

Exposure to Structured Finance & U.S. Monoline Insurers

May 27, 2008

SOMPO JAPAN INSURANCE INC.

Structured Finance Exposure in Our Investment Portfolio

- Total structured finance exposure in our investment portfolio is 87.8bil.JPY:
CDOs: 0.8bil.JPY, ABS: 82.7bil.JPY, Leveraged Finance: 4.3bil.JPY
- Less than 1% of this structured finance exposure, 0.7bil.JPY, consists of RMBS with U.S. subprime exposure.
(Excluding net short position via hedge funds investments.)
- FY2007 results include 0.1bil.JPY impairment losses and 0.1bil.JPY unrealized losses from structured finance portfolio.

(As of March 31, 2008, Unit: billions of JPY, USD/JPY=100.20, same conversion rate applied throughout this report)

Categories		Outstanding Balance	Gains/Losses in FY2007		
			Gains/Losses Charged to P/L	Unrealized Gains/Losses	Total
CDOs	Corporate CDOs *1	0.8	(0.1)	(0.0)	(0.1)
	ABS CDOs *2	-	-	-	-
	CDOs Total	0.8	(0.1)	(0.0)	(0.1)
ABS	RMBS *3				
	U.S. subprime loans related	0.7	-	(0.0)	(0.0)
	Global RMBS (excl. U.S. subprime loans related)	14.6	-	(0.7)	(0.7)
	Domestic RMBS	33.8	-	0.6	0.6
	RMBS Total	49.2	-	(0.1)	(0.1)
	CMBS *4				
	Global CMBS	3.6	-	(0.2)	(0.2)
	Domestic CMBS	27.1	-	(0.0)	(0.0)
	CMBS Total	30.7	-	(0.2)	(0.2)
	Other ABS				
	Global ABS	2.3	-	0.2	0.2
	Domestic ABS	0.3	-	(0.0)	(0.0)
	Other ABS Total	2.6	-	0.2	0.2
ABS Total	82.7	-	(0.1)	(0.1)	
Investment in SIV		-	-	-	-
Leveraged Finance *5		4.3	-	-	-
Total		87.8	(0.1)	(0.1)	(0.2)
Reference: Hedge funds (U.S. subprime loans related exposure)		(1.3)	Net of the long position and the short position		

*1 Corporate CDOs: CDOs (Collateralized Debt Obligations) where underlying assets are corporate debt such as corporate bonds or credit derivatives.

Global: 0.1bil.JPY (Equity, No ratings), Domestic: By redemption, Domestic exposure as of April 30, 2008 is 0.1bil.JPY (Senior, AAA)

*2 ABS CDOs: CDOs where underlying assets are ABS (Asset Backed Securities).

*3 RMBS: Asset Backed Securities where underlying assets are residential mortgage loans (Excluding RMBS issued by government sponsored enterprises).

All RMBS are investment grade (BBB and above), and 99% are rated AAA.

*4 CMBS: Asset Backed Securities where underlying assets are commercial mortgage loans. CMBS exposure as of the end of the previous fiscal year was 28.7bil.JPY.

*5 Leveraged Finance: Finance where funding are provided for corporate mergers and acquisitions, mainly based on cash flows of acquired companies. Domestic only.

Leveraged Finance exposure as of the end of the previous fiscal year was 6.0bil.JPY.

Financial Guarantee Insurance Exposure

- Total insured amount with U.S. subprime exposure is 186.1bil.JPY:
CDOs: 181.0bil.JPY, RMBS: 5.1bil.JPY
- In FY2007, 30.0bil.JPY is booked for loss reserve regarding a particular insurance policy guaranteeing a portion of an ABS CDO with some U.S. subprime exposure.

(As of March 31, 2008, Unit: billions of JPY)

Categories		Insured Amount			Losses/ Reserves in FY2007 *4	Notes
		Direct Insurance *2	Treaty Reinsurance*3	Total		
CDOs	Corporate CDOs	416.1	11.2	427.3	-	All direct insurance policies are rated AAA
	ABS CDOs					
	U.S. subprime loans related *1	181.0	-	181.0	(30.0)	Refer to Supplement 1
	Others (excl. U.S. subprime loans related)	60.7	1.2	61.9	-	Such as prime RMBS, CMBS
	ABS CDOs Total	241.7	1.2	242.9	(30.0)	
	CDOs Total	657.8	12.4	670.3	(30.0)	
ABS	RMBS					
	U.S. subprime loans related	-	5.1	5.1	-	Almost all RMBS are investment grade (BBB and above), and 78% are rated AAA
	Global RMBS (excl. U.S. subprime loans related)	1.7	14.7	16.4	(0.0)	
	Domestic RMBS	51.7	-	51.7	-	
	RMBS Total	53.4	19.8	73.3	(0.0)	
	CMBS	-	-	-	-	No exposure
	Other ABS					12% of Global ABS are U.S. consumer-loan related ABS, while others are mainly related to corporate credit (e.g., leasing receivables)
	Global ABS	5.4	53.3	58.8	(0.0)	
	Domestic ABS	25.7	2.1	27.8	-	
Other ABS Total	31.1	55.5	86.6	(0.0)		
	ABS Total	84.5	75.4	159.9	(0.0)	
Public Finance		-	325.6	325.6	0.1	Domestic only
Total		742.4	413.5	1,155.9	(29.9)	

*1 CDOs that include any (even a part thereof) U.S. subprime loans. (Excluding CDO which is booked for loss reserve for FY2007)

*2 Facultative reinsurance policies are included under "Direct Insurance."

*3 "Treaty Reinsurance" is a portfolio-based reinsurance where certain parts of policies underwritten by the original insurer are ceded automatically to the reinsurer, Sompo Japan, in accordance with the conditions agreed between the original insurer and reinsurer.

*4 Total amount of payment loss and increased loss reserve in FY2007. (Financial Guarantee insurance is not supposed to book mark-to-market unrealized gains/losses as it is an insurance policy.)

Supplement 1. Financial Guarantee for U.S. Subprime related CDOs

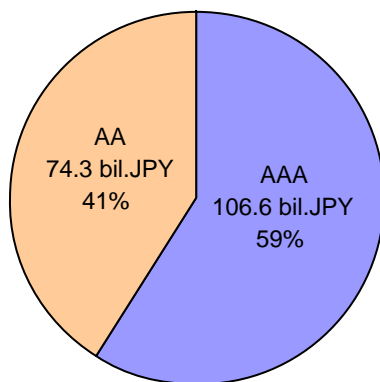
- Of the U.S. subprime loan-related CDOs (181.0bil.JPY), 106.6bil.JPY (59%) are rated AAA and 74.3bil.JPY (41%) are rated AA.
- 90% of the total underlying assets are rated A or above.
- The ratio of subprime loans-related RMBS is 11.7% of the total underlying assets.
- The ratio of portions subordinated to Sompo Japan's guaranteed tranche is 11.9% of the total underlying assets.

Reference: CDOs with early liquidation structure based on average rating of underlying asset

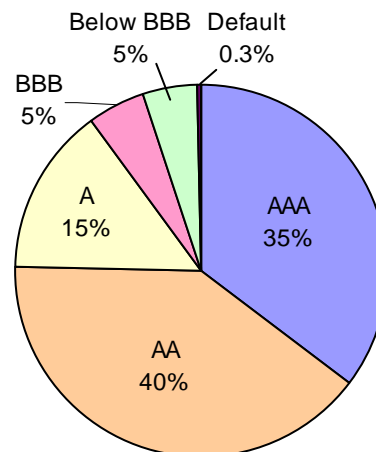
- Three guarantee insurance policies are issued for CDOs with such early liquidation structure as CDO investors have option to sell all underlying assets to the third party for the purpose of diminishing their loss in case the aggregate outstanding par amount of underlying assets after the calculation of rating-based par haircuts falls below a particular level.
- Loss reserve has been booked for one of these guarantee policies, according to recognition of possibility of early liquidation of the CDO and occurrence of possible payment of the claim of said insurance policy. (Refer to news release "Booking of loss reserve for financial guarantee insurance and revision of earnings projections for fiscal year 2007" dated Jan. 11, 2008. The loss reserve amount as of the end of March 2008 is 30.0bil.JPY)
- The portion of CDOs guaranteed by other two policies are both rated AAA, and the guaranteed amount is 24.5bil.JPY. Most of the underlying assets of these CDOs were issued in 2005 or earlier when the subprime impact was relatively small, therefore the decline of rating-based par haircuts are limited (Refer to chart below)

Note: Rating-based reference is calculated based on each underlying assets ratings, and the calculation rule and trigger level of each issue differ from each other.

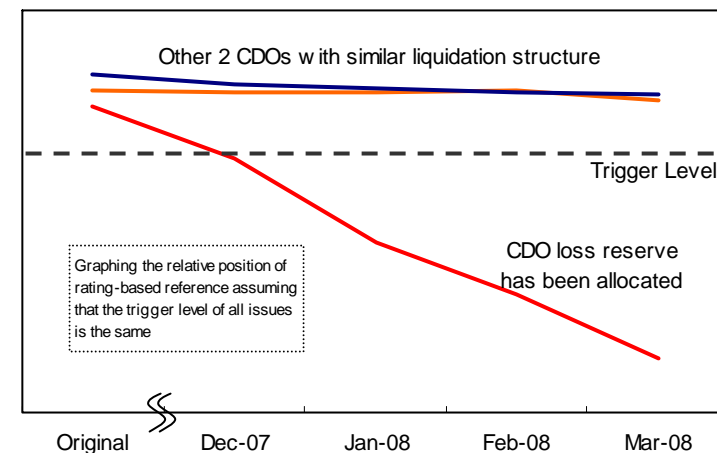
Distribution of issue rating



Distribution of all underlying assets rating



Change in the rating-based reference



Supplement 2. List of Guarantee for ABS CDOs

(As of March 31, 2008, Unit: billions of JPY)

Policy No.	Issue Rating *1	Fiscal Year Issued	Insured Amount	Subordination Ratio *2	Distribution of underlying assets rating						Ratio of subprime RMBS
					AAA	AA	A	BBB	Below BBB	Default	
Guarantee for CDO①	AAA	2003	10.0	14%	53%	17%	14%	14%	2%	0.0%	0%
Guarantee for CDO② *3	AAA	2004	29.9	17%	94%	0%	1%	0%	5%	0.0%	1%
	AAA	2004	10.0	10%							
Guarantee for CDO③	AAA	2004	12.0	10%	35%	46%	13%	5%	1%	0.0%	11%
Guarantee for CDO④ *4	AAA	2004	12.5	11%	45%	51%	2%	0%	1%	0.0%	10%
Guarantee for CDO⑤ *4	AAA	2005	12.0	13%	6%	55%	31%	5%	3%	0.0%	14%
Guarantee for CDO⑥	AA	2006	15.0	12%	50%	13%	17%	15%	5%	0.6%	3%
Guarantee for CDO⑦	AAA	2006	20.0	8%	14%	86%	0%	0%	0%	0.0%	30%
Guarantee for CDO⑧	AA	2006	29.2	10%	24%	28%	19%	10%	19%	0.5%	11%
Guarantee for CDO⑨	AA	2006	30.0	19%	27%	23%	33%	5%	11%	1.5%	10%
Subtotal of U.S. subprime loans related CDOs			181.0	11.9%	35%	40%	15%	5%	5%	0.3%	11.7%
Guarantee for CDO⑩	AAA	2002	0.9	83%	76%	0%	0%	7%	18%	0.0%	-
Guarantee for CDO⑪	AAA	2004	30.0	16%	68%	30%	0%	1%	1%	0.0%	-
Guarantee for CDO⑫	AAA	2007	29.7	40%	0%	1%	5%	56%	38%	1.1%	-
Subtotal of other ABS CDOs			60.7	28.8%	30%	9%	3%	34%	25%	0.6%	-
Total of ABS CDOs			241.7	16.1%	35%	36%	13%	9%	7%	0.3%	-

<Reference> The U.S. subprime loans related CDO loss reserve has been allocated

Guarantee for CDO⑬ *4	-	2006	30.0	9%	23%	22%	16%	14%	25%	2.5%	14%
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*1 Issue ratings are as of the end of April 2008.

*2 Subordination Ratio is a ratio of portions subordinated to our guaranteed tranche.

*3 Guarantee for CDO② insures different two classes of the same CDO.

*4 Guarantee for CDO④, ⑤ and ⑬ are the three CDOs with early liquidation structure. (Refer to the Supplement 1)

- Forecast for FY2008 includes approximately 1.4bil.JPY possible loss related to U.S. subprime loans based on our due diligence on U.S. subprime loans-related CDOs and RMBS.
(The forecast of underwriting profit of total financial guarantee insurance netting this possible loss is +0.0bil.JPY)

Due diligence procedure

Classify the underlying assets of each CDO by some profile such as category (RMBS, ABS, CDO), rating, vintage, etc.

Estimate loss of each underlying asset.
(The loss of RMBS is estimated based on the status of delinquency of the underlying mortgage loans.)

Estimate the possible payment of the claim of each CDO by comparing the estimated total loss of underlying assets with the subordination amount below Insured Portion.

Sompo Japan estimates that the possible loss amount related to U.S. subprime loans in FY2008 could be 1.4bil.JPY.
Note: Additional increased loss reserve and payment loss.

Projection of the insured amount of structured finance instruments

- Underwriting new financial guarantees has been currently suspended.
- The current total insured amount of structured finance assets (Guarantee for CDOs and ABS), 830bil.JPY, is expected to decrease to around 100bil.JPY in 10 years.

Note: Estimated by the exchange rate as of the end of March 2008. This projection is liable to change depending on particular conditions relating to each issue and the macro-environment, such as the broader economic situation or interest-rate movements.

- 10mil.JPY stocks of monoline insurers and 0.2bil.JPY notes guaranteed by monoline insurers through investing funds.
- The total insured amount of U.S. monoline guaranteed notes is 19.2bil.JPY. For these guarantees, Sompo Japan will only become liable for claim payment or suffer losses in case of default of both the underlying notes and the monoline that has guaranteed those notes.

Note: Sompo Japan's exposure to corporate CDOs where numbers of corporate entities are referred as reference entities and, additionally, one or multiple monoline insurers are contained as reference entities is considered to be nil because there are sufficient subordinate tranches below the Sompo Japan's guaranteed tranches.

Reference: Financial Guarantee Treaty Reinsurance

- This Treaty Reinsurance is a quota-share reinsurance contract under which a particular portion of original insurance policies is ceded to us.
- Treaty Reinsurance is not considered as exposure to U.S. monoline insurers, because Sompo Japan will become liable for claim payment or suffer losses only when the underlying issues default.

Summary of Financial Guarantee Treaty Reinsurance

- The total insured amount assumed from U.S. monoline insurers is 413.5 bil. JPY. No reinsurance ceded to them.
- 79% of Treaty Reinsurance are classified as public finance including general obligations of U.S. municipalities and 98% are investment grade (BBB and above).
- For U.S. subprime loans-related RMBS, the total amount of the guarantee is 5.1bil.JPY, or 1% of total Treaty Reinsurance, which is the only exposure related to U.S. subprime loans in Treaty Reinsurance and therefore potential loss will be limited.

Distribution of Treaty Reinsurance

