

# Exposure to Structured Finance

As of December 31, 2009

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February 12, 2010

SOMPO JAPAN INSURANCE INC.

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

◆ **Total exposure:**

54.0 billion yen -Decreased by 9.6 billion yen since March 31, 2009.

◆ **Gains/Losses for the nine months ended December 31, 2009:**

0.9 billion yen losses -Impairment losses: 0.0 billion yen, Unrealized losses: 0.9 billion yen.

### Financial Guarantee Insurance (Running off, No new business since FY2008) <Appendix 2 to 4>

◆ **Total insured amount:**

593.8 billion yen (Decreased by 233.7 billion yen since March 31, 2009)

- Net exposure to ABS CDOs: 51.1 billion yen. (Decreased by 27.8 billion yen since March 31, 2009)

◆ **Gains/Losses for the nine months ended December 31, 2009:**

1.3 billion yen losses

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

(As of December 31, 2009, Unit: billions of yen, USD/JPY=92.07)

Categories		Outstanding Balance	Gains/Losses for the nine months ended December 31, 2009		
			Gains/Losses Charged to P/L	Unrealized Gains/Losses	Total
CDOs	ABS CDOs (backed by pools of asset backed securities) (*1)	0.0	0.0	0.0	0.0
	Corporate CDOs (backed by pools of single corporate credits) (*2)	-	-	-	-
	<b>CDOs Total</b>	0.0	0.0	0.0	0.0
ABS	RMBS (*3)				
	Global RMBS	2.5	-	(0.4)	(0.4)
	Domestic RMBS	30.1	0.0	0.3	0.3
	<b>RMBS Total</b>	32.6	0.0	0.0	0.0
	CMBS (*4)				
	Global CMBS	1.6	-	(0.2)	(0.2)
	Domestic CMBS	15.7	0.0	(0.5)	(0.5)
	<b>CMBS Total</b>	17.4	0.0	(0.8)	(0.8)
	Other ABS				
	Global ABS	0.6	-	0.0	0.0
Domestic ABS	-	-	-	-	
<b>Other ABS Total</b>	0.6	-	0.0	0.0	
<b>ABS Total</b>	50.7	0.0	(0.9)	(0.9)	
<b>Investment in SIV</b>		-	-	-	-
<b>Leveraged Finance (*5)</b>		3.2	-	-	-
<b>Total</b>		<b>54.0</b>	<b>0.0</b>	<b>(0.9)</b>	<b>(0.9)</b>
<b>Reference: Hedge funds (U.S. subprime loans related exposure)</b>		1.3	Net of the long position and the short position		

\*1 ABS CDOs (backed by pools of asset backed securities): The securities backed by securitized assets such as the RMBS, CDOs and CLOs. Global transactions only (Below BBB).

\*2 Corporate CDOs (backed by pools of single corporate credits): The securities backed by assets such as corporate bonds, loans and CDS. Excluding public finance CLO.

\*3 RMBS: Asset Backed Securities where underlying assets are residential mortgages (Excluding RMBS issued by government sponsored enterprises). Most of the RMBS are rated investment grade (BBB or above), and 83% are rated AAA. Exposure to U.S. housing related government-sponsored enterprises (GSEs)'s RMBS and Agency Bonds amounted to 56.6 billion yen (Decreased by 3.3 billion yen since March 31, 2009). No impairment losses were recognized for the nine months ended December 31, 2009.

\*4 CMBS: Asset-backed securities where underlying assets are commercial mortgage loans.

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

## <Appendix 2> Financial Guarantee Insurance

(As of December 31, 2009, Unit: billions of yen, USD/JPY=92.07)

Categories		Insured Amount					Gains/Losses for the nine months ended December 31, 2009 (*5)
		Direct Insurance (*3)	Treaty Reinsurance (*4)	Total	Outstanding Loss Reserve	Insured Amount Net of Loss Reserves	
CDOs	ABS CDOs (backed by pools of asset backed securities)	123.4	0.6	124.0	72.8	51.1	(1.0)
	Corporate CDOs (backed by pools of single corporate credits)	171.0	4.0	175.1	-	175.1	-
	<b>CDOs Total</b>	<b>294.5</b>	<b>4.6</b>	<b>299.1</b>	<b>72.8</b>	<b>226.3</b>	<b>(1.0)</b>
ABS	RMBS (*1)						
	Global RMBS	-	12.2	12.2	0.3	11.9	(0.2)
	Domestic RMBS	39.6	-	39.6	-	39.6	-
	<b>RMBS Total</b>	<b>39.6</b>	<b>12.2</b>	<b>51.9</b>	<b>0.3</b>	<b>51.6</b>	<b>(0.2)</b>
	CMBS	-	-	-	-	-	-
	Other ABS						
	Global ABS (*2)	3.9	29.8	33.8	0.5	33.2	0.0
	Domestic ABS	10.9	-	10.9	-	10.9	-
Other ABS Total	14.8	29.8	44.7	0.5	44.2	0.0	
<b>ABS Total</b>	<b>54.5</b>	<b>42.1</b>	<b>96.7</b>	<b>0.8</b>	<b>95.8</b>	<b>(0.3)</b>	
<b>Public Finance</b>		-	197.9	197.9	0.0	197.9	0.0
<b>Total</b>		<b>349.0</b>	<b>244.7</b>	<b>593.8</b>	<b>73.7</b>	<b>520.1</b>	<b>(1.3)</b>

\*1 93% of RMBS are rated investment grade (BBB or above) including AAA ratings for 78%.

\*2 8% of global ABS are U.S. consumer loan-related ABS, while others are mainly related to corporate credit (e.g., leasing receivables).

\*3 "Direct Insurance" includes facultative reinsurance policies and 10.3 billion yen of Direct Insurance to cover U.S. monoline guaranteed notes.

\*4 "Treaty Reinsurance" is a portfolio-based reinsurance where certain parts of policies underwritten by an original insurer are ceded automatically to the reinsurer, Sompo Japan, in accordance with the conditions agreed by the original insurer and the reinsurer.

\*5 Total amount of 1.3 billion yen losses is comprised of 63.7 billion yen of loss payment (including 47.5 billion yen of lump sum payment for commutation) offset by 66.4 billion yen of reversal of loss reserve and 4.0 billion yen losses of foreign exchange hedge transaction for loss reserve. Financial Guarantee Insurance is not supposed to book mark-to-market unrealized gains/losses through income statement as it is an insurance policy.

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

(As of December 31, 2009, Unit: billions of yen, USD/JPY=92.07)

Policy No. (*1)	Issue Rating (*2) (S&P/MDY)	Fiscal Year Issued	Insured Amount (*3)	Subordination Ratio (*4)	Distribution of underlying assets rating						Ratio of subprime RMBS
					AAA	AA	A	BBB	Below BBB	Default (*5)	
Guarantee for CDO①	AAA/Caa2	2003	9.2	17%	33%	10%	5%	15%	37%	5.5%	0%
Guarantee for CDO② (*6)	AAA/B2	2004	7.9	44%	32%	40%	0%	8%	20%	16.5%	0%
	AAA/B2	2004	10.0	25%							
Guarantee for CDO④ (*7)	BBB+/B3	2004	11.5	14%	12%	22%	9%	10%	48%	2.7%	9%
Guarantee for CDO⑤ (*7)	CC/Caa2	2005	11.0	14%	1%	11%	6%	5%	78%	8.1%	15%
Guarantee for CDO⑦	B/C	2006	18.4	8%	5%	19%	28%	12%	36%	0.0%	31%
Guarantee for CDO⑨	-/Ca	2006	27.6	23%	6%	4%	4%	4%	82%	22.3%	10%
Guarantee for CDO⑪	B-/Caa1	2004	27.6	18%	1%	17%	20%	16%	46%	15.3%	-
Total of ABS CDOs			123.4	17%	8%	16%	12%	9%	56%	8.8%	-

Insured Amount Net of Loss Reserves	50.5
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\*1 Previously listed Guarantee for CDO③, ⑥, ⑧, ⑩ and ⑫ have been excluded from above as they have been terminated due to the commutation or the full redemption of tranches guaranteed by us.

\*2 Issue ratings are as of February 1, 2010. CDO④ and ⑤ are facultative reinsurance policies, and the issue ratings of which are the ratings for the ceding company's tranche including those senior class to our tranche.

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

\*4 Sub-ordination Ratio is a ratio of portions subordinated to our guaranteed tranche for the underlying assets. A redemption of senior tranche results in an increase of Sub-ordination Ratio.

\*5 Default of underlying assets is determined by the default definition of each transaction through detailed scrutiny and the default amount is determined based on adjustment by recovery.

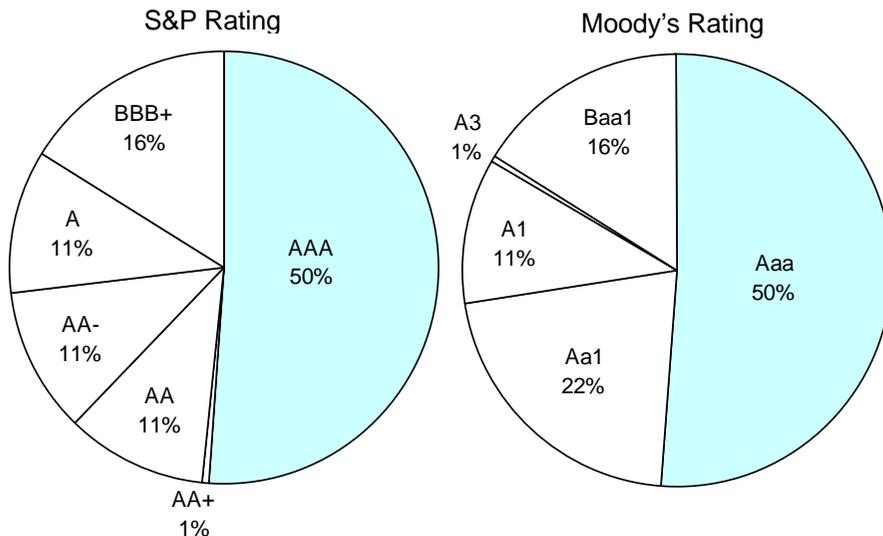
\*6 Guarantee for CDO② insures different two classes of the same CDO.

\*7 CDO④ and ⑤ are the CDOs with early liquidation structure where the CDO investors have an option to sell all underlying assets to the third party for the settlement of the CDO if the credit rating-adjusted outstanding par amount (defined as the aggregate outstanding par amount less credit rating-based haircuts) falls below a predetermined trigger level. However, possibility of early liquidation of CDO⑤ has been eliminated.

# <Appendix 4> Summary of Guarantee for Corporate CDOs (Excl. Treaty Reinsurance)

- The total outstanding of insured corporate CDO (direct underwriting) amounted to 171.0 billion yen as of December 31, 2009. As a result of overall scrutiny of the individual contracts, there are no losses expected at this point.
- Average residual period of all direct underwritten corporate CDO guarantees is approximately 2.9 years. Approximately 80% of our exposure or 136.0 billion yen is to be redeemed by the end of FY2012.
- Each corporate CDO is well diversified with approximately 150 reference corporations. Thus a potential impact by default of one reference company would be limited.
- For example, exposures to financial institutions and U.S. automakers (including auto-parts makers) accounts for around 13% and 1%, respectively. We don't see any concentration to particular sector or corporation.

## Issue rating

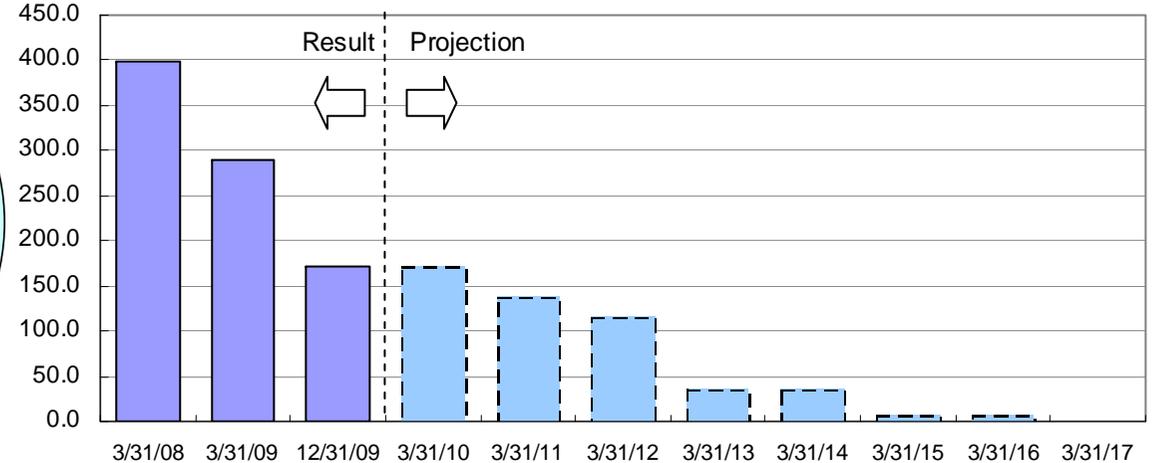


(Note) Rating distribution by S&P as of January 31, 2010. For transactions without S&P rating, we applied Moody's rating instead.

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## Run off exposure

(Unit: billions of yen)



(Note) Estimated future exposure was translated at the exchange rate as of December 31, 2009