

Information Meeting  
for Fiscal Year 2007 1<sup>st</sup> Half Results

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November 27, 2007

SOMPO JAPAN INSURANCE INC.

# **1. Overview of Fiscal Year 2007 1<sup>st</sup> Half Results**

## **2. Sompo Japan's Business Strategy**

# Overview of Fiscal Year 2007 1<sup>st</sup> Half Results

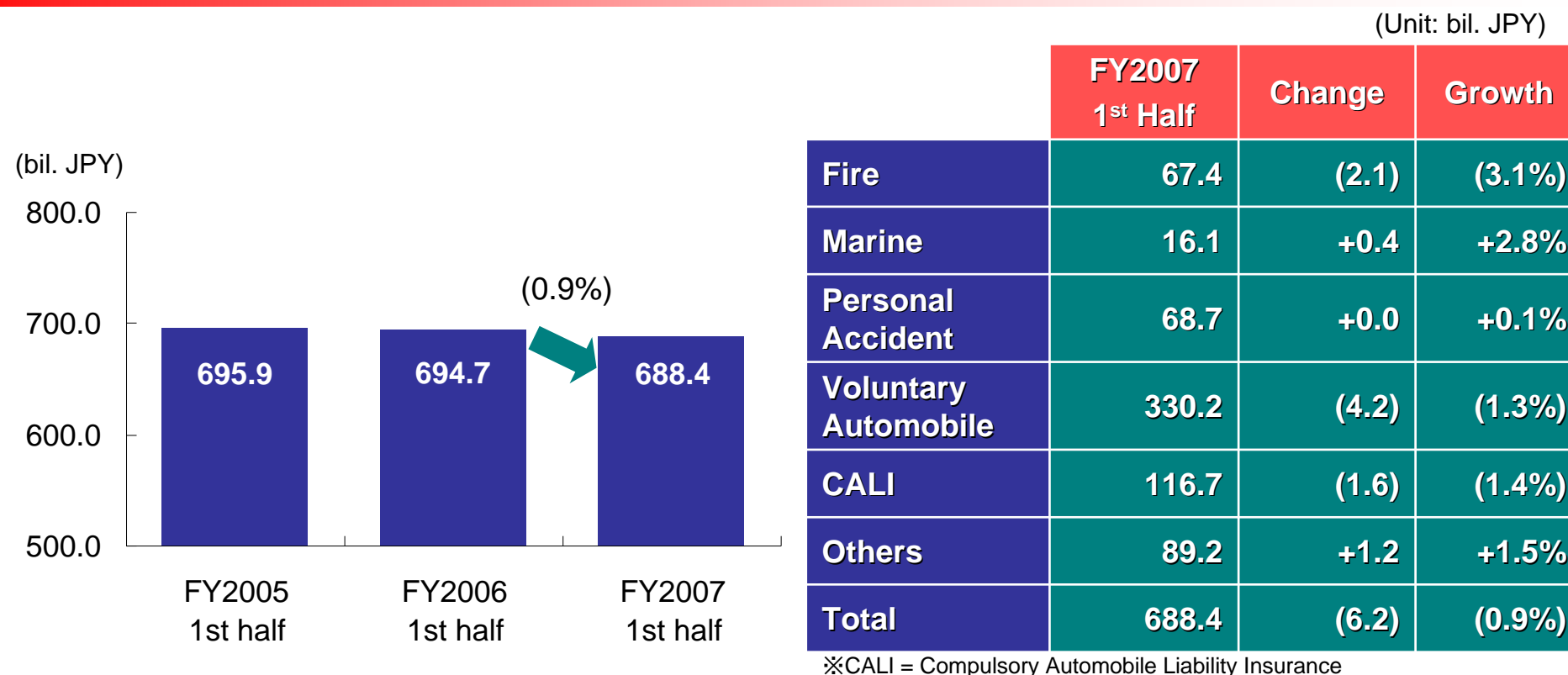
(Unit: bil. JPY)

		FY2007 1 <sup>st</sup> Half	Change	Growth
Non-Consolidated	Net Premiums Written	688.4	(6.2)	(0.9%)
	Loss Ratio	60.8%	+1.0%	
	Expense Ratio	32.4%	+1.8%	
	Combined Ratio	93.1%	+2.8%	
	Underwriting Profit	3.7	(4.9)	(56.6%)
	Interest and Dividend Income	70.6	+18.8	+36.4%
	Ordinary Profit	68.2	+19.2	+39.2%
	Net Income	43.2	+20.4	+89.4%
Consolidated	Ordinary Income	959.1	+2.0	+0.2%
	Ordinary Profit	80.8	+23.2	+40.3%
	Net Income	52.0	+23.8	+84.6%

## Highlight

- ◆ Net premiums written decreased 0.9% due to decrease in automobile and fire insurance.
- ◆ Interest and dividend income increased by 18.8 bil. JPY due to good performance in investment.
- ◆ Ordinary profit and net income both increased in consolidated and non-consolidated.

# Net Premiums Written

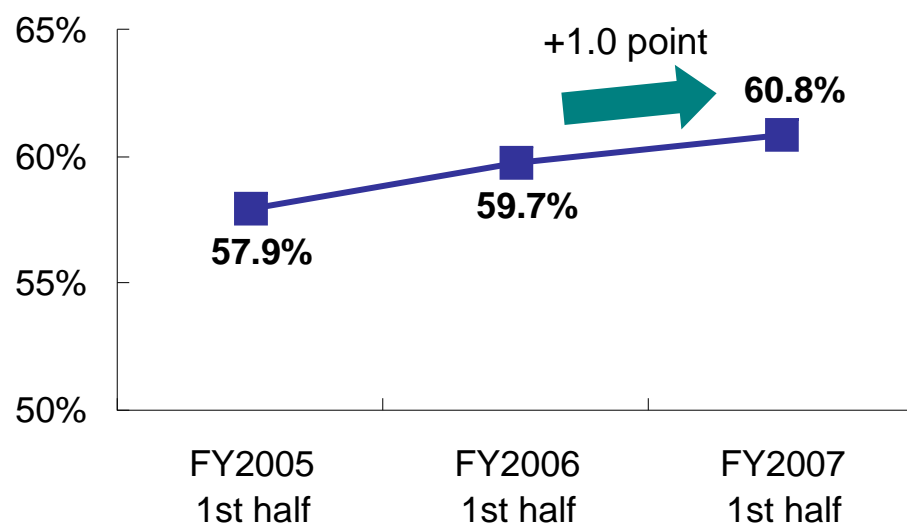


- ◆ Fire insurance of commercial risk increased its premium but in total decreased by 2.1 bil. JPY as we paid back premiums to a part of our client through contract rechecking.
- ◆ Number of automobile insurance contracts grew but the result was 4.2 bil. JPY decreased in premiums by increase of no claim reduced premium rates adopted.
- ◆ As for others, liability insurance went up by 1.5 bil. JPY as a result of increase of commercial sector premiums.

Voluntary automobile insurance  
Number of policies and unit price  
by sales premium  
(Excluding the extraordinary impact)

	Number	Unit
Non-Fleet	(0.2%)	(1.3%)
Fleet	+4.9%	(2.3%)
<b>Total</b>	<b>+0.6%</b>	<b>(1.5%)</b>

# Loss Ratio

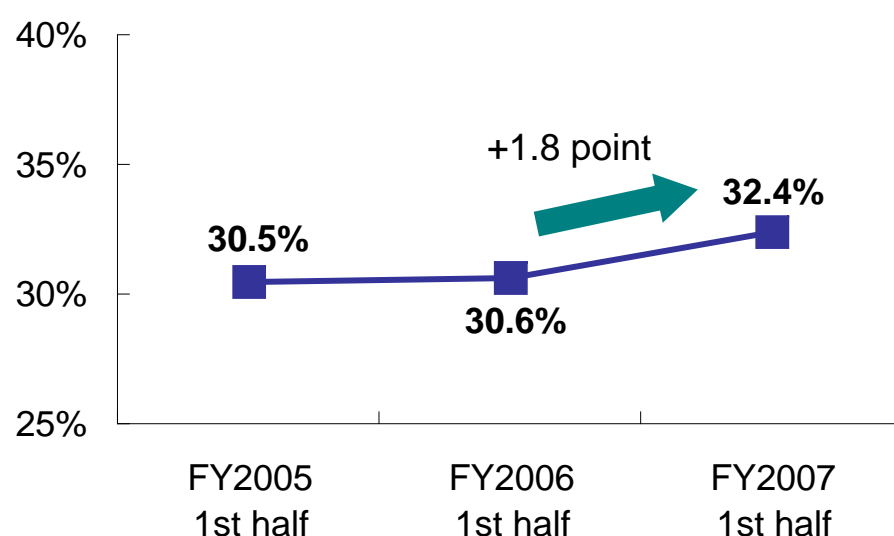


	FY2007 1st Half	Change
Fire	43.0%	(4.7%)
Marine	49.2%	+2.9%
Personal Accident	44.8%	+4.3%
Voluntary Automobile	65.5%	+2.8%
CALI	74.0%	(0.2%)
Others	53.6%	(2.2%)
<b>Total</b>	<b>60.8%</b>	<b>+1.0%</b>

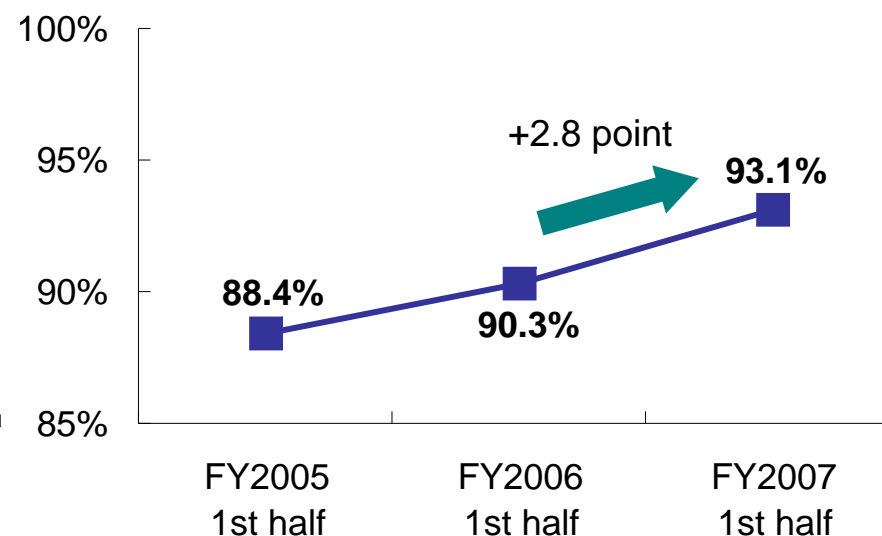
- ◆ Natural disaster loss was 4.5 bil. JPY (down 18.1 bil. JPY from 22.6 bil. JPY of FY2006 1st half).
- ◆ As for personal accident insurance, net claims paid increased because of the rise in the policies in force of third-sector insurance.  
Net claims paid increased in other personal accident insurance as well.
- ◆ In automobile insurance, loss adjustment expense increased due to the reinforcement of claims settlement management.  
In addition, increase in numbers of bodily injury liability coverage and physical damage coverage resulted in rise of net claims paid.

## Expense Ratio / Combined Ratio

### Expense Ratio



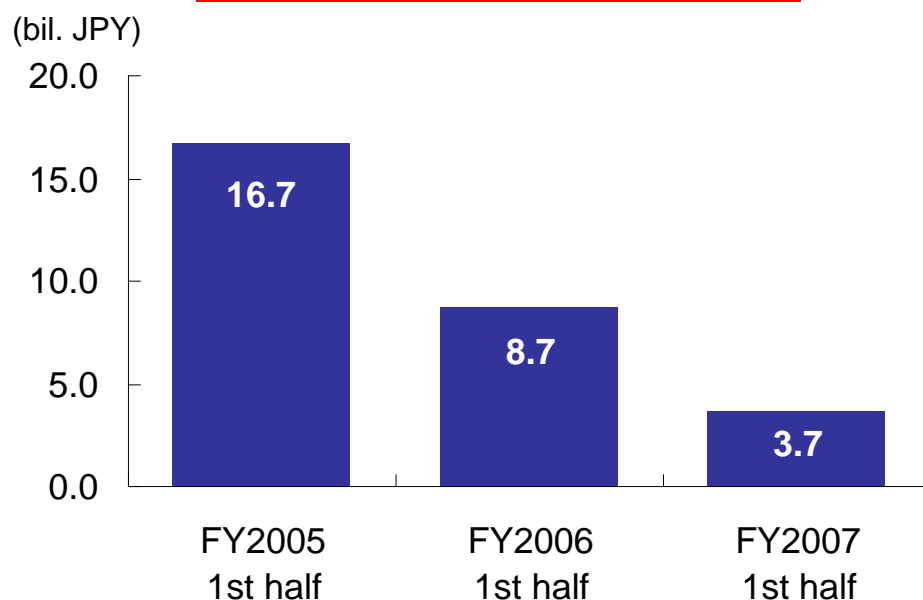
### Combined Ratio



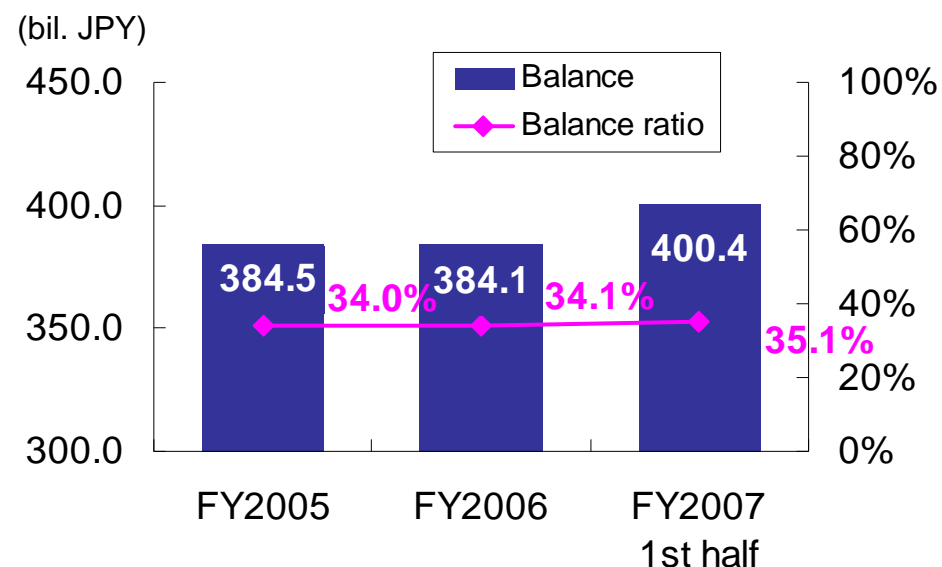
- ◆ Personal expense increased by 3 bil. JPY.  
This was due to reinforcement of claims settlement management and number increase of new employees to reinforce business basis.
- ◆ Non-personal expense increased by 10.4 bil. JPY.  
This was due to investment in IT system and call center aiming for sustainable growth, newly introduced process to check customers' intention and self-imposed examination.

# Underwriting Profit / Catastrophic Loss Reserve

## Underwriting Profit



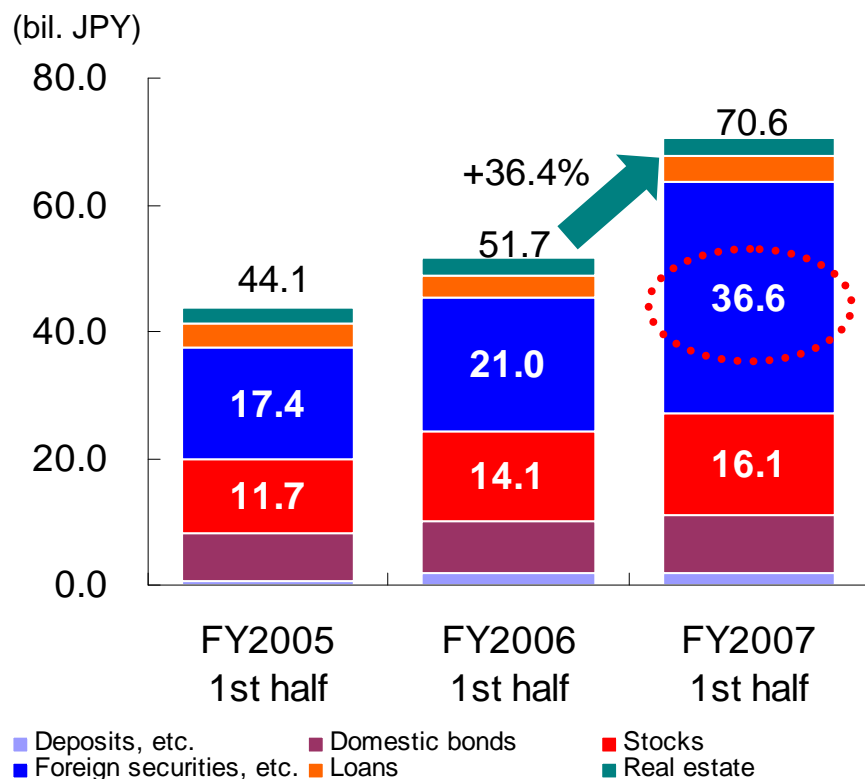
## Catastrophic Loss Reserve



- ◆ Underwriting profit decreased by 4.9 bil. JPY.
- ◆ 26.1 bil. JPY of catastrophic loss reserve for automobile group decreased but total balance went up by 16.3 bil. JPY.
- ◆ Statistical IBNR decreased by 7 bil. JPY largely automobile insurance.

# Investment

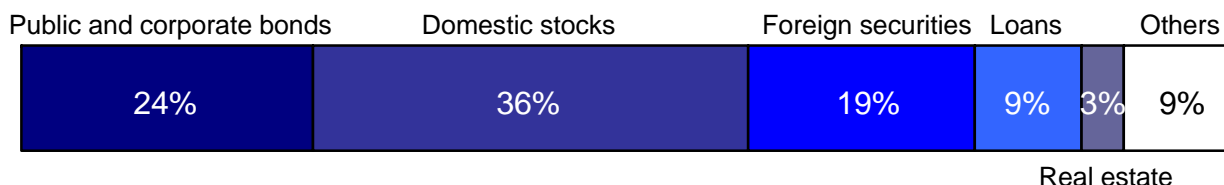
## Gross Interest and Dividend Income



- ◆ Outstanding growth in interest and dividend income from assets denominated in foreign currencies
- Investment in emerging markets such as Asian stocks was successful.
- Profit was realized on sales of overpriced Chinese stock funds.
- ◆ Stock dividends increased due to economic recovery in Japan.

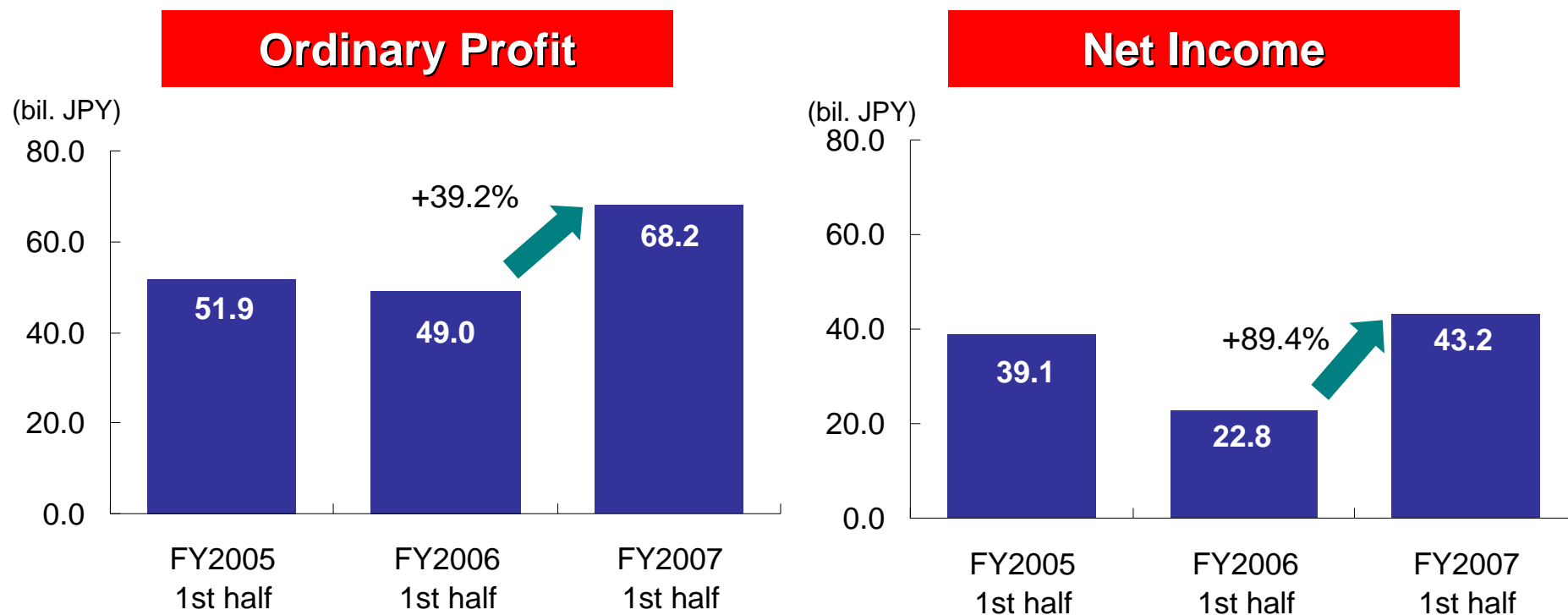
## Asset Allocation

Total: 5.6 tri. JPY





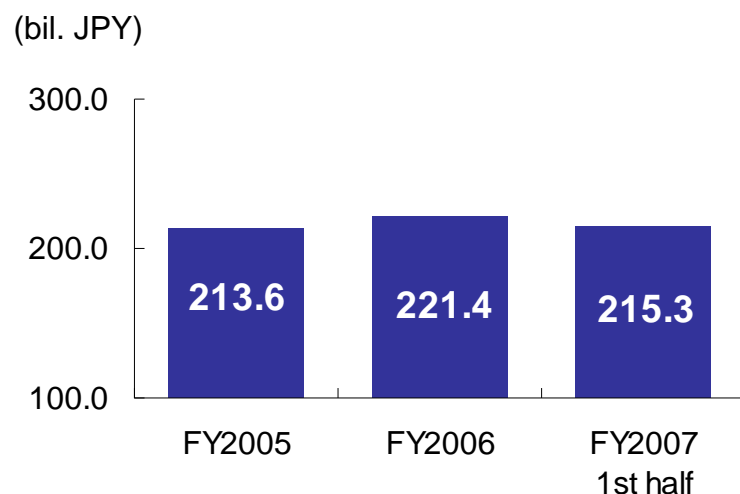
## Ordinary Profit / Net Income



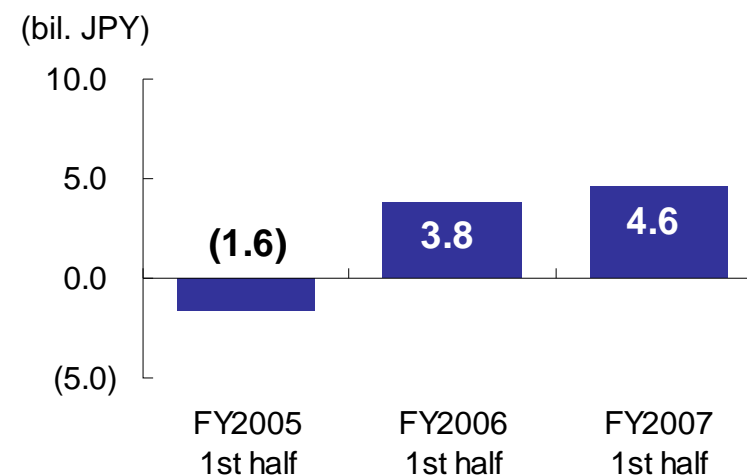
- ◆ Ordinary profit rose by 19.2 bil. JPY due to successful investment.
- ◆ Special losses were minimal and net income ended with 20.4 bil. JPY of increase.

# Life Insurance Business: Sompo Japan Himawari Life

## Annualized Premium from Policies in Force



## Net Income after Consolidation Adjustment



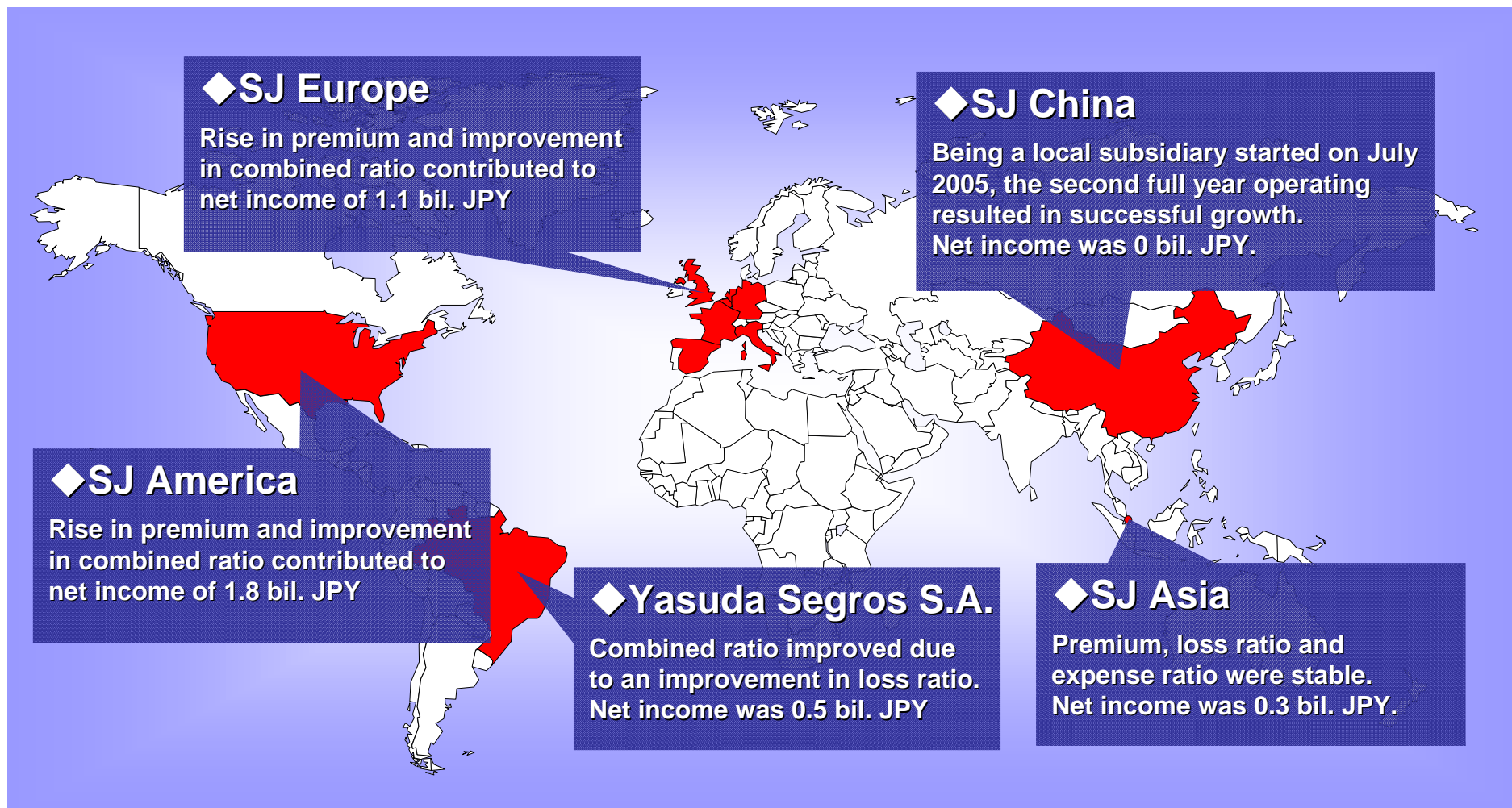
◆ Annualized premium from policies in force decreased by 6.1 bil. JPY.

- Discontinuation of new sales of increasing term life insurance which accounted for more than half of our new policies up to date resulted in a significant decrease in the amount of annualized premiums for new policies (from 20.5 bil. JPY to 8.5 bil. JPY).
- However, we increased in the insured amount of new policies by 6.8% compared to FY2006 1<sup>st</sup> half by shifting sales to protection based products such as income indemnity insurance and term life insurance.

◆ Net income after consolidation adjustment increased steadily to 4.6 bil. JPY.

# Overseas Business

◆ Ordinary profit increased in all consolidated subsidiaries.



# Overview of Consolidated Results

◆ Consolidated net income is 1.2 times to non-consolidated. Net income increase of Himawari Life and overseas subsidiaries have contributed to consolidated results.

(Unit: bil. JPY)

	Ordinary Profit	Net Income	Net Income after Consolidation Adjustment
Sompo Japan	68.2	43.2	
Sompo Japan Himawari Life	9.3	5.9	4.6
Sompo Japan DIY Life	(0.2)	(0.2)	0.1
Sompo Japan DC Securities	(0.3)	(0.3)	(0.3)
Sompo Japan Asset Management	0.2	0.1	0.1
Sompo Japan America	1.8	1.8	1.8
Sompo Japan Europe	1.2	1.1	1.1
Sompo Japan China	0.1	0.0	0.0
Sompo Japan Asia	0.3	0.3	0.3
Yasuda Segros S.A. (Brazil)	0.9	0.6	0.5
Consolidated	80.8	52.0	

# <Reference> Profit / Loss of Reinsurance Contracts Handled by FR

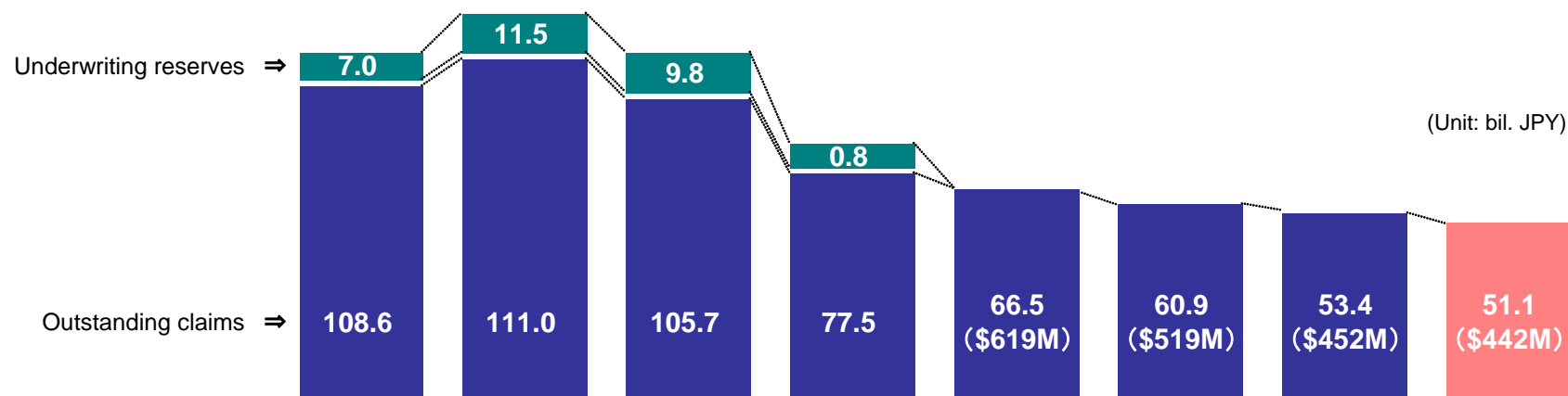
◆ No policy was effective after January 2005 and no new accident incurred.

	FY2002.3	FY2002.6	FY2003.3	FY2004.3	FY2005.3	FY2006.3	FY2007.3	FY2007.9	Total as of the end of Sep. 2007
Premiums	—	(5.9)	+6.5	+5.4	+1.0	+2.2	+2.4	+0.6	+12.2
Claims	—	(1.0)	(10.5)	(25.5)	(11.1)	(7.8)	(8.4)	(3.2)	(67.5)
Comissions	—	(0.1)	(1.1)	(0.4)	(0.1)	(0.1)	(0.0)	(0.0)	(1.8)
Outstanding claims	(108.6)	(2.4)	+5.3	+28.2	+11.0	+5.6	+7.6	+2.2	(51.1)
Underwriting reserves	(7.0)	(3.0)	+1.6	+9.0	+0.8	—	—	—	+1.4
Others	—	(19.4)	+1.5	(10.2)	+5.2	+17.6	+2.3	+0.0	(3.0)
Total	(115.6)	(31.8)	+3.3	+6.5	+7.0	+17.5	+3.9	(0.1)	(109.3)
								<b>Sompo Japan : Total</b>	<b>+38.1</b>

(Unit: bil. JPY)

(Outstanding claims and Underwriting reserves : "+" represent reversal and "(" represent provision.)

## <Trend of outstanding claims and underwriting reserves>



Note) Underwriting reserves include unearned premium and merger profit at legacy Nissan Fire.

## **1. Overview of Fiscal Year 2007 1<sup>st</sup> Half Results**

## **2. Sompo Japan's Business Strategy**

# Sompo Japan's Growth Strategy

## Growth Strategy of Medium-Term Business Plan

**Establish a new business model in P&C retail market**

**Expand life insurance and DC/ asset management business**

**Develop healthcare business**

**Contribute to profits through overseas business**

## Efforts to Improve Quality

- ◆ We will continue our efforts to be the most favorable company for the customers by investing our management resources in future quality improvement measures.  
Our medium term objective is to realize cost reduction through this effort of efficiency.

### Improve quality of service center

- ◆ Service center (Claim payment section) = realization of insurance products and service capabilities
  - Reform corporate culture and attitude based on customers' perspective
  - Coordinate between sales and service center, strengthen claim response capabilities of our agencies

### Improve quality of internal operation process

- ◆ Quality improvement of clerical work based on customers' perspective
  - Establish new operational processes through our new retail business model reform project

### Improve quality of agency service

- ◆ Improve quality of agency service
  - Reinforce response capability to customers utilizing customers intention checking system
  - Enrich and promote the use of agency IT system



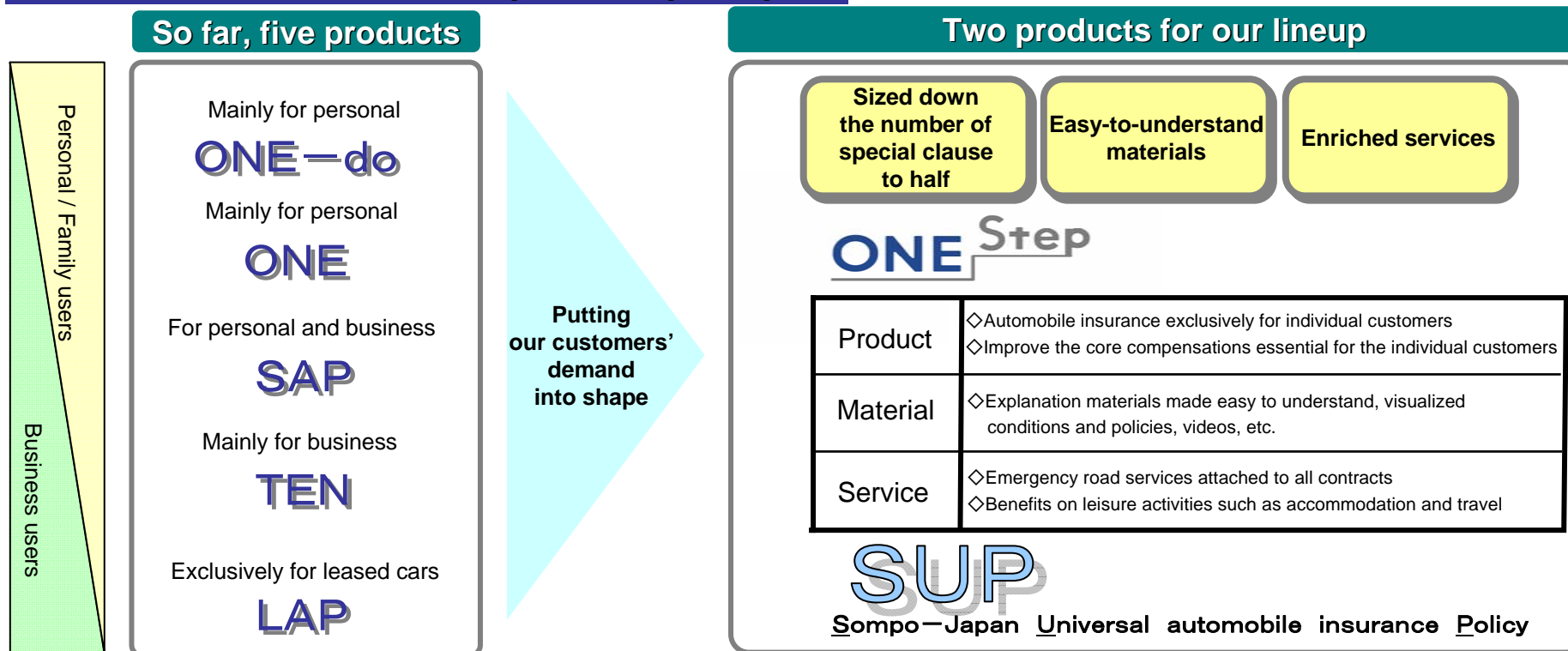
# Launch New Automobile Insurance Product

The first step of our retail market business model reform project

## Concept of new product "ONE-Step"

Customer oriented automobile insurance ever so "easy-to-understand", focusing on individual (personal / family) users.  
 ※"ONE-Step" is one of Sompo Japan's automobile insurance lineups. It was named with expectation that the product will bring us back to our stand point and mark a new chapter of customer-focused automobile insurance in the ever confusing automobile insurance market

## Automobile insurance lineup of Sompo Japan



◆Revising premium rate according to the current result of automobile insurance

## Efforts for Distribution Channels

◆ For top line expansion in FY2008, we are steadily carrying out measures of distribution channels for penetrating retail market in line with the growth strategy of our medium term business plan.

### Reinforcement measures for agency trainees and existing professional agencies

- ◆ Reinforce and expand both the quality and the quantity of agency trainees (300 new recruits planned for FY2007)
- ◆ Activate the organization of exclusive and high-achieving professional agencies
- ◆ Utilizing the newly developed database of leading small-and-medium-sized companies to cross-sell multiple products

### Reinforce channels in financial institutions / Japan post

- ◆ Actively invest management resources into new business opportunities

### Reinforce efforts to reach out to mutual aid market transferring to insurance industry

- ◆ Actively approach special insurance associations which have already decided to transfer to insurance

## Reinforce Efforts for Bank OTC and Japan Post

### Bank

### OTC

- ◆ Bank OTC will be completely liberalized in December 2007
  - Actively invest management resources utilizing our past tie-up achievements in P&C insurance, life insurance and asset management
- ◆ Offer adequate products such as third-sector products and life insurance
  - Offer easy-to-understand products and reinforce the sales support structure

### Japan

### Post

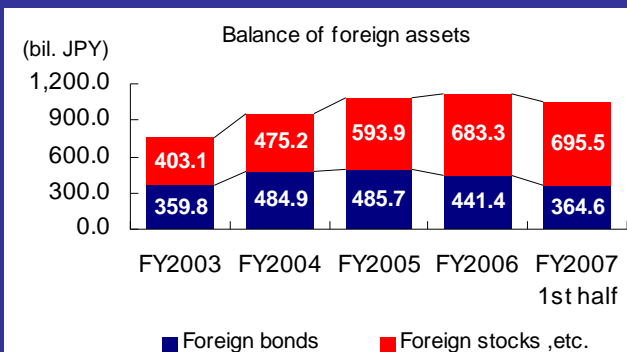
- ◆ Understand the business opportunities presented by the privatization of Japan Post and take appropriate measures as a group
  - Propose P&C insurance / life insurance / asset management products and risk management services to the group companies of Japan post
- ◆ Start selling automobile insurance at post offices in metropolitan area from October 2007
  - Sompo Japan is named as a joint insurance underwriter.

# Investment Strategy

## ◆ Main investment strategy in and after the latter half of FY2007.

### Assets Denominated in Foreign Currencies

- ◆ Continue investment in emerging market stocks mainly in Asia
- ◆ Based on our anticipation of higher yen, we will make efforts to decrease the outstanding balance of foreign bonds with flexible currency hedging.
- ◆ Regarding yen interest assets, we will invest into products where a relatively advantageous spread is secured.



### Strategic Stockholding

- ◆ Considering equity risk, we will continue to sell strategic stock.
  - ⇒ Sales of stock are expected to be the same level as FY2006.
  - ※ Sales of stock for FY2007 1<sup>st</sup> half: 14.4 bil. JPY (+0 bil. JPY from last year)

### ALM

- ◆ Promote ALM for considering the characteristics of assets and liabilities
  - ⇒ Invest in yen interest assets

# Life Insurance Strategy

<b>Himawari</b>  <b>Life</b>	<ul style="list-style-type: none"><li>◆ Accelerate shift of sales towards protection based products<ul style="list-style-type: none"><li>- Enhance the lineup of the products</li></ul>We will develop highly competent products such as “Medical insurance with limited notification.”</li><li>◆ Reinforce LC (Life Counselor = direct sales staff)<ul style="list-style-type: none"><li>- Complete the establishment of 14 nation wide branch office and aim for growth through improvement of productivity of LC</li></ul></li></ul>
<b>DIY</b>  <b>Life</b>	<ul style="list-style-type: none"><li>◆ Launched “One year term life insurance “Simple Select”” in November<ul style="list-style-type: none"><li>- We enhanced our lineup by adding ready-made products to meet customer demands.</li></ul></li><li>◆ Capital increase by 3.5 bil. JPY in November 2007<ul style="list-style-type: none"><li>- Realize further growth through more flexible and mobile expansion in terms of business and strategy</li></ul></li></ul>
<b>Dai-ichi</b>  <b>Life</b>	<ul style="list-style-type: none"><li>◆ Promote cross-selling of life and P&amp;C insurance products based on comprehensive business alliance</li></ul>

## Defined Contribution Pension Plan Business / Asset Management Business

### DC Securities

- ◆ Maintain top class market share and position in the market by its bundling service with low price and bilingual service
- ◆ Asset under management of DC exceeded 110 bil. JPY in the end of September 2007.  
Accumulated total number of accounts exceeded 0.1 million by the end of September 2007

### Sompo Japan Asset Management

- ◆ We will continue to promote the selling of investment trust through financial institution counters focusing on expansion of our channels with regional banks.
- ◆ Asset under management for DC channel is also showing stable growth and further expansion is expected.
- ◆ In investment advisory business, we intend to increase our profile in public and individual pension markets.

# Healthcare Business

## Healthcare Frontier Japan

- ◆ We consider aging society and restructuring of medical insurance system as business opportunity.  
Introduction of “disease prevention services”  
(Healthcare Frontier Japan was founded in October 2005.)
- More than 100 health insurance societies have already signed contract.
- Utilize know-how from disease prevention service to develop insurance products

## Sompo Japan Healthcare Service

- ◆ Growing need to take mental healthcare measures in companies  
Introduction of “mental healthcare support services”  
(Sompo Japan Healthcare Service was founded in April 2007.)
- The service will be utilized to enhance Sompo Japan’s presence in existing and new clients.

# Overseas Strategy

◆ Invest management resources effectively in view of growth and profit potentials of each market

## ◆ Brazil

- 50 years of operation history of local underwriting business
- Focus on maintaining and enhancing local presence

## ◆ China

- Established local subsidiary in Dalian in June 2005, as the first and only Japanese P&C insurance company
- Opened its Shanghai branch in October; further plan to expand branch offices
- Investing management resources also in Hong Kong

## ◆ India

- Established new P&C insurer with Indian bank consortium and will start its operation in December 2007
- Aiming to develop local retail market

## ◆ ASEAN

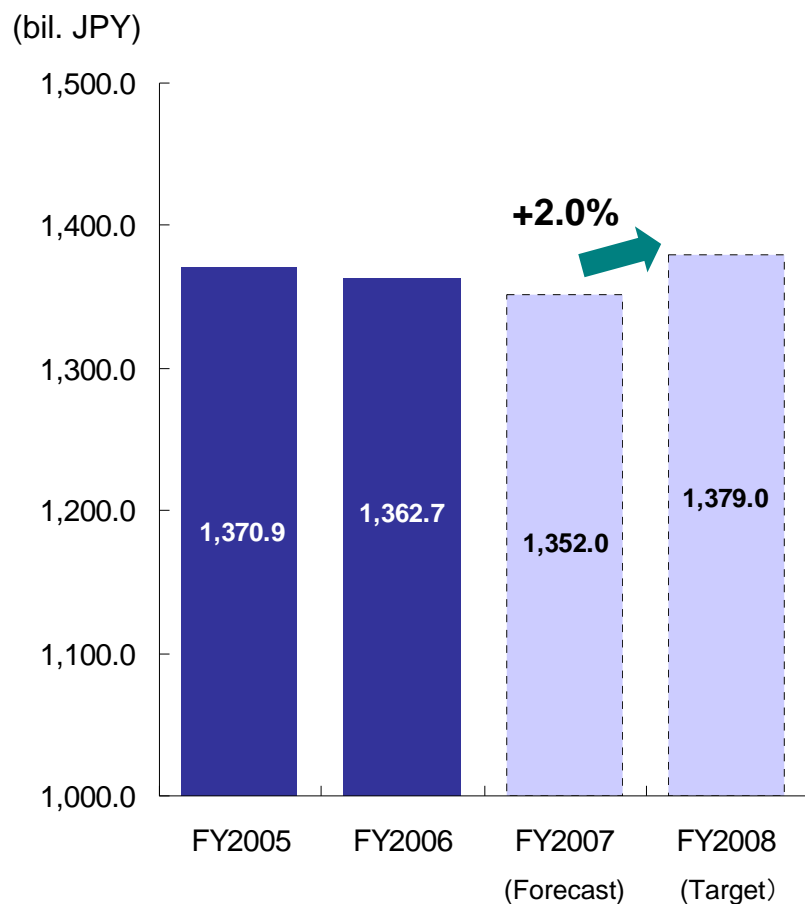
- Full operation of Berjaya Sompo Insurance Berhad, JV set up in January 2007.
- Invest management resources in Thailand and Malaysia as strategically important countries.



# Revision of Management Target

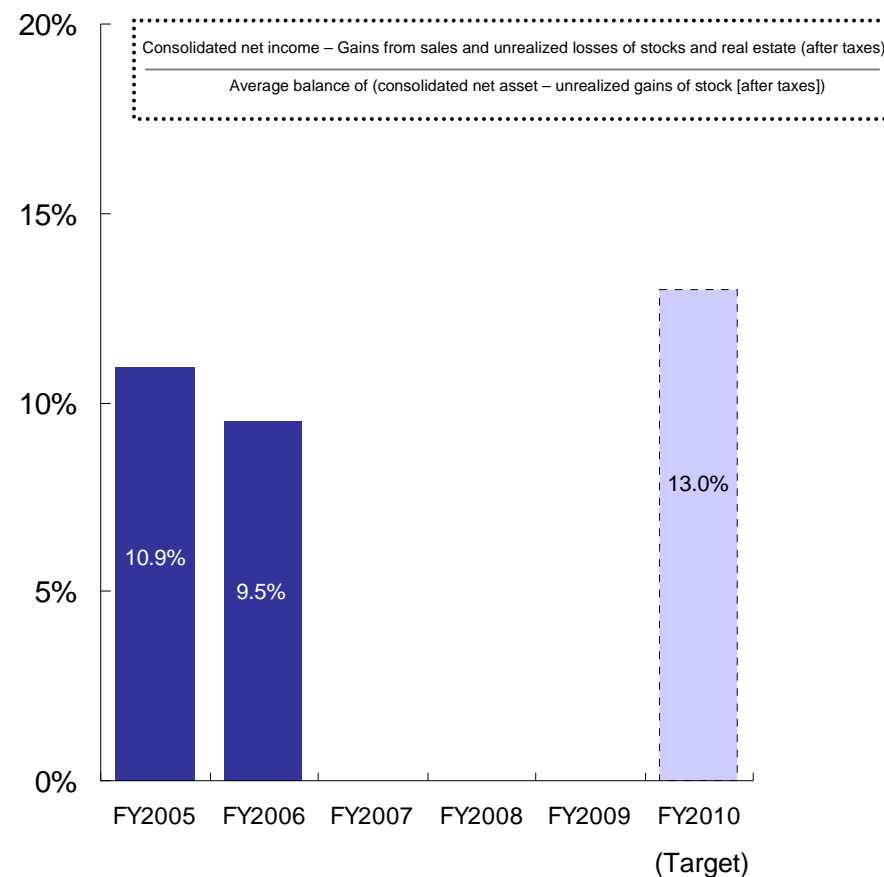
## Net Premiums Written

◆ Revised from 1,450 bil. JPY to 1,379 bil. JPY

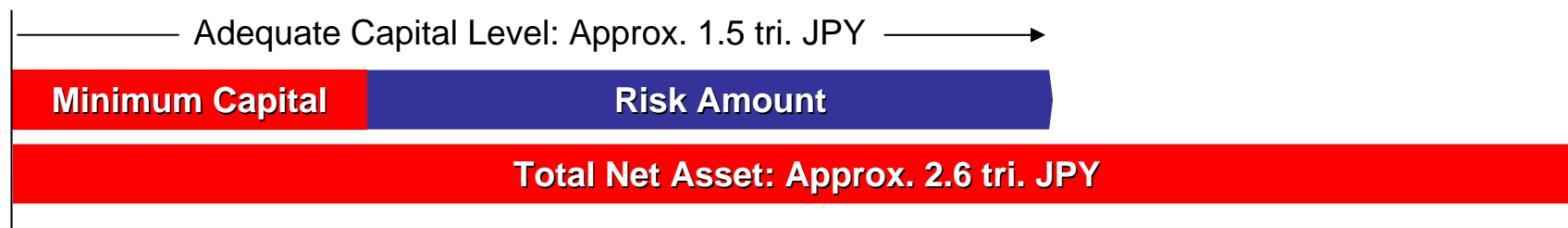


## Adjusted Consolidated ROE

◆ No revision



## Risk and Capital (As of September, 2007)



- [Risk Amount] Underwriting risk, Investment risk, Operational risk  
⇒ Quantified by Tail-VaR method with 99% reliance interval
- [Minimum Capital] Required capital to maintain Solvency Margin Ratio of 200%
- [Total Net Asset] Total present value of existing policies' future cash flow, net asset after necessary adjustments, quasi-capital reserves and unrealized gains on real estate

- ◆ Approx. 1.1 tri. JPY surplus, stems primarily from increased unrealized gains on securities.
- ◆ Surplus is earmarked for capital allocation to risk-taking toward higher investment return and expansion of profit in existing and new businesses.
- ◆ Sompo Japan seeks to increase dividend payments steadily to reward for shareholders. Dividend on Equity (DOE) is used as an indicator with long-term target 2%.

# Non-consolidated Forecast for Fiscal Year 2007

(Unit: bil. JPY)

	FY2006		FY2007	
	Results	Change	Forecast	Change
Net premiums written	1,362.7	(0.6%)	1,352.0	(0.8%)
Loss ratio	64.3%	+3.0%	66.3%	+2.1%
Expense ratio	30.9%	+0.6%	33.1%	+2.2%
Combined ratio	95.2%	+3.6%	99.5%	+4.3%
Underwriting profit	10.1	(13.9)	(15.0)	(25.1)
Interest and dividend income	113.6	+18.5	123.0	+9.3
Ordinary profit	91.7	(22.5)	87.0	(4.7)
Net income	48.1	(19.6)	55.0	+6.8

## <Net Premiums Written>

(Unit: bil. JPY)

	FY2006		FY2007	
	Results	Growth	Forecast	Growth
Fire	148.8	(2.1%)	145.0	(2.6%)
Marine	31.0	+9.5%	31.9	+2.7%
Personal Accident	127.7	+0.1%	129.0	+1.0%
Voluntary Automobile	666.9	(1.1%)	657.5	(1.4%)
CALI	232.7	(2.2%)	232.5	(0.1%)
Others	155.5	+3.1%	156.1	+0.4%
Total	1,362.7	(0.6%)	1,352.0	(0.8%)

## <Net Claims Paid>

(Unit: bil. JPY)

	FY2006		FY2007	
	Results	L/R	Forecast	L/R
Fire	84.0	58.1%	68.9	49.5%
Marine	13.6	47.0%	15.3	51.4%
Personal Accident	53.5	45.8%	58.2	49.5%
Voluntary Automobile	397.8	66.0%	410.7	69.8%
CALI	160.8	74.4%	159.8	73.9%
Others	96.9	66.2%	108.1	73.0%
Total	806.8	64.3%	821.0	66.3%

※CALI = Compulsory Automobile Liability Insurance

※L/R = Loss Ratio

# Consolidated Forecast for Fiscal Year 2007

(Unit: bil. JPY)

	Ordinary Profit	Net Income	Net Income after Consolidation Adjustment
Sompo Japan	87.0	55.0	
Sompo Japan Himawari Life	11.8	7.6	4.9
Sompo Japan DIY Life	(0.0)	(0.0)	(0.0)
Sompo Japan DC Securities	(0.6)	(0.6)	(0.6)
Sompo Japan Asset Management	0.4	0.2	0.1
Sompo Japan America	2.4	2.4	2.4
Sompo Japan Europe	1.0	1.1	1.1
Sompo Japan China	0.1	0.0	0.0
Sompo Japan Asia	0.8	0.7	0.7
Yasuda Segros S.A. (Brazil)	1.4	1.0	1.0
Consolidated	100.0	63.0	

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