



SOMPO JAPAN INSURANCE INC.

**<Notice>**

**Appendix 3 has been replaced on November 21, 2008.  
Decimal point of insured amount has been revised.  
(All other information unchanged.)**

# Exposure to Structured Finance

As of September 30, 2008

November 19, 2008

SOMPO JAPAN INSURANCE INC.

# Summary of Exposure to Structured Finance (Updated as of September 30, 2008)

## Structured Finance Exposure in Investment Portfolio <Appendix 1>

- ◆ **Total exposure:**  
86.3bil.JPY -Decreased by 0.2bil.JPY since June 30, 2008  
0.5bil.JPY related to U.S. subprime loans -Decreased by 0.2bil.JPY since June 30, 2008
- ◆ **Gains/Losses in FY2008 First Half:**  
0.6bil.JPY losses (Impairment losses: 0.1bil.JPY, Unrealized losses: 0.5bil.JPY)

## Exposure to U.S. housing government-sponsored enterprises (GSEs)

- ◆ **Total exposure:**  
74.7bil.JPY (RMBS: 70.4bil.JPY, Agency Bonds: 4.2bil.JPY)  
※Fannie Mae: 47.4bil.JPY, Freddie Mac: 26.4bil.JPY, FHLB: 0.9bil.JPY
- ◆ **Gains/Losses in FY2008 First Half:**  
4.7bil.JPY losses (unrealized losses, mainly due to the fluctuation of exchange rate)

## Financial Guarantee Insurance (New business suspended) <Appendix 2,3>

- ◆ **Total insured amount:**  
1,081.5bil.JPY -Decreased by 70.4bil.JPY since June 30, 2008, due to the appreciation of yen and redemption of some transactions  
189.2bil.JPY related to U.S. subprime loans (CDOs: 184.2bil.JPY, RMBS: 4.9bil.JPY)  
-Decreased by 5.6bil.JPY since June 30, 2008, mainly due to the appreciation of yen
- ◆ **Additional Losses/Reserves in FY2008 First Half:**  
0.3bil.JPY losses (Payment loss and increased loss reserve for treaty reinsurance)  
\*Other than the above, 0.1bil.JPY loss reserve is increased for CDO which is booked for 30.0bil.JPY loss reserve in FY2007, due to the fluctuation of exchange rate.
- ◆ **Loss Projection for FY2008:** (Refer to the press release titled "Revision of earnings projections for fiscal year 2008" as of November 19, 2008)  
Since the possibility of the occurrence of claims is increasing under the turmoil situation in the global financial markets after October 2008, we forecast to book additional loss reserves of 70 billion yen.  
Estimated loss is calculated by our assumption based on the current credit market environment over the entire guarantee period of insurance policies which have high possibility of the occurrence of claims.

# <Appendix 1> Structured Finance Exposure in Our Investment Portfolio

(As of September 30, 2008, Unit: billions of JPY, USD/JPY=103.63, same conversion rate applied throughout this report)

Categories		Outstanding Balance	Gains/Losses in FY2008 1H		
			Gains/Losses Charged to P/L	Unrealized Gains/Losses	Total
CDOs	Corporate CDOs *1	0.0	0.0	-	0.0
	ABS CDOs *2	0.0	0.0	-	0.0
	<b>CDOs Total</b>	0.0	(0.1)	-	(0.1)
ABS	RMBS *3				
	U.S. subprime loans related	0.5	-	0.0	0.0
	Global RMBS (excl. U.S. subprime loans related) *4	14.7	-	(0.5)	(0.5)
	Domestic RMBS	37.1	-	0.2	0.2
	<b>RMBS Total</b>	52.3	-	(0.3)	(0.3)
	CMBS *5				
	Global CMBS	2.9	-	(0.2)	(0.2)
	Domestic CMBS	23.5	-	(0.1)	(0.1)
	<b>CMBS Total</b>	26.5	-	(0.3)	(0.3)
	Other ABS				
	Global ABS	2.6	-	0.1	0.1
	Domestic ABS	0.3	-	0.0	0.0
<b>Other ABS Total</b>	2.9	-	0.1	0.1	
<b>ABS Total</b>	81.8	-	(0.5)	(0.5)	
<b>Investment in SIV</b>		-	-	-	-
<b>Leveraged Finance *6</b>		4.4	-	-	-
<b>Total</b>		<b>86.3</b>	<b>(0.1)</b>	<b>(0.5)</b>	<b>(0.6)</b>
<b>Reference: Hedge funds (U.S. subprime loans related exposure)</b>		0.5	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 (Excluding public finance CLO). Global only (Equity, No ratings).

\*2 ABS CDOs: CDOs where underlying assets are ABS (Asset Backed Securities). Global only (Below BBB).

\*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 or above), and 99% are rated AAA.

\*4 55mil.JPY of Global RMBS are U.S. monoline guaranteed notes. Exposure to U.S. monoline insurers other than structured finance assets is 0.1bil.JPY.

\*5 CMBS: Asset Backed Securities where underlying assets are commercial mortgage loans.

\*6 Leveraged Finance: Finance where funding are provided for corporate mergers and acquisitions, mainly based on cash flows of acquired companies. Domestic only.

# <Appendix 2> Financial Guarantee Insurance

(As of September 30, 2008, Unit: billions of JPY)

Categories		Insured Amount			Losses/ Reserves in FY2008 1H *4	Notes
		Direct Insurance *2	Treaty Reinsurance*3	Total		
CDOs	Corporate CDOs	388.8	10.7	399.6	-	99% of direct insurance policies are rated AAA
	ABS CDOs					
	U.S. subprime loans related *1	184.2	-	184.2	(0.1)*5	Refer to <Appendix 3> Such as prime RMBS, CMBS
	Others (excl. U.S. subprime loans related)	61.3	1.0	62.4	-	
	ABS CDOs Total	245.6	1.0	246.7	(0.1)	
<b>CDOs Total</b>	634.4	11.8	646.3	(0.1)		
ABS	RMBS					
	U.S. subprime loans related	-	4.9	4.9	(0.0)	Almost all RMBS are investment grade (BBB or above), and 77% are rated AAA
	Global RMBS (excl. U.S. subprime loans related)	1.1	13.5	14.6	(0.3)	
	Domestic RMBS	47.9	-	47.9	-	
	RMBS Total	49.0	18.5	67.5	(0.3)	
	CMBS	-	-	-	-	No exposure
	Other ABS					
	Global ABS	5.1	48.6	53.7	(0.0)	10% of Global ABS are U.S. consumer loan-related ABS, while others are mainly related to corporate credit (e.g., leasing receivables)
Domestic ABS	20.2	2.0	22.2	-		
Other ABS Total	25.3	50.7	76.0	(0.0)		
<b>ABS Total</b>	74.3	69.2	143.6	(0.3)		
<b>Public Finance</b>		-	291.6	291.6	0.0	
<b>Total</b>		<b>708.8</b>	<b>372.7</b>	<b>1,081.5</b>	<b>(0.4)</b>	

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

\*2 Facultative reinsurance policies are included under "Direct Insurance". 12.8bil.JPY of Direct Insurance are U.S. monoline guaranteed notes.

\*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 FY2008 1H. (Financial Guarantee insurance is not supposed to book mark-to-market unrealized gains/losses as it is an insurance policy.)

\*5 Increased loss reserve for CDO which is booked for loss reserve in FY2007, due to the fluctuation of exchange rate. (Including gains/losses of exchange hedge transactions)

# <Appendix 3> List of Guarantee for ABS CDOs (Exc. Treaty Reinsurance)

(As of September 30, 2008, Unit: billions of JPY)

Policy No. *1	Issue Rating *2	Fiscal Year Issued	Insured Amount *3	Subordination Ratio *4	Distribution of underlying assets rating (as of October 31, 2008)						Ratio of subprime RMBS
					AAA	AA	A	BBB	Below BBB	*5 Default	
Guarantee for CDO①	AAA	2003	10.3	14%	44%	20%	16%	9%	11%	0.0%	0%
Guarantee for CDO② *6	AAA	2004	28.7	18%	90%	6%	2%	1%	1%	1.1%	1%
	AAA	2004	10.0	10%							
Guarantee for CDO③	AA	2004	12.4	11%	27%	48%	12%	2%	11%	2.8%	12%
Guarantee for CDO④ *7	A	2004	12.9	12%	32%	36%	14%	3%	15%	0.9%	9%
Guarantee for CDO⑤ *7	BB	2005	12.4	13%	6%	39%	19%	12%	24%	0.0%	15%
Guarantee for CDO⑥	CC	2006	15.5	12%	35%	9%	13%	5%	38%	2.5%	2%
Guarantee for CDO⑦	A	2006	20.7	8%	13%	66%	8%	8%	5%	0.0%	31%
Guarantee for CDO⑧	CC	2006	30.0	11%	20%	15%	6%	4%	55%	4.8%	10%
Guarantee for CDO⑨	B	2006	31.0	19%	18%	5%	4%	7%	65%	12.7%	11%
Subtotal of U.S. subprime loans related CDOs			184.2	12.3%	28%	29%	10%	6%	26%	2.8%	12.1%
Guarantee for CDO⑩	AAA	2004	31.0	16%	53%	28%	1%	6%	12%	1.5%	-
Guarantee for CDO⑪	BB	2007	30.3	42%	0%	0%	0%	11%	89%	5.3%	-
Subtotal of other ABS CDOs			61.3	28.6%	19%	10%	0%	9%	62%	3.9%	-
Total of ABS CDOs			245.6	16.3%	27%	27%	9%	7%	30%	2.9%	-

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

Guarantee for CDO⑫ *7	-	2006	*8 30.1	9%	15%	12%	4%	3%	66%	10.0%	15%
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\*1 CDO⑩, insured amount of which as of June 30, 2008 was 0.5bil. JPY, has been terminated due to the full redemption of our guaranteeing tranche.

\*2 Issue ratings are Moody's ratings as of November 11, 2008. CDO③, ④ and ⑤ are facultative reinsurance policies, and the issue ratings of which are the ratings for the ceding company's tranche including senior class to our tranche.

\*3 Insured amount is principal insured amount, and some policies also insure interest payments. If a principal/interest shortfall occurs, Sompo Japan will become liable for the guarantee obligation.

\*4 Subordination Ratio is a ratio of portions subordinated to our guaranteed tranche. Redemption of Senior tranche results in an increase of Subordination Ratio.

\*5 Deterioration ratio of underlying assets are described in the "Default". Default of underlying assets is determined by the default definition of each transaction through detail checking and the default amount is adjusted by recovery. If the Default ratio exceed the Subordination Ratio, Sompo Japan will become liable for the guarantee obligation.

\*6 Guarantee for CDO② insures different two classes of the same CDO.

\*7 CDO④, ⑤ and ⑫ are the CDOs with 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.

CDO④, ⑤ : Due to the increasing downgrade of underlying assets, possibility of hitting the trigger level is increasing. However, Possibility of early liquidation of CDO⑤ has been eliminated because it is confirmed that investors will not choose this option.

CDO⑫ : Loss reserve has been booked 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 the press release titled "Booking of loss reserve for financial guarantee insurance and revision of earnings projections for fiscal year 2007" as of January 11, 2008)

\*8 Insured Amount of CDO⑫ includes gains/losses of exchange hedge transactions.