets acquired in subsidiaries	1,874	1,873	15,869
(Decrease) increase in reserve for outstanding losses and claims	(54)	46,413	(457)
Increase in underwriting reserves	89,221	126,210	755,534
Net reversal of reserve for possible loan losses	(4,105)	(3,390)	(34,762)
Reversal of reserve for possible losses on investment securities	—	(146)	—
Provision of accrued severance benefits	3,780	6,049	32,009
Provision for reserve for decline in value of assets	6,642	6,475	56,245
Increase in other reserves	692	93	5,860
Total interest and dividend income	(132,127)	(110,322)	(1,118,867)
Profit on securities	(25,788)	(40,569)	(218,376)
Interest expense	213	208	1,804
Loss on loans	1,567	401	13,270
Equity in losses (gain) of affiliates	1,311	(303)	11,102
Other, net	31,187	(23,865)	264,095
Subtotal	79,677	139,056	674,714
Interest and dividends received	132,183	118,310	1,119,341
Interest paid	(213)	(208)	(1,804)
Income taxes paid	(30,991)	(6,109)	(262,435)
Net cash provided by operating activities	180,656	251,049	1,529,816
<b>Investing activities</b>			
Net (increase) decrease in short-term investments	(23,312)	1,890	(197,409)
Purchases of investment securities	(686,505)	(731,550)	(5,813,405)
Proceeds from sales or maturity of investment securities	545,924	597,630	4,622,949
Loans made	(200,543)	(154,533)	(1,698,222)
Collection of loans	162,133	167,640	1,372,961
Purchases of tangible fixed assets	(7,158)	(5,908)	(60,615)
Proceeds from sales of tangible fixed assets	5,016	4,230	42,476
Other, net	(9,202)	(32,545)	(77,923)
Net cash used in investing activities	(213,647)	(153,146)	(1,809,188)
<b>Financing activities</b>			
Purchases of treasury stock	(394)	(466)	(3,336)
Proceeds from sales of treasury stock	397	—	3,362
Dividends paid	(12,787)	(8,857)	(108,282)
Dividends paid to minority shareholders	(1)	(3)	(8)
Other, net	(119)	173	(1,009)
Net cash used in financing activities	(12,904)	(9,153)	(109,273)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	1,850	2,959	15,667
<b>Net (decrease) increase in cash and cash equivalents</b>	(44,045)	91,709	(372,978)
<b>Cash and cash equivalents at beginning of year</b>	326,154	234,445	2,761,910
<b>Cash and cash equivalents at end of year (Note 10)</b>	¥ 282,109	¥ 326,154	\$ 2,388,932

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

## 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 net assets. 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 tangible fixed assets 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 tangible fixed assets 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.

The scope of insurance contracts for which the Company provides IBNR reserves includes all lines of business of the Company except for compulsory automobile liability insurance and earthquake insurance, for which a premium reserve is calculated pursuant to the provisions of the Insurance Business Law and the related rules and regulations as stated in Note 1.(9). Furthermore, the Company is required to perform an analysis to categorize each line of business into long-tail lines of business or short-tail lines of business based on the loss development patterns, and if a line of business is determined as long-tail and material as a result of the Company's analysis, IBNR reserves for the line of business have been calculated based on the actuarial and statistical methods using the incurred and paid claims data by accident year. The IBNR reserves for the short-tail lines of business or the lines of business deemed immaterial have been calculated by a formula which approximates the estimated IBNR reserves based on the actual claims experience in a certain period of time in the past in accordance with the Insurance Business Law.

#### **(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, 2007 and 2006 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, 2007 and 2006, 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 related accrual as part of accrued severance benefits.

This change was made because an accrual accounting for officers' retirement benefits became more common practice and the internal regulations concerning the benefits were revised in the year ended March 31, 2006. The changes were 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 and to decrease income before income tax by ¥1,142 million 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 who 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 income 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.

### **(19) Accounting Standard for Share-based Payment**

Effective April 1, 2006, the Company and its consolidated subsidiaries adopted the "Accounting Standard for Share-based Payment" (Accounting Standards Board of Japan Statement No. 8 issued on December 27, 2005) and the "Implementation Guidance on Accounting Standard for Share-based Payment" (Accounting Standards Board of Japan Implementation Guidance No. 11 issued on May 31, 2006). The effect of this change was to decrease income before income tax and minority interests by ¥315 million (\$2,668 thousand) for the year ended March 31, 2007.

## (20) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective April 1, 2006, the Company and its consolidated subsidiaries adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5 issued on December 9, 2005) and the "Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Implementation Guidance No. 8 issued on December 9, 2005). In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007. Total shareholders' equity calculated under the previous presentation method amounted to ¥1,453,874 million (\$12,311,575 thousand) as of March 31, 2007.

## 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 ¥118.09 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2007. 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, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Time deposits	¥ 26,356	¥ 20,007	\$ 223,186
CP under resale agreements	28,966	19,999	245,287
Money trusts	47,964	33,279	406,165
Call loans	69,000	55,000	584,300
Commercial paper	2,499	2,000	21,162
	<b>¥174,785</b>	<b>¥130,285</b>	<b>\$1,480,100</b>

The cost and related aggregate market values of money trusts as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cost	¥42,902	¥28,799	\$363,299
Market value	47,964	33,279	406,165
Net unrealized gain	¥ 5,062	¥ 4,480	\$ 42,866

The Company and its 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 as of March 31, 2007 and 2006 were ¥24 million (\$203 thousand) and ¥26 million, respectively.

## 4. Investments in Securities

The components of investments in securities as of March 31, 2007 and 2006 and their fair value and other related information by holding intention are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Domestic securities:			
Bonds	¥2,089,612	¥1,838,270	\$17,695,080
Stocks	2,017,946	2,049,616	17,088,204
Foreign securities	1,263,527	1,267,890	10,699,695
Other securities	115,197	106,544	975,502
	<b>¥5,486,282</b>	<b>¥5,262,320</b>	<b>\$46,458,481</b>

a) Trading securities included in investments in securities as of March 31, 2007 and 2006 were ¥14,846 million (\$125,718 thousand) and ¥13,419 million, respectively.



b) Information regarding marketable securities classified as held-to-maturity bonds as of March 31, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2007			2007		
	Carrying value	Market value	Unrealized gain (loss)	Carrying value	Market value	Unrealized gain (loss)
Securities whose market value exceeds their carrying value:						
Domestic bonds	¥295,052	¥298,373	¥ 3,321	\$2,498,535	\$2,526,658	\$28,123
Foreign bonds	106,636	108,524	1,888	903,006	918,994	15,988
Subtotal	401,688	406,897	5,209	3,401,541	3,445,652	44,111
Securities whose carrying value exceeds their market value:						
Domestic bonds	242,100	238,159	(3,941)	2,050,131	2,016,758	(33,373)
Foreign bonds	12,123	12,070	(53)	102,659	102,210	(449)
Subtotal	254,223	250,229	(3,994)	2,152,790	2,118,968	(33,822)
Total	¥655,911	¥657,126	¥ 1,215	\$5,554,331	\$5,564,620	\$10,289

	Millions of yen		
	2006		
	Carrying value	Market value	Unrealized gain (loss)
Securities whose market value exceeds their carrying value:			
Domestic bonds	¥183,398	¥185,330	¥ 1,932
Foreign bonds	92,227	93,542	1,315
Subtotal	275,625	278,872	3,247
Securities whose carrying value exceeds their market value:			
Domestic bonds	300,168	292,529	(7,639)
Foreign bonds	41,043	40,524	(519)
Subtotal	341,211	333,053	(8,158)
Total	¥616,836	¥611,925	¥(4,911)

c) Underwriting-reserve-matching-bonds

	Millions of yen			Thousands of U.S. dollars		
	2007			2007		
	Carrying value	Market value	Unrealized gain (loss)	Carrying value	Market value	Unrealized gain (loss)
Securities whose market value exceeds their carrying value:						
Domestic bonds	¥ 72,210	¥ 73,255	¥1,045	\$ 611,483	\$ 620,332	\$ 8,849
Securities whose carrying value exceeds their market value:						
Domestic bonds	83,736	82,972	(764)	709,086	702,617	(6,469)
	¥155,946	¥156,227	¥ 281	\$1,320,569	\$1,322,949	\$ 2,380

	Millions of yen		
	2006		
	Carrying value	Market value	Unrealized gain (loss)
Securities whose market value exceeds their carrying value:			
Domestic bonds	¥ 6,873	¥ 6,918	¥ 45
Securities whose carrying value exceeds their market value:			
Domestic bonds	73,082	71,981	(1,101)
	¥79,955	¥78,899	¥(1,056)

d) Information regarding marketable securities available for sale as of March 31, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2007			2007		
	Cost	Market value	Unrealized gain (loss)	Cost	Market value	Unrealized gain (loss)
Securities whose market value exceeds their cost:						
Domestic securities:						
Bonds	¥ 542,376	¥ 555,335	¥ 12,959	\$ 4,592,904	\$ 4,702,642	\$ 109,738
Stocks	542,757	1,891,212	1,348,455	4,596,130	16,015,006	11,418,876
Foreign securities	735,099	907,051	171,952	6,224,905	7,681,014	1,456,109
Other securities	62,575	86,626	24,051	529,892	733,559	203,667
Subtotal	1,882,807	3,440,224	1,557,417	15,943,831	29,132,221	13,188,390
Securities whose cost exceeds their market value:						
Domestic securities:						
Bonds	843,464	834,990	(8,474)	7,142,552	7,070,793	(71,759)
Stocks	75,456	71,435	(4,021)	638,970	604,920	(34,050)
Foreign securities	136,886	135,654	(1,232)	1,159,167	1,148,734	(10,433)
Other securities	26,883	26,574	(309)	227,649	225,032	(2,617)
Subtotal	1,082,689	1,068,653	(14,036)	9,168,338	9,049,479	(118,859)
Total	¥2,965,496	¥4,508,877	¥1,543,381	\$25,112,169	\$38,181,700	\$13,069,531

	Millions of yen		
	2006		
	Cost	Market value	Unrealized gain (loss)
Securities whose market value exceeds their cost:			
Domestic securities:			
Bonds	¥ 347,813	¥ 360,257	¥ 12,444
Stocks	615,144	1,971,086	1,355,942
Foreign securities	745,386	863,987	118,601
Other securities	64,256	82,090	17,834
Subtotal	1,772,599	3,277,420	1,504,821
Securities whose cost exceeds their market value:			
Domestic securities:			
Bonds	925,640	908,325	(17,315)
Stocks	6,309	5,059	(1,250)
Foreign securities	198,237	195,017	(3,220)
Other securities	35,570	35,004	(566)
Subtotal	1,165,756	1,143,405	(22,351)
Total	¥2,938,355	¥4,420,825	¥1,482,470

The Company and its 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 losses on marketable securities available for sale for the years ended March 31, 2007 and 2006 were ¥2,715 million (\$22,991 thousand) and ¥120 million, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Proceeds from sales	¥259,515	¥265,358	\$2,197,604
Gain on sales	30,123	41,512	255,085
Loss on sales	1,982	618	16,784

f) The redemption schedules as of March 31, 2007 and 2006 for securities available for sale and held-to-maturity bonds with maturity date were as follows:

	Millions of yen			
	2007			
	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	¥ 38,800	¥ 446,174	¥200,424	¥441,080
Municipal bonds	33,335	82,855	80,330	2,407
Corporate bonds	91,254	262,506	280,597	124,971
Foreign bonds	89,414	285,314	191,004	128,224
Other securities	4,665	10,739	9,701	4,099
<b>Total</b>	<b>¥257,468</b>	<b>¥1,087,588</b>	<b>¥762,056</b>	<b>¥700,781</b>

	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
<b>Total</b>	<b>¥210,742</b>	<b>¥1,082,674</b>	<b>¥787,238</b>	<b>¥567,025</b>

	Thousands of U.S. dollars			
	2007			
	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	\$ 328,563	\$3,778,254	\$1,697,214	\$3,735,117
Municipal bonds	282,285	701,626	680,244	20,383
Corporate bonds	772,750	2,222,932	2,376,129	1,058,269
Foreign bonds	757,167	2,416,072	1,617,444	1,085,816
Other securities	39,504	90,939	82,149	34,711
<b>Total</b>	<b>\$2,180,269</b>	<b>\$9,209,823</b>	<b>\$6,453,180</b>	<b>\$5,934,296</b>

g) Total interest and dividend income for the years ended March 31, 2007 and 2006 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
	¥	¥	\$
Interest on bank deposits	879	571	7,443
Interest on CP under resale agreements	198	6	1,677
Interest on call loans	208	5	1,761
Interest and dividends on securities	114,320	94,742	968,076
Interest on loans	8,193	7,810	69,379
Income from real estate	5,266	5,199	44,593
Total income from investment assets	129,064	108,333	1,092,929
Interest on other assets	3,063	1,988	25,938
Total interest and dividend income	¥132,127	¥110,321	\$1,118,867
Presentation in the consolidated statements of income:			
Interest and dividend income on deposits of premiums, etc.	¥ 45,826	¥ 45,685	\$ 388,060
Interest and dividend income	86,301	64,636	730,807
Total interest and dividend income	¥132,127	¥110,321	\$1,118,867

## 5. Loans

As of March 31, 2007 and 2006, the balances of loans included the following risk-monitored loans:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans to borrowers in bankruptcy	¥ 612	¥ 28	\$ 5,182
Overdue loans	2,256	4,981	19,104
Loans overdue for three months or more	8	—	68
Restructured loans	5,181	3,029	43,874
	¥8,057	¥8,038	\$68,228

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. Tangible Fixed Assets

The components of tangible fixed assets as of March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Land	¥ 105,533	¥ 106,812	\$ 893,666
Buildings	284,732	286,716	2,411,144
Furniture and equipment	60,557	60,535	512,804
Construction in progress	663	484	5,614
	451,485	454,547	3,823,228
Less accumulated depreciation	(227,606)	(224,138)	(1,927,394)
	¥ 223,879	¥ 230,409	\$ 1,895,834

## 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 2007 and 2006, 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 what 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, 2007 and 2006 to the statutory tax rate was as follows:

	2007	2006
Statutory tax rate	36.09%	36.09%
Effect of:		
Permanently nontaxable dividends received	(5.00)	(3.43)
Permanently nondeductible expenses	1.17	1.06
Amortization of excess of net assets acquired over cost of investment	0.72	—
Inhabitants' per capita taxes	0.57	0.43
Change in valuation allowance	—	9.87
Tax deductions	—	(1.64)
Other, net	0.76	0.27
Effective tax rate	34.31%	42.65%

Deferred tax assets and liabilities as of March 31, 2007 and 2006 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets (liabilities):			
Underwriting reserves	¥ 181,531	¥ 173,321	\$ 1,537,226
Accrued severance benefits	34,075	32,749	288,551
Devaluation loss on securities and real estate	30,858	30,961	261,309
Reserve for outstanding losses and claims	27,813	38,584	235,524
Intangible fixed assets in tax matters	14,165	12,646	119,951
Tax loss carryforward	10,019	10,262	84,842
Unrealized gains on securities available for sale	(551,128)	(527,228)	(4,667,018)
Other, net	25,530	21,216	216,191
Valuation allowance	(42,977)	(40,182)	(363,934)
Net deferred tax liabilities	¥(270,114)	¥(247,671)	\$ (2,287,358)

## 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, 2007 and 2006 for the Company's and the consolidated subsidiaries' severance benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Retirement benefit obligation	¥(125,124)	¥(130,090)	\$ (1,059,564)
Plan assets at fair value	10,201	10,197	86,383
Unfunded retirement benefit obligation	(114,923)	(119,893)	(973,181)
Unrecognized actuarial loss	21,873	27,423	185,223
Unrecognized prior service costs	(1,910)	1,381	(16,174)
Net retirement benefit obligation	(94,960)	(91,089)	(804,132)
Accrued severance benefits	¥ (94,960)	¥ (91,089)	\$ (804,132)

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 accrued officers' retirement benefits (including pensions) which were included in accrued severance benefits amounted to ¥1,381 million (\$11,694 thousand) and ¥1,142 million for the years ended March 31, 2007 and 2006, respectively.

The components of severance benefit expenses for the years ended March 31, 2007 and 2006 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 6,992	¥ 7,641	\$ 59,209
Interest cost	1,848	1,899	15,649
Expected return on plan assets	(125)	(22)	(1,059)
Amortization of actuarial loss	3,176	3,334	26,895
Prior service costs	3,291	3,291	27,869
Subtotal	15,182	16,143	128,563
Payment into the defined contribution type pension plan	2,328	2,314	19,714
Total	¥17,510	¥18,457	\$148,277

The assumptions used in accounting for the above plans for the years ended March 31, 2007 and 2006 were as follows:

	2007	2006
Discount rates	1.5 ~ 2.0%	1.5 ~ 2.0%
Expected return on plan assets	4.5%	1.0%

## 9. Net Assets

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 ¥29,000 million (\$245,575 thousand) and ¥26,400 million as of March 31, 2007 and 2006, 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
	2007	2006	2007
Cash	¥ 169,665	¥ 221,816	\$ 1,436,743
Short-term investments	174,785	130,285	1,480,100
Investments in securities	5,486,282	5,262,320	46,458,481
Short-term investments other than cash equivalents	(69,647)	(41,438)	(589,779)
Investments in securities other than cash equivalents	(5,478,976)	(5,246,829)	(46,396,613)
Cash and cash equivalents	¥ 282,109	¥ 326,154	\$ 2,388,932

## 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, 2007 and 2006 are summarized as follows:

		Millions of yen		
		2007		
Purpose of use	Asset group	Land	Buildings	Total
Lease assets	2 groups (Fukuoka Tenjin Building, etc.)	¥274	¥517	¥791
		Millions of yen		
		2006		
Purpose of use	Asset group	Land	Buildings	Total
Unused	Higashi Osaka building	¥—	¥233	¥233
		Thousands of U.S. dollars		
		2007		
Purpose of use	Asset group	Land	Buildings	Total
Lease assets	2 groups (Fukuoka Tenjin Building, etc.)	\$2,320	\$4,378	\$6,698

#### (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. 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, 2007 and 2006, 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
	2007	2006	2007
Furniture and equipment:			
Acquisition costs	¥2,694	¥2,347	\$22,813
Accumulated depreciation	1,282	1,081	10,856
Accumulated impairment loss	—	—	—
Net book value	¥1,412	¥1,266	\$11,957

Lease payments relating to finance leases accounted for as operating leases amounted to ¥631 million (\$5,343 thousand) and ¥934 million for the years ended March 31, 2007 and 2006, respectively.

Future minimum lease payments subsequent to March 31, 2007 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
2008	¥ 90	¥ 544	\$ 762	\$ 4,607
2009 and thereafter	129	868	1,092	7,350
Total	¥219	¥1,412	\$1,854	\$11,957

## 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, 2007 and 2006 and the related market values were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2007		2006		2007	
	Contract amount	Market value	Contract amount	Market value	Contract amount	Market value
Forward foreign exchange contracts:						
Short positions	¥112,017	¥111,909	¥110,612	¥111,121	\$948,573	\$947,659
Long positions	69,386	68,252	48,955	49,708	587,569	577,966
Currency options positions:						
Short positions: Call options	—	—	7,200	—	—	—
(Options premiums)	(—)	(—)	(50)	(57)	(—)	(—)
Long positions: Put options	—	—	6,889	—	—	—
(Options premiums)	(—)	(—)	(50)	(27)	(—)	(—)
Bond futures:						
Long positions	16,989	17,022	—	—	143,865	144,144
Bond forward:						
Long positions	3,918	3,907	3,859	3,846	33,178	33,085
Credit derivatives:						
Short positions:	—	—	9,778	—	—	—
(Premiums)	(—)	(—)	(20)	(20)	(—)	(—)
Long positions:	6,000	—	—	—	50,809	—
(Premiums)	(65)	(51)	(—)	(—)	(550)	(432)
Weather derivatives:						
Short positions:	274	—	187	—	2,320	—
(Premiums)	(22)	(15)	(9)	(8)	(186)	(127)
Long positions:	—	—	100	—	—	—
(Premiums)	(—)	(—)	(—)	(—)	(—)	(—)
Earthquake derivatives:						
Short positions:	780	—	1,910	—	6,605	—
(Premiums)	(133)	(106)	(82)	(2)	(1,126)	(898)
Long positions:	702	—	1,909	—	5,945	—
(Premiums)	(88)	(70)	(71)	(1)	(745)	(593)

\*1. The market value of the forward foreign exchange contracts was based on the forward rates as of March 31, 2007 and 2006.

\*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, 2007 and 2006 is summarized as follows:

	Millions of yen				Thousands of U.S. dollars			
	2007				2007			
	Property and casualty insurance	Life insurance	Adjustments and eliminations	Consolidated	Property and casualty insurance	Life insurance	Adjustments and eliminations	Consolidated
Ordinary income	¥1,694,479	¥207,121	—	¥1,901,600	\$14,349,046	\$1,753,925	\$ —	\$16,102,971
Adjustments and eliminations	5,118	28	(5,146)	—	43,340	237	(43,577)	—
Total	1,699,597	207,149	(5,146)	1,901,600	14,392,386	1,754,162	(43,577)	16,102,971
Ordinary expense	1,597,822	198,383	(5,146)	1,791,059	13,530,544	1,679,930	(43,577)	15,166,897
Ordinary profit (loss)	101,775	8,766	—	110,541	861,842	74,232	—	936,074
Assets	6,020,154	983,782	(1,756)	7,002,180	50,979,371	8,330,782	(14,870)	59,295,283
Depreciation	9,927	93	—	10,020	84,063	788	—	84,851
Impairment loss	791	—	—	791	6,698	—	—	6,698
Capital investment	7,241	138	—	7,379	61,317	1,169	—	62,486



	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

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

Information related to stock options for the year ended March 31, 2007 were as follows:

(1) Expenses related to stock options for the year ended March 31, 2007

Operating, general and administrative expenses, and loss adjustment expenses: ¥315 million (\$2,667 thousand)

(2) Description of stock options and their changes

i. Description of stock options

	Grantee and number	Number of stock options granted	Grant date	Exercise period
2000 stock options	Company directors: 29	Common stock: 450,000 stocks	Dec. 15, 2000	Jun. 30, 2002 - Jun. 29, 2010 <sup>*a</sup>
2001 stock options	Company directors: 12	Common stock: 450,000 stocks	Aug. 1, 2001	Jun. 29, 2003 - Jun. 28, 2011 <sup>*b</sup>
	Executive officers: 16			
2002 stock options	Company directors: 15	Common stock: 800,000 stocks	Aug. 1, 2002	Jun. 28, 2004 - Jun. 27, 2012 <sup>*c</sup>
	Executive officers: 32		Nov. 1, 2002	
			Jan. 1, 2003	
			May. 1, 2003	
			Jun. 1, 2003	
2003 stock options	Company directors: 9	Common stock: 600,000 stocks	Aug. 1, 2003	Jun. 28, 2005 - Jun. 27, 2013 <sup>*c</sup>
	Executive officers: 28		Feb. 2, 2004	
2004 stock options	Company directors: 8	Common stock: 625,000 stocks	Aug. 2, 2004	Jun. 30, 2006 - Jun. 29, 2014 <sup>*c</sup>
	Executive officers: 31		Feb. 1, 2005	
2005 stock options	Company directors: 11	Common stock: 733,000 stocks	Aug. 1, 2005	Jun. 29, 2007 - Jun. 28, 2015 <sup>*c</sup>
	Executive officers: 36		Feb. 1, 2006	
2006 stock options	Company directors: 10	Common stock: 640,000 stocks	Aug. 7, 2006	Jun. 29, 2008 - Jun. 28, 2016 <sup>*c,*d</sup>
	Executive officers: 32		Feb. 15, 2007	

\*a For retired directors, the exercise period expires in shorter of the original expiration period or three years after their retirement.

\*b For retired directors or executive officers, the exercise period expires in shorter of the original expiration period or three years after their retirement.

\*c For retired directors or executive officers, the exercise period expires in shorter of the original expiration period or five years after their retirement.

\*d For the 2006 stock options, the starting date of the exercise period for the executive officers who were granted 5,000 stocks on August 7, 2006 is July 22, 2008, and the starting date of the exercise period for the executive officers who were granted 5,000 stocks on February 15, 2007 is January 27, 2009.

Notes: 1. The number of stock options granted is presented based on the number of stocks.

2. Vesting conditions: all options are vested on the grant date.

3. Requisite service period: not applicable.

ii. Number of stock options and their changes

The number of stock options existed during the year presented based on the number of stock was as follows:

a. Number of stock options

<After vesting>

	Initial	Vested	Exercised	Lapsed	Unexercised
2000 stock options	41,000	—	31,000	—	10,000
2001 stock options	148,000	—	104,000	—	44,000
2002 stock options	625,000	—	262,000	—	363,000
2003 stock options	526,000	—	58,000	—	468,000
2004 stock options	625,000	—	25,000	—	600,000
2005 stock options	733,000	—	—	—	733,000
2006 stock options	—	640,000	—	—	640,000

Note: Under the company's stock option plans, options became vested at grant date, and there are no unvested options.

b. Unit value information

	Grant date	Exercise price	Average stock price at time of exercise	Fair unit value on grant date
2000 stock options	Dec. 15, 2000	¥605(\$5.12)	¥1,451(\$12.29)	—
2001 stock options	Aug. 1, 2001	¥797(\$6.75)	¥1,506(\$12.75)	—
2002 stock options	Aug. 1, 2002	¥777(\$6.58)	¥1,523(\$12.90)	—
	Nov. 1, 2002	¥712(\$6.03)	—	—
	Jan. 1, 2003	¥705(\$5.97)	¥1,403(\$11.88)	—
	May. 1, 2003	¥581(\$4.92)	¥1,463(\$12.39)	—
2003 stock options	Jun. 1, 2003	¥574(\$4.86)	—	—
	Aug. 1, 2003	¥735(\$6.22)	¥1,486(\$12.58)	—
	Feb. 2, 2004	¥901(\$7.63)	¥1,516(\$12.84)	—
2004 stock options	Aug. 2, 2004	¥1,167(\$9.88)	¥1,543(\$13.07)	—
	Feb. 1, 2005	¥1,082(\$9.16)	¥1,471(\$12.46)	—
2005 stock options	Aug. 1, 2005	¥1,148(\$9.72)	—	—
	Feb. 1, 2006	¥1,665(\$14.10)	—	—
2006 stock options	Aug. 7, 2006	¥1,598(\$13.53)	—	¥470(\$3.98)
	Feb. 15, 2007	¥1,623(\$13.74)	—	¥515(\$4.36)

(3) Estimation method of the fair unit value of stock options

Estimation method of the fair unit value of stock options granted during the year is as follows:

i. Valuation technique used: binomial model

ii. Primary factors and estimation method

Valuation date	Aug. 7, 2006	Feb. 15, 2007
Unit period	3 months	3 months
Price change rate	32%	31%
Stock price on valuation date	¥1,473(\$12.47)	¥1,619(\$13.71)
Exercise price	¥1,598(\$13.53)	¥1,623(\$13.74)
Dividend rate	0.97%	0.97%

## 16. Subsequent Events

The following appropriations of retained earnings were approved at the meeting of the shareholders held on June 27, 2007.

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥16.0 = \$0.135 per share)	¥15,751	\$133,381

# NON-CONSOLIDATED FINANCIAL STATEMENTS

## 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, 2007 and 2006, and the related non-consolidated statements of income and changes in net assets 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, 2007 and 2006, 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 presents related accrual 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, 2007 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 27, 2007

## NON-CONSOLIDATED BALANCE SHEETS

Sompo Japan Insurance Inc. March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
<b>ASSETS</b>			
Cash	¥ 118,582	¥ 186,255	\$ 1,004,166
Short-term investments (Note 3)	158,938	120,185	1,345,906
Investments in securities (Note 4)	4,673,746	4,546,230	39,577,830
Loans (Note 5)	483,417	448,525	4,093,632
Accrued investment income	12,454	12,580	105,462
Tangible fixed assets, at cost (Note 6)	447,266	450,785	3,787,501
Less accumulated depreciation	(225,650)	(222,503)	(1,910,831)
	221,616	228,282	1,876,670
Intangible fixed assets	762	—	6,453
Insurance business balances receivable:			
Premiums receivable and agents' balances	113,677	110,919	962,630
Reinsurance balances recoverable	109,868	116,602	930,375
Other	8,962	9,620	75,892
	232,507	237,141	1,968,897
Other assets	149,445	175,590	1,265,518
Reserve for possible loan losses	(15,915)	(20,023)	(134,770)
Reserve for possible losses on investment securities	(5,763)	(4)	(48,802)
<b>Total assets</b>	<b>¥6,029,789</b>	<b>¥5,934,761</b>	<b>\$51,060,962</b>

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Underwriting funds:			
Reserve for outstanding losses and claims (Note 13)	¥ 627,241	¥ 632,095	\$ 5,311,551
Underwriting reserves (Notes 13 and 14)	3,300,813	3,312,902	27,951,672
	3,928,054	3,944,997	33,263,223
Insurance business balances payable:			
Reinsurance balances payable	87,676	89,591	742,451
Other	5,487	5,794	46,464
	93,163	95,385	788,915
Accrued taxes	16,786	16,413	142,146
Accrued severance benefits (Note 8)	93,800	89,911	794,309
Reserve for decline in value of assets	30,599	24,001	259,116
Other liabilities	114,666	111,263	971,006
Deferred tax liabilities (Note 7)	278,680	253,072	2,359,895
Total liabilities	4,555,748	4,535,042	38,578,610
Net assets (Notes 9 and 16):			
Common stock:			
Authorized 2,000,000,000 shares, issued 987,733,424 shares in 2006 and 2007	70,000	70,000	592,768
Additional paid-in capital	24,230	24,230	205,182
Legal reserve	29,000	26,400	245,575
Retained earnings	354,060	321,317	2,998,222
Treasury stock, 3,508,140 shares in 2006 and 3,266,091 shares in 2007, at cost	(2,833)	(2,857)	(23,990)
Total shareholders' equity	474,457	439,090	4,017,757
Unrealized gains on securities available for sale	999,269	960,629	8,461,927
Stock options (Note 15)	315	—	2,668
Total net assets	1,474,041	1,399,719	12,482,352
Total liabilities and net assets	¥6,029,789	¥5,934,761	\$51,060,962

See accompanying notes to non-consolidated financial statements.

# NON-CONSOLIDATED STATEMENTS OF INCOME

Sompo Japan Insurance Inc. For the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
<b>Ordinary income</b>			
Underwriting income:			
Net premiums written (Note 13)	¥1,362,785	¥1,370,920	\$11,540,224
Deposits of premiums by policyholders	137,001	157,477	1,160,141
Interest and dividend income on deposits of premiums, etc. (Note 4)	45,826	45,685	388,060
Reversal of underwriting reserves	20,499	—	173,588
Other underwriting income	2,827	7,092	23,938
	1,568,938	1,581,174	13,285,951
Investment income:			
Interest and dividend income (Note 4)	67,799	49,355	574,130
Realized gain on sales of securities	31,011	41,446	262,605
Other investment income	7,626	7,815	64,578
	106,436	98,616	901,313
Other ordinary income	11,722	16,876	99,263
<b>Total ordinary income</b>	<b>1,687,096</b>	<b>1,696,666</b>	<b>14,286,527</b>
<b>Ordinary expenses</b>			
Underwriting expenses:			
Net losses paid (Note 13)	806,872	776,042	6,832,687
Loss adjustment expenses	69,002	63,986	584,317
Net commissions and brokerage fees (Note 13)	222,763	226,182	1,886,383
Maturity refunds and dividends to policyholders	224,442	235,363	1,900,601
Provision for reserve for outstanding losses (Note 13)	32,864	45,454	278,296
Provision for underwriting reserves (Note 13)	—	13,625	—
Other underwriting expenses	582	2,546	4,929
	1,356,525	1,363,198	11,487,213
Investment expenses:			
Realized loss on sales of securities	1,486	547	12,584
Devaluation loss on securities	3,637	308	30,799
Other investment expenses	10,012	6,285	84,782
	15,135	7,140	128,165
Operating, general and administrative expenses	216,515	210,917	1,833,474
Other ordinary expenses	7,153	1,122	60,573
<b>Total ordinary expenses</b>	<b>1,595,328</b>	<b>1,582,377</b>	<b>13,509,425</b>
<b>Ordinary profit</b>	<b>91,768</b>	<b>114,289</b>	<b>777,102</b>
<b>Special gains and losses</b>			
Provision for reserve for decline in value of assets	(6,597)	(6,448)	(55,864)
Impairment loss (Note 10)	(791)	(233)	(6,698)
Other special gains, net	(8,630)	9,453	(73,080)
	(16,018)	2,772	(135,642)
<b>Income before income taxes</b>	<b>75,750</b>	<b>117,061</b>	<b>641,460</b>
Income taxes (Note 7):			
Current	25,543	16,648	216,301
Deferred	2,048	32,555	17,343
	27,591	49,203	233,644
<b>Net income</b>	<b>¥ 48,159</b>	<b>¥ 67,858</b>	<b>\$ 407,816</b>

	Yen	U.S. dollars (Note 2)
Net income per share:		
Basic	¥48.92	¥68.94
Diluted	48.88	68.89
Cash dividends per share attributable to the year	16.00	13.00

See accompanying notes to non-consolidated financial statements.

# NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Sompo Japan Insurance Inc. For the years ended March 31, 2007 and 2006

	Thousands	Millions of yen						
	Thousands of shares of common stock	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Treasury stock	Unrealized gains on securities available for sale	Stock options
<b>Balance at March 31, 2005</b>	987,733	¥70,000	¥24,230	¥24,600	¥263,862	¥(2,722)	¥563,658	¥ —
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>	987,733	¥70,000	¥24,230	¥26,400	¥321,317	¥(2,857)	¥960,629	¥ —
Net income	—	—	—	—	48,159	—	—	—
Cash dividends	—	—	—	—	(12,795)	—	—	—
Transfer to legal reserve	—	—	—	2,600	(2,600)	—	—	—
Increase of treasury stock—net	—	—	—	—	(21)	24	—	—
Changes in other than shareholders' equity, net	—	—	—	—	—	—	38,640	315
Total changes	—	—	—	2,600	32,743	24	38,640	315
<b>Balance at March 31, 2007</b>	<b>987,733</b>	<b>¥70,000</b>	<b>¥24,230</b>	<b>¥29,000</b>	<b>¥354,060</b>	<b>¥(2,833)</b>	<b>¥999,269</b>	<b>¥315</b>

	Thousands of U.S. dollars (Note 2)							
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Treasury stock	Unrealized gains on securities available for sale	Stock options	
<b>Balance at March 31, 2006</b>	\$592,768	\$205,182	\$223,558	\$2,720,950	\$(24,193)	\$8,134,719	\$ —	
Net income	—	—	—	407,816	—	—	—	
Cash dividends	—	—	—	(108,350)	—	—	—	
Transfer to legal reserve	—	—	22,017	(22,017)	—	—	—	
Increase of treasury stock—net	—	—	—	(178)	203	—	—	
Changes in other than shareholders' equity, net	—	—	—	—	—	327,208	2,668	
Total changes	—	—	22,017	277,271	203	327,208	2,668	
<b>Balance at March 31, 2007</b>	<b>\$592,768</b>	<b>\$205,182</b>	<b>\$245,575</b>	<b>\$2,998,221</b>	<b>\$(23,990)</b>	<b>\$8,461,927</b>	<b>\$2,668</b>	

See accompanying notes to non-consolidated financial statements.

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Sompo Japan Insurance Inc. March 31, 2007

## 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 net assets. 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 related accrual as part of accrued severance benefits.

This change was made because an accrual accounting for officers' retirement benefits became more common practice and the internal regulations concerning the benefits were revised in the year ended March 31, 2006. The changes were 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 and to decrease income before income tax by ¥1,142 million for the year ended March 31, 2006.

### (5) Accounting Standard for Share-based Payment

Effective April 1, 2006, the Company adopted the "Accounting Standard for Share-based Payment" (Accounting Standards Board of Japan Statement No. 8 issued on December 27, 2005) and the "Implementation Guidance on Accounting Standard for Share-based Payment" (Accounting Standards Board of Japan Implementation Guidance No. 11 issued on May 31, 2006). The effect of this change was to decrease income before income tax by ¥315 million (\$2,668 thousand) for the year ended March 31, 2007.

### (6) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective April 1, 2006, the Company adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5 issued on December 9, 2005) and the "Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Implementation Guidance No. 8 issued on December 9, 2005). In this connection, the previously reported non-consolidated balance sheet as of March 31, 2006 and non-consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the non-consolidated financial statements for the year ended March 31, 2007. Total shareholders' equity calculated under the previous presentation method amounted to ¥1,473,726 million (\$12,479,684 thousand) as of March 31, 2007.

## 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 ¥118.09 = U.S.\$1.00, the approximate rate of exchange prevailing on March 31, 2007. 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, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Time deposits	¥ 10,540	¥ 9,938	\$ 89,254
CP under resale agreements	28,966	19,999	245,288
Money trusts	47,933	33,248	405,902
Call loans	69,000	55,000	584,300
Commercial paper	2,499	2,000	21,162
	¥158,938	¥120,185	\$1,345,906

The cost and related aggregate market values of money trusts as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cost	¥42,871	¥28,768	\$363,037
Market value	47,933	33,248	405,902
Net unrealized gain	¥ 5,062	¥ 4,480	\$ 42,865

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 as of March 31, 2007 and 2006 were ¥24 million (\$203 thousand) and ¥26 million, respectively.

### 4. Investments in Securities

The components of investments in securities as of March 31, 2007 and 2006, and their fair value and other related information by holding intention are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Domestic securities:			
Bonds	¥1,330,602	¥1,229,054	\$11,267,694
Stocks	2,099,986	2,099,905	17,782,928
Foreign securities	1,129,053	1,111,703	9,560,953
Other securities	114,105	105,568	966,255
	¥4,673,746	¥4,546,230	\$39,577,830

a) The Company did not have any marketable securities classified as trading securities as of March 31, 2007 and 2006.

b) The Company did not have any marketable securities classified as held-to-maturity bonds as of March 31, 2007 and 2006.

c) Information regarding marketable securities available for sale as of March 31, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2007			2007		
	Cost	Market value	Unrealized gain (loss)	Cost	Market value	Unrealized gain (loss)
Securities whose market value exceeds their cost:						
Domestic securities:						
Bonds	¥ 535,378	¥ 548,323	¥ 12,945	\$ 4,533,644	\$ 4,643,264	\$ 109,620
Stocks	542,255	1,889,399	1,347,144	4,591,879	15,999,653	11,407,774
Foreign securities	735,049	906,999	171,950	6,224,481	7,680,574	1,456,093
Other securities	62,569	86,618	24,049	529,842	733,491	203,649
Subtotal	1,875,251	3,431,339	1,556,088	15,879,846	29,056,982	13,177,136
Securities whose cost exceeds their market value:						
Domestic securities:						
Bonds	787,720	780,965	(6,755)	6,670,506	6,613,304	(57,202)
Stocks	75,456	71,435	(4,021)	638,970	604,920	(34,050)
Foreign securities	78,344	77,112	(1,232)	663,426	652,993	(10,433)
Other securities	25,798	25,489	(309)	218,461	215,844	(2,617)
Subtotal	967,318	955,001	(12,317)	8,191,363	8,087,061	(104,302)
Total	¥2,842,569	¥4,386,340	¥1,543,771	\$24,071,209	\$37,144,043	\$13,072,834

	Millions of yen		
	2006		
	Cost	Market value	Unrealized gain (loss)
Securities whose market value exceeds their cost:			
Domestic securities:			
Bonds	¥ 342,811	¥ 355,253	¥ 12,442
Stocks	614,642	1,969,393	1,354,751
Foreign securities	745,336	863,934	118,598
Other securities	64,251	82,083	17,832
Subtotal	1,767,040	3,270,663	1,503,623
Securities whose cost exceeds their market value:			
Domestic securities:			
Bonds	887,814	872,481	(15,333)
Stocks	6,309	5,059	(1,250)
Foreign securities	143,843	140,921	(2,922)
Other securities	34,601	34,036	(565)
Subtotal	1,072,567	1,052,497	(20,070)
Total	¥2,839,607	¥4,323,160	¥1,483,553

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 losses on marketable securities available for sale for the years ended March 31, 2007 and 2006 were ¥2,715 million (\$22,991 thousand) and ¥120 million, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Proceeds from sales	¥223,286	¥246,987	\$1,890,812
Gain on sales	30,111	41,446	254,983
Loss on sales	1,485	547	12,575

e) The redemption schedules as of March 31, 2007 and 2006 for securities available for sale and held-to-maturity bonds with maturity date were as follows:

	Millions of yen			
	2007			
	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	¥ 30,676	¥393,462	¥172,152	¥162,928
Municipal bonds	27,090	72,061	15,618	0
Corporate bonds	68,500	199,199	100,614	88,298
Foreign bonds	58,107	159,337	165,403	121,612
Other securities	4,665	10,739	9,701	4,099
<b>Total</b>	<b>¥189,038</b>	<b>¥834,798</b>	<b>¥463,488</b>	<b>¥376,937</b>

	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
<b>Total</b>	<b>¥153,810</b>	<b>¥870,476</b>	<b>¥490,948</b>	<b>¥323,821</b>

	Thousands of U.S. dollars			
	2007			
	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	\$ 259,768	\$3,331,883	\$1,457,804	\$1,379,693
Municipal bonds	229,401	610,221	132,255	0
Corporate bonds	580,066	1,686,841	852,011	747,718
Foreign bonds	492,057	1,349,284	1,400,652	1,029,825
Other securities	39,504	90,939	82,149	34,711
<b>Total</b>	<b>\$1,600,796</b>	<b>\$7,069,168</b>	<b>\$3,924,871</b>	<b>\$3,191,947</b>

f) Total interest and dividend income for the years ended March 31, 2007 and 2006 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Interest on bank deposits	¥ 375	¥ 257	\$ 3,176
Interest on CP under resale agreements	198	6	1,677
Interest on call loans	208	5	1,761
Interest and dividends on securities	96,784	80,219	819,578
Interest on loans	7,824	7,502	66,255
Income from real estate	5,302	5,240	44,898
Total income from investment assets	110,691	93,229	937,345
Interest on other assets	2,934	1,811	24,845
Total interest and dividend income	¥113,625	¥95,040	\$962,190
Presentation in the non-consolidated statements of income:			
Interest and dividend income on deposits of premiums, etc.	¥ 45,826	¥45,685	\$388,060
Interest and dividend income	67,799	49,355	574,130
Total interest and dividend income	¥113,625	¥95,040	\$962,190

## 5. Loans

As of March 31, 2007 and 2006, the balances of loans included the following risk-monitored loans:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans to borrowers in bankruptcy	¥ 612	¥ 28	\$ 5,182
Overdue loans	2,249	4,937	19,045
Loans overdue for three months or more	—	—	—
Restructured loans	5,181	3,029	43,874
	¥8,042	¥7,994	\$68,101

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. Tangible Fixed Assets

The components of tangible fixed assets as of March 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Land	¥ 105,025	¥ 106,345	\$ 889,364
Buildings	282,223	284,511	2,389,898
Furniture and equipment	59,355	59,445	502,625
Construction in progress	663	484	5,614
	447,266	450,785	3,787,501
Less accumulated depreciation	(225,650)	(222,503)	(1,910,831)
	¥ 221,616	¥ 228,282	\$ 1,876,670

## 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 2007 and 2006, respectively.

The provision for income taxes incurred is different from what 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, 2007 and 2006 to the statutory tax rate was as follows:

	2007	2006
Statutory tax rate	36.09%	36.09%
Effect of:		
Permanently nontaxable dividends received	(6.21)	(3.39)
Change in valuation allowance	4.30	9.53
Permanently nondeductible expenses	1.20	0.88
Other, net	1.04	(1.08)
Effective tax rate	36.42%	42.03%

Deferred tax assets and liabilities as of March 31, 2007 and 2006 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets (liabilities):			
Underwriting reserves	¥ 176,503	¥ 169,518	\$ 1,494,648
Accrued severance benefits	33,852	32,449	286,663
Devaluation loss on securities and real estate	30,854	30,957	261,275
Reserve for outstanding losses and claims	24,518	36,241	207,621
Intangible fixed assets in tax matters	12,355	11,218	104,624
Unrealized gains on securities available for sale	(550,945)	(527,384)	(4,665,467)
Other, net	24,964	21,451	211,398
Valuation allowance	(30,781)	(27,522)	(260,657)
Net deferred tax assets (liabilities)	¥(278,680)	¥(253,072)	\$(2,359,895)

## 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, 2007 and 2006 for the Company's severance benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Retirement benefit obligation	¥(121,288)	¥(126,592)	\$(1,027,081)
Plan assets at fair value	7,211	7,427	61,064
Unfunded retirement benefit obligation	(114,077)	(119,165)	(966,017)
Unrecognized actuarial loss	22,163	27,829	187,679
Unrecognized prior service costs	(1,886)	1,425	(15,971)
Net retirement benefit obligation	(93,800)	(89,911)	(794,309)
Accrued severance benefits	¥ (93,800)	¥ (89,911)	\$ (794,309)

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 accrued officers' retirement benefits (including pensions) which were included in accrued severance benefits amounted to ¥1,371 million (\$11,610 thousand) and ¥1,142 million for the years ended March 31, 2007 and 2006, respectively.

The components of severance benefit expenses for the years ended March 31, 2007 and 2006 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 6,544	¥ 7,290	\$ 55,415
Interest cost	1,794	1,850	15,192
Expected return on plan assets	—	—	—
Amortization of actuarial loss	3,202	3,323	27,115
Prior service costs	3,311	3,311	28,038
Subtotal	14,851	15,774	125,760
Payment into the defined contribution type pension plan	2,281	2,274	19,316
Total	¥17,132	¥18,048	\$145,076

The assumptions used in accounting for the above plans for the years ended March 31, 2007 and 2006 were as follows:

	2007	2006
Discount rates	1.5%	1.5%
Expected return on plan assets	0.0%	0.0%

## 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 of Fixed Assets

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, 2007 and 2006, 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
	2007	2006	2007
Furniture and equipment:			
Acquisition costs	<b>¥2,335</b>	¥1,889	<b>\$19,773</b>
Accumulated depreciation	<b>1,103</b>	825	<b>9,340</b>
Accumulated impairment loss	—	—	—
Net book value	<b>¥1,232</b>	¥1,064	<b>\$10,433</b>

Lease payments relating to finance leases accounted for as operating leases amounted to ¥551 million (\$4,666 thousand) and ¥806 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, 2007 and 2006, respectively.

Future minimum lease payments subsequent to March 31, 2007 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
2008	<b>¥ 71</b>	<b>¥ 469</b>	<b>\$ 601</b>	<b>\$ 3,972</b>
2009 and thereafter	<b>112</b>	<b>763</b>	<b>948</b>	<b>6,461</b>
Total	<b>¥183</b>	<b>¥1,232</b>	<b>\$1,549</b>	<b>\$10,433</b>

## 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, 2007 and 2006 and the related market values were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2007		2006		2007	
	Contract amount	Market value	Contract amount	Market value	Contract amount	Market value
Forward foreign exchange contracts:						
Short positions	<b>¥112,017</b>	<b>¥111,909</b>	¥110,612	¥111,121	<b>\$948,573</b>	<b>\$947,659</b>
Long positions	<b>69,386</b>	<b>68,252</b>	48,955	49,708	<b>587,569</b>	<b>577,966</b>
Currency options positions:						
Short positions: Call options	—	—	7,200	—	—	—
(Options premiums)	—	—	(50)	(57)	—	—
Long positions: Put options	—	—	6,889	—	—	—
(Options premiums)	—	—	(50)	(27)	—	—
Bond futures:						
Long positions	<b>16,989</b>	<b>17,022</b>	—	—	<b>143,865</b>	<b>144,144</b>
Bond forward:						
Long positions	<b>3,918</b>	<b>3,907</b>	3,859	3,846	<b>33,178</b>	<b>33,085</b>
Credit derivatives:						
Short positions:	—	—	9,778	—	—	—
(Premiums)	—	—	(20)	(20)	—	—
Weather derivatives:						
Short positions:	<b>274</b>	—	187	—	<b>2,320</b>	—
(Premiums)	<b>(22)</b>	<b>(15)</b>	(9)	(8)	<b>(186)</b>	<b>(127)</b>
Long positions:	—	—	100	—	—	—
(Premiums)	<b>(—)</b>	<b>(—)</b>	(—)	(—)	<b>(—)</b>	<b>(—)</b>
Earthquake derivatives:						
Short positions:	<b>780</b>	—	1,910	—	<b>6,605</b>	—
(Premiums)	<b>(133)</b>	<b>(106)</b>	(82)	(2)	<b>(1,126)</b>	<b>(898)</b>
Long positions:	<b>702</b>	—	1,909	—	<b>5,945</b>	—
(Premiums)	<b>(88)</b>	<b>(70)</b>	(71)	(1)	<b>(745)</b>	<b>(593)</b>

\*1. The market value of the forward foreign exchange contracts was based on the forward rates as of March 31, 2007 and 2006.

\*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, 2007 and 2006 were as follows:

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Reserve for outstanding claims			
(before deducting ceded reserve for outstanding claims, excluding insurances stated in (ii))	<b>¥609,192</b>	¥617,567	<b>\$5,158,709</b>
Ceded reserve for outstanding claims relating to the above	<b>40,947</b>	44,370	<b>346,744</b>
Difference (i)	<b>568,245</b>	573,197	<b>4,811,965</b>
Reserve for outstanding claims involved in earthquake insurance and compulsory automobile liability insurance (ii)	<b>58,996</b>	58,898	<b>499,586</b>
Total (i + ii)	<b>¥627,241</b>	¥632,095	<b>\$5,311,551</b>

#### b) Underwriting reserves

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Ordinary underwriting reserve (before deducting ceded underwriting reserve)	<b>¥ 932,504</b>	¥ 919,315	<b>\$ 7,896,554</b>
Ceded underwriting reserve relating to the above	<b>31,244</b>	31,784	<b>264,578</b>
Difference (i)	<b>901,260</b>	887,531	<b>7,631,976</b>
Other underwriting reserve (ii)	<b>2,399,553</b>	2,425,371	<b>20,319,696</b>
Total (i + ii)	<b>¥3,300,813</b>	¥3,312,902	<b>\$27,951,672</b>

#### c) Net premiums written

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Premiums written	<b>¥1,652,336</b>	¥1,671,027	<b>\$13,992,176</b>
—) Reinsurance premiums ceded	<b>289,551</b>	300,107	<b>2,451,952</b>
Net premiums written	<b>¥1,362,785</b>	¥1,370,920	<b>\$11,540,224</b>

#### d) Net losses paid

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Losses paid	<b>¥1,008,132</b>	¥1,016,215	<b>\$8,536,980</b>
—) Reinsurance recoverable	<b>201,260</b>	240,173	<b>1,704,293</b>
Net losses paid	<b>¥ 806,872</b>	¥ 776,042	<b>\$6,832,687</b>

#### e) Net commissions and brokerage fees

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Commissions and brokerage fees	<b>¥241,629</b>	¥245,080	<b>\$2,046,143</b>
—) Ceded reinsurance commissions received	<b>18,866</b>	18,898	<b>159,760</b>
Net commissions and brokerage fees	<b>¥222,763</b>	¥226,182	<b>\$1,886,383</b>

#### f) Provision for underwriting reserves

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Provision for ordinary underwriting reserve (before deducting ceded underwriting reserve)	<b>¥ 4,778</b>	¥ 9,885	<b>\$ 40,460</b>
Provision for ceded underwriting reserve relating to the above	<b>(540)</b>	(655)	<b>(4,573)</b>
Difference (i)	<b>5,318</b>	10,540	<b>45,033</b>
Provision for other underwriting reserve (ii)	<b>(25,817)</b>	3,085	<b>(218,621)</b>
Total (i + ii)	<b>¥(20,499)</b>	¥13,625	<b>\$(173,588)</b>



g) Provision for reserve for outstanding losses

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Provision for reserve for outstanding claims (before deducting provision for ceded reserve for outstanding claims, excluding insurances stated in (ii))	<b>¥30,338</b>	¥ 20,433	<b>\$256,906</b>
Provision for ceded reserve for outstanding claims relating to the above	<b>(2,427)</b>	(23,956)	<b>(20,552)</b>
Difference (i)	<b>32,765</b>	44,389	<b>277,458</b>
Provision for reserve for outstanding claims involved in earthquake insurance and compulsory automobile liability insurance (ii)	<b>99</b>	1,065	<b>838</b>
Total (i + ii)	<b>¥32,864</b>	¥ 45,454	<b>\$278,296</b>

#### 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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
(a) Premium reserve	<b>¥1,785,015</b>	¥1,743,468	<b>\$15,115,716</b>
(b) Policyholders' deposit funds	<b>1,515,798</b>	1,569,434	<b>12,835,956</b>
	<b>¥3,300,813</b>	¥3,312,902	<b>\$27,951,672</b>

\* The catastrophe reserves which were included in premium reserve were ¥384,138 million (\$3,252,926 thousand) and ¥384,597 million as of March 31, 2007 and 2006, respectively.

#### 15. Stock Options

See Note 15 to the consolidated financial statements.

#### 16. Subsequent Events

See Note 16 to the consolidated financial statements.

## SELECTED FINANCIAL STATEMENTS (NON-AUDITED)

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

December 31,	Thousands of U.S. dollars	
	2006	2005
<b>ASSETS</b>		
Cash and deposits	\$ 7,189	\$ 4,047
Investments in securities	469,339	468,063
Tangible fixed assets	213	95
Other assets	53,635	44,340
Reserve for possible loan losses	(5,828)	(5,998)
Total assets	\$524,548	\$510,547
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Reserve for outstanding losses and claims	\$257,892	\$245,142
Underwriting reserves	24,818	24,429
Other liabilities	39,479	47,045
Total liabilities	322,189	316,616
Net assets:		
Common stock	12,058	12,058
Additional paid-in capital	258,851	258,851
Retained earnings	(68,550)	(76,978)
Total net assets	202,359	193,931
Total liabilities and net assets	\$524,548	\$510,547

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

Years ended December 31,	Thousands of U.S. dollars	
	2006	2005
<b>Ordinary income</b>		
Underwriting income:		
Net premiums written	\$65,616	\$63,420
Reversal of underwriting reserves	—	1,866
	65,616	65,286
Investment income:		
Interest and dividend income	19,544	17,176
Realized gain on sales of securities	13	3
	19,557	17,179
Other ordinary income	1,846	111
Total ordinary income	87,019	82,576
<b>Ordinary expenses</b>		
Underwriting expenses:		
Net losses paid	37,117	39,946
Loss adjustment expenses	5,949	8,456
Net commissions and brokerage fees	(7,977)	(5,501)
Provision for reserve for outstanding losses	12,750	7,159
Provision for underwriting reserves	388	—
	48,227	50,060
Investment expenses:		
Realized loss on sales of securities	1,427	43
	1,427	43
Operating, general and administrative expenses	29,378	30,445
Other ordinary expenses	209	4,222
Total ordinary expenses	79,241	84,770
<b>Ordinary profit (loss)</b>	7,778	(2,194)
<b>Income (Loss) before income taxes</b>	7,778	(2,194)
Income taxes	(153)	(129)
<b>Net Income (loss)</b>	\$ 7,931	\$ (2,065)

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

December 31,	Thousands of Great Britain pounds		Thousands of U.S. dollars
	2006	2005	2006
<b>ASSETS</b>			
Cash and deposits	£ 8,061	£ 6,796	\$ 15,813
Investments in securities	145,603	146,381	285,633
Tangible fixed assets	96	47	188
Other assets	20,241	20,182	39,707
Total assets	£ 174,001	£ 173,406	\$ 341,341
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Reserve for outstanding losses and claims	£ 79,643	£ 85,400	\$ 156,237
Underwriting reserves	7,263	7,973	14,248
Other liabilities	14,049	14,750	27,560
Total liabilities	100,955	108,123	198,045
Net assets:			
Common stock	128,700	128,700	252,474
Retained earnings	(55,654)	(63,417)	(109,178)
Total net assets	73,046	65,283	143,296
Total liabilities and net assets	£ 174,001	£ 173,406	\$ 341,341

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

Years ended December 31,	Thousands of Great Britain pounds		Thousands of U.S. dollars
	2006	2005	2006
<b>Ordinary income</b>			
Underwriting income:			
Net premiums written	£ 15,800	£ 17,073	\$30,995
Reversal of reserve for outstanding losses	5,758	3,119	11,296
Reversal of underwriting reserves	710	—	1,393
	22,268	20,192	43,684
Investment income:			
Interest and dividend income	4,504	5,263	8,836
Realized gain on sales of securities	42	97	82
Other investment income	564	776	1,106
	5,110	6,136	10,024
Other ordinary income	8	—	16
Total ordinary income	27,386	26,328	53,724
<b>Ordinary expenses</b>			
Underwriting expenses:			
Net losses paid	12,807	13,999	25,124
Net commissions and brokerage fees	(2,713)	(2,026)	(5,322)
Provision for underwriting reserves	—	63	—
	10,094	12,036	19,802
Investment expenses:			
Realized loss on sales of securities	159	321	312
Other investment expenses	1,669	596	3,274
	1,828	917	3,586
Operating, general and administrative expenses	7,820	6,785	15,341
Other ordinary expenses	—	4,142	—
Total ordinary expenses	19,742	23,880	38,729
<b>Ordinary profit</b>	7,644	2,448	14,995
<b>Income before income taxes</b>	7,644	2,448	14,995
Income taxes	(119)	890	(234)
<b>Net Income</b>	£ 7,763	£ 1,558	\$ 15,229

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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**  
Chevron House, 11 Church Street, Second  
Floor, Hamilton HMJX, Bermuda

### BRAZIL

**Yasuda Seguros S.A.**  
**SÃO PAULO**  
Rua Cubatão, 320-Parasíso São Paulo-SP-  
CEP 04013-001 Brasil

**RIO DE JANEIRO**  
Rua da Ajuda, 35-28° and.  
CEP 20069-900 Rio de Janeiro-RJ-Brasil

**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-Parasíso  
São Paulo-SP-CEP 04013-001-Brasil

### MEXICO

**Sompo Japan Insurance De Mexico,  
S.A. de C.V.**  
Av. Insurgentes Sur 1196, Piso 8 Col.  
Tlacoquemecat 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, 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 City, Metro Manila, Philippines

### THAILAND

#### **Sompo Japan**

#### **Service (Thailand) Co., Ltd.**

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

#### **Sompo Japan**

#### **Insurance (Thailand) Co., Ltd.**

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

### VIETNAM

#### **United Insurance Company of Vietnam**

#### **HANOI**

11th Floor, Hanoi Tung Shing Square, Unit 1102, 2 Ngo Quyen Street, Hoan Kiem District, Hanoi, Vietnam

#### **HO CHI MINH CITY**

8th Floor, Sunwah Tower, 115 Nguyen Hue Street, District 1, Ho Chi Minh City, Vietnam

### MALAYSIA

#### **Berjaya Sompo Insurance Berhad**

18th Floor, Menara BGI, Plaza Berjaya, 12, Jalan Imbi, 55100 Kuala Lumpur, Malaysia

### 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, Level 9, 2 Market Street, Sydney, New South Wales 2000, Australia

#### **MELBOURNE**

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

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**President and Chief Executive Officer**

Masatoshi Sato

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**Director, Senior Managing Executive Officer**

Yoshio Ito

Yukio Nakamura

Hideo Suzuki

Keishiro Kinoshita

Jun Mochizuki

---

**Director, Managing Executive Officer**

Junichiro Okawa

Kenichi Tomita

Koki Kazuma

Hisashi Nakano

Eiichi Yoshimitsu

Toshio Matsuzaki

Masami Ishii

Takeshi Oiwa

Kengo Sakurada

---

**Corporate Auditor**

Ichiro Suzuki

Tsuneo Ando

---

**Auditor**

Yoshiki Yagi

Tohru Tsuji

Toshiaki Hasegawa

---

**Senior Managing Executive Officer**

Mitsuhiko Fuse

---

**Managing Executive Officer**

Hiroshi Kudo

Takakazu Sugishita

Syuichi Murakami

Toshio Mitsuuchi

Yukio Ito

Jiro Handa

Ken Endo

Mitsuhiko Fukui

Masanori Ishizuka

Yasushi Kuriyama

Kouji Haranaga

Toru Nakajima

---

**Executive Officer**

Toshio Asano

Toshiro Umezaki

Hideaki Anzai

Fumiaki Akaike

Kyoji Kaneko

Hiroshi Nemoto

Hideo Haraguchi

Koichi Motoyama

Yuji Hara

Hidenori Fukuzawa

Hiroataka Arai

Kiyoshi Ido

Hiroyuki Yamaguchi

<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>	¥6,029,789 million
<b>Net Premiums Written</b>	¥1,362,785 million (Non-consolidated)
<b>Offices</b>	Domestic 321 Overseas 32
<b>Agencies</b>	57,475
<b>Employees</b>	14,906
<b>Independent Certified Public Accountants</b>	Ernst & Young Shin Nihon
<b>Number of Shares of Common Stock Issued</b>	987,733,424
<b>Major Shareholders</b>	The Chase Manhattan Bank, N.A.London Mizuho Corporate Bank, Ltd. The Dai-ichi Mutual Life Insurance Company The Master Trust Bank of Japan, Ltd. Japan Trustee Services Bank, Ltd. Meiji Yasuda Life Insurance Company State Street Bank and Trust Company Japan Trustee Services Bank, Ltd.4 Sompo Japan Employee Stock Ownership Group State Street Bank and Trust Company 505103
<b>Stock Exchange Listings</b>	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo
<b>Shareholder Register Manager</b>	Mizuho Trust & Banking Co., Ltd. 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>	Investor Relations Office, Corporate Planning Department Sompo Japan Insurance Inc. 26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8338, Japan
<b>Ratings</b> (as of July 1, 2007)	AA- (Standard and Poor's) Aa3 (Moody's) AA (Japan Rating and Investment Information, Inc.) AA+ (Japan Credit Rating Agency) A+ (A. M. Best)

### Domestic Subsidiaries and Associated Companies

(as of July 1, 2007)

- Hitachi Capital Insurance Corporation
- Saison Automobile and Fire Insurance Company, Limited
- 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.
- Sompo Japan Healthcare Services Inc.
- Sompo Japan Human Resource Development Inc.
- Healthcare Frontier Japan Inc.
- Sompo Japan Agency Support Inc.
- Sompo Japan Risk Management Inc.
- Japan Insurance Services Inc.
- Japan Insurance Agency Saitamanishi Inc.
- Taisho Sangyo Kabushiki Kaisha
- Area Support Japan Watarase Holding Co., Ltd.
- Area Support Japan Lloyd Co., Ltd.
- Area Support Japan 302 Enterprises 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 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
- The Investment Enterprise Partnership YKV-1
- The Investment Enterprise Partnership YKV-2
- YED Global Technology I Partnership
- YED Global Lifescience I Partnership
- The Yasuda Enterprise Development I, Limited Partnership
- The Yasuda Enterprise Development II, Limited Partnership
- The Yasuda Enterprise Development III, Limited Partnership
- The Investment Enterprise Partnership YNED
- Yasuda-RB I, Limited Partnership
- YED Tokyo I, Limited Partnership

# SOMPO JAPAN INSURANCE INC.

26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8338, Japan

