Mitsui Sumitomo Insurance

Setting sail for the next stage

Annual Report 2006

Mitsui Sumitomo Insurance Company, Limited

Setting sail for the next

Mitsui Sumitomo Insurance Company, Limited ("MSI") and its subsidiaries and affiliates (collectively referred to as the "MSI Group") undertake wide-ranging operations covering MSI's home market of Japan as well as markets overseas, advancing five major businesses that include its mainstay domestic non-life insurance, as well as life insurance, overseas business, financial services, and risk-related business. The nearly five years since the October 2001 merger that marked the formation of the MSI Group have seen the realignment of Japan's non-life insurance industry and the dramatic transformation of its business environment. Amid this vortex of change, the entire MSI Group has drawn on its comprehensive strengths to continually meet the ever-present challenges while growing to become a leading player in Japan's non-life insurance industry.

Building on its achievements, the MSI Group is now setting its sights on its next goal of positioning itself as a "world-class insurance and financial services group." In fiscal 2005, we launched "Challenge 10," a long-term vision that marks the start of new initiatives aimed at achieving this objective. Challenge 10 will serve as the growth strategy for guiding the expansion of our five major businesses and maximizing the MSI Group's profits. MSI is currently implementing "Challenge 10, Stage I," a medium-term management plan covering fiscal years 2005 and 2006.

Putting the first priority on the customers' view, the MSI Group offers the highest quality products and services that universally assure security and safety, while striving to grow as a fair and sound enterprise and make meaningful contributions to the enrichment of society.

stage

Contents

Cautionary Statement

Any statements about Mitsui Sumitomo Insurance Co., Ltd.'s future plans, strategies, and performance contained in this report that are not historical facts are meant as, and should be considered as, forward-looking statements. These forward-looking statements are based on the Company's assumptions and opinions in light of the information currently available to it. The Company wishes to caution readers that a number of uncertain factors could cause actual results to differ materially from those discussed in the forward-looking statements. Such factors include, but are not limited to, (1) general economic conditions in the Company's markets, (2) competitive conditions in the insurance business, (3) fluctuations of foreign currency exchange rates, and (4) government regulations, including changes in tax rates.

To Our Shareholders

We are pleased to have this opportunity to present our shareholders with the Mitsui Sumitomo Insurance Company, Limited *Annual Report 2006*. Before reporting on our business results for fiscal 2005, ended March 31, 2006, we would like to announce that following the General Meeting of Shareholders on June 28, 2006, Mr. Yoshiaki Shin became Chairman and Mr. Toshiaki Egashira assumed the duties of President. Under this new management structure, the MSI Group will mark its fifth year of business since its establishment.

In June 2006, MSI received a remedial action order imposing severe administrative measures from the Financial Services Agency (FSA) of Japan. All officers and employees of MSI take these measures with the utmost seriousness, and we will place top priority on working together in unison to serve policyholders and other parties who experienced trouble. MSI has formulated a business improvement plan, under which it will systematically execute a number of measures that include improving and strengthening corporate governance, the claims payment system, policyholder protection and convenience, and the system for compliance with laws and ordinances. However, should it become necessary to revise our Challenge 10, Stage I medium-term management plan (running from fiscal 2005 to fiscal 2006) for reasons related to the administrative measures, we will report the details to our shareholders immediately upon making any such revisions.

Under the Challenge 10 long-term vision, which we formulated in April 2005, MSI will continually strive to raise corporate quality as its top management value, and aim to properly fulfill its responsibilities to all stakeholders and be a world-class insurance and financial services group in every aspect of corporate quality.

The MSI Group strives to continually realize its corporate mission of "bringing the highest levels of security and safety to people and businesses around the world" and ensuring customer satisfaction while also achieving ongoing improvements in business results and increasing shareholder value. We ask our shareholders for your ongoing support and guidance.

Yoshiaki Shin
Chairman

Toshiaki Egashira
President and CEO

Financial Highlights

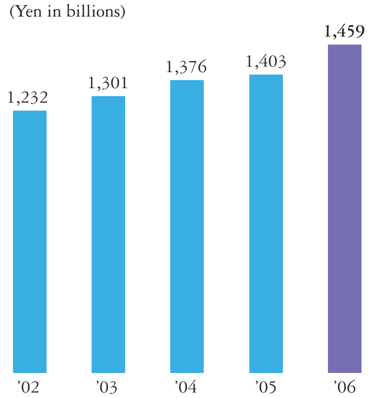
Mitsui Sumitomo Insurance Co., Ltd. and subsidiaries
For the years ended March 31, 2004, 2005 and 2006

	Yen in millions			Dollars in thousands
	2004	2005	2006	2006
Net premiums written	¥1,375,973	¥1,402,977	¥1,458,507	$12,465,872
Net premiums earned	1,308,059	1,357,748	1,422,801	12,160,693
Premium income for life insurance contracts	157,840	175,169	205,158	1,753,487
Net income (loss) from underwriting	39,496	(49,911)	25,516	218,086
Investment income, net of investment expenses	118,603	119,479	156,102	1,334,205
Net income	123,493	42,629	124,123	1,060,880
Net income per share (in yen and U.S. dollars):				
Basic	¥ 85.73	¥ 29.55	¥ 87.08	$ 0.74
Diluted	83.88	29.55	87.08	0.74
Total assets	¥7,806,916	¥8,217,329	¥9,412,292	$80,446,940
Total shareholders' equity	1,957,675	2,029,802	2,637,278	22,540,838
Combined loss and expense ratio* (%)	95.2%	102.7%	97.6%	
ROE (%)	7.1%	2.1%	5.3%	

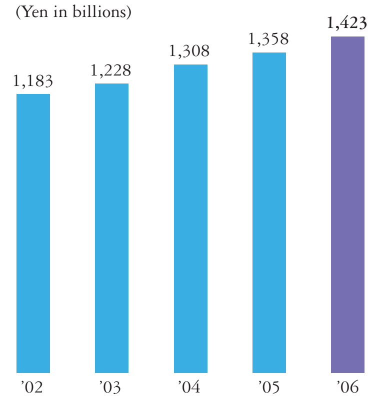
Notes: 1. U.S. dollar amounts in this annual report have been translated from yen, for convenience only, at the rate of ¥117=U.S.$1. See Note 1 (b) of the notes to consolidated financial statements, page 44.
2. Net income, net income per share, total shareholders' equity and ROE for 2004 and 2005 have been restated. See Note (24) of notes to consolidated financial statements on page 69.

* The combined loss and expense ratio relates to property and casualty insurance.

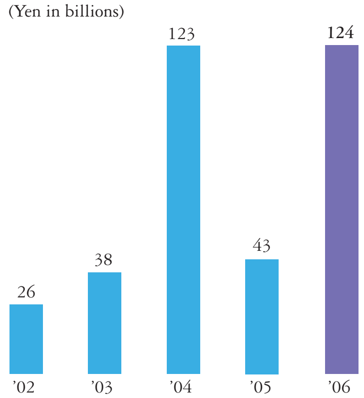
NET PREMIUMS WRITTEN
(Yen in billions)



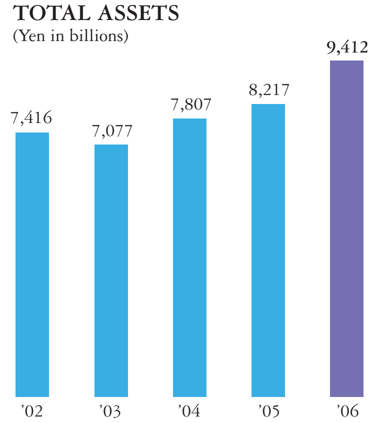
NET PREMIUMS EARNED
(Yen in billions)



NET INCOME
(Yen in billions)



TOTAL ASSETS
(Yen in billions)



Q1

Could you explain the reasons underlying problems involving claims payments that led to administrative measures against MSI?

First, let me begin by expressing my deepest regret for the circumstances that led to administrative measures against MSI by the FSA and to sincerely apologize to our policyholders and shareholders for this problem. Although specific details about the administrative measures are provided later in the MD&A section of this annual report, I would like to briefly explain the factors that led to the imposition of these measures.

During the previous phase of the extensive reorganization of Japan's non-life insurance industry, the liberalization of product design continued and insurance companies developed and sold distinctive original products. However, while this reorganization process unfolded, we lacked the proper frameworks needed for ensuring Company-wide coordination among various divisions such as product development, IT, marketing, and claims-handling service divisions. This deficiency inevitably led to numerous instances of failure to correctly pay incidental claims on automobile insurance. Moreover, it came to light that MSI did not properly pay claims on whole life medical insurance, and there were also incidents of improper sales and contract procedures at a number of our agents.

We clearly recognize that these problems stemmed from the insufficient functioning of our internal monitoring systems, including our systems for monitoring the payment of claims—when the actual value of the insurance products become evident—as well as for monitoring product development, complaint responses, and our agents. We are also now well aware that these problems also extended to management monitoring functions, which is clearly obvious when considering that management was unable to fully ascertain the existence of problems involving failure to properly pay claims on third-sector products. Management also failed to adequately grasp the situation regarding failure to pay incidental claims for automobile insurance.

Q2

What are your future policies following the imposition of administrative measures?

To ensure that such a situation never again occurs, we will undertake an extensive review of our business operations and have formulated a business improvement plan, as we aim to be a "company that puts the first priority on the customers' view." We will resolutely execute this business improvement plan and make our utmost efforts to regain the trust of our customers.

Our business improvement plan broadly consists of four elements, namely improving and strengthening governance, claims-handling and product development administration systems, policyholder protection and convenience, and compliance with laws and ordinances.

Regarding governance, we emphasize management checking functions from an external perspective and are building a management monitoring structure based on the "company with committees" system. Concurrently, we are enhancing the monitoring of our business operations by strengthening the functions of the Board of Directors and establishing new departments with relevant responsibilities. To prevent a recurrence of the failure to properly pay claims, we are fortifing various structures and systems in the claims-handling service division in addition to improving and expanding customer consultation counters and solidifying systems for providing explanations to customers. We will augment these measures by utilizing such tools as questionnaires, as we gather and analyze customer opinions and create a framework that allows these opinions to guide our product development. To enhance policyholder protection and convenience, we will undertake integrated monitoring and systematic analysis of customer complaints and take necessary response measures. In parallel, we will set up an advisory body to the Board of Directors to help ensure that the opinions of customers are reflected in our products and services. Finally, to ensure strict compliance with laws and ordinances, we are promoting an extensive reform of awareness regarding the importance of compliance as an overriding principle in undertaking our business activities, while also strengthening our compliance promotion structure.

Looking to the future, we will resolutely implement our business improvement plan in addition to formulating the "Group New Vision," which emphasizes the use of customer opinions and the participation of all employees. Aiming to be a company with excellent communication capabilities, we will also launch the new corporate culture creation project. We will provide additional details on this project at a later time.

Q3 *Could you briefly review your consolidated business results for fiscal 2005, ended March 31, 2006?*

During fiscal 2005, the recovery of the Japanese economy became clearly evident, which mirrored a host of positive factors that included improved corporate earnings, a resurgent willingness to make capital investments, a favorable turnaround in the employment and income environments, and growth in consumer spending. In the non-life insurance industry, balances of revenues and expenses improved, as insurance premium income and interest and dividend income increased, reflecting favorable economic trends, while loss ratios declined due to relatively mild damage from natural disasters.

Fiscal 2005 was the first year of our two-year medium-term management plan, Challenge 10, Stage I, and also marked the start of our Challenge 10 long-term vision. Under Challenge 10, Stage I, we actively promoted an array of initiatives in our mainstay non-life insurance, life insurance, and overseas business as well as in financial services and risk-related business.

In our non-life insurance business in Japan, we achieved overall steady growth, supported by the introduction of new automobile insurance products, beginning with the high-quality *MOST First Class*, and by expanding sales of *ViV Shushin* long-term whole life medical insurance, which we have positioned as one of our strategic products. In our life insurance business, Mitsui Kirameki Life Insurance Company, Limited, a wholly owned subsidiary, and Mitsui Sumitomo MetLife Insurance Co., Ltd., a joint venture, both recorded growth in the amount of life insurance in force and worked to improve their business results. During fiscal 2005, we completed the acquisition of the full non-life insurance Asian business operations of Aviva plc, one of the largest U.K. insurers, after reaching an initial agreement in 2004. Additionally, we further bolstered our non-life insurance operations in Asia by acquiring Mingtai Fire & Marine Insurance Co., Ltd., the second-largest non-life insurer in Taiwan. The MSI Group is now the leading non-life insurer in the ASEAN region and one of the largest foreign-affiliated non-life insurers in Asia. In asset management, interest and dividend income rose on the back of the robust Japanese stock market. As a result of these developments, consolidated net premiums written* amounted to ¥1,469 billion (US$12,556 million), up 4.7% from the previous year. Net income amounted to ¥71 billion (US$612,479 thousand), up 9.0% from the previous year.

Utilizing the solid foundation established by the previous management team, the MSI Group was able to get off to an excellent start under its new Challenge 10, Stage I medium-term management plan.

Toshiaki Egashira
President and CEO

*Note: Consolidated net premiums written as shown excludes refundable premiums under *Modo-Rich* automobile insurance policies that provide for return of premium on maturity (takes account of the impact of abolition of the governmental reinsurance program of compulsory automobile liability insurance).

Q4 Can you explain the specific targets of your business activities during the second year of Challenge 10, Stage I?

Let me briefly explain our targets for each business category.

Domestic Non-Life Insurance

In automobile insurance, which accounts for a large proportion of our business portfolio, we plan to augment our line of existing insurance products with the introduction of new products in the second quarter of the fiscal year. We will focus on introducing easier-to-understand products with appropriate premium levels. We will simplify products that are complex—one reason for the administrative measures—and believe that such simplified products will also contribute to profitability. One of our ongoing strengths has been providing non-life insurance products designed for companies. We have built a solid customer base in this sector, as evidenced by business transactions with approximately 80% of the 270 listed companies that represent the top 10 companies in 27 industries. Refocusing on our origins in this field, we will undertake concerted efforts in implementing an appropriate risk solutions business. To enhance corporate quality, overhauling the structure of our marketing network will be of the utmost importance. To this end, we will push forward with the elimination and consolidation of agents under a plan to reduce the number of agents from approximately 59,000 to 50,000 by the end of March 2008. We will pursue low-cost operations by building an efficient internal framework and reducing sales branches, which will include building a marketing support structure that utilizes cutting-edge IT while maintaining channels that serve as customer contact points.

Overseas Business

The strength of our overseas business is derived from a network of 63 cities in 39 countries. To further upgrade the functions of this network, in our overseas non-life insurance business we are planning to establish regional holding companies for the three regions of Asia, the Americas and Europe, with the aim of achieving further business growth under regionally autonomous structures. To realize even speedier management through quick decision-making capabilities, we will assign a CEO to each overseas subsidiary and delegate management responsibilities to overseas bases. Plans call for each of these regional holding companies to start operating within a short time. We are placing top priority on developing our operations in Asia, which is also a growth market. The MSI Group has expanded its presence in this region through M&A activities, which include the acquisition of the full non-life insurance Asian business operations of Aviva plc as well as Mingtai Fire & Marine Insurance, thereby bolstering our already strong global network. By making these acquisitions, we are now firmly positioned to utilize our overwhelming presence in Asia and to undertake even more proactive initiatives in local markets.

Through our local overseas subsidiaries, we provide various services for Japanese-affiliated companies with operations in Europe and the United States. We plan to continually utilize our existing overseas network to expand services closely tailored to the needs of each geographic region. Reinsurance is another field on which we are focusing in our overseas business. The MSI Group currently operates subsidiaries involved in the reinsurance business in Bermuda and Dublin, Ireland. Assuming there are few large-scale disasters, we foresee stable profits in our reinsurance business, and this business is becoming a pillar of our overseas operations. Of the approximately 24,000 employees currently making up the MSI Group, around 6,000 employees, or 25%, are citizens of overseas countries who are employed by local subsidiaries. As these figures illustrate, the globalization of the MSI Group's operations is progressing not only in terms of the scale and scope of operations but also from the perspective of the composition of employees.

Life Insurance

Mitsui Sumitomo Kirameki Life Insurance has achieved significant growth during the 10 years since its inception. As principal characteristics of its operations, this company offers a versatile lineup of products for individuals that feature inexpensive premiums and that emphasize protection rather than savings. These characteristics are closely matched to contemporary needs and are helping drive the growth of Mitsui Sumitomo Kirameki Life Insurance. Although its products are offered mainly through cross-selling at non-life insurance agents, in 2005 Mitsui Sumitomo Kirameki Life Insurance launched a direct sales team consisting of 100 professionals, thereby strengthening its customer service and sales capabilities.

Mitsui Sumitomo MetLife Insurance changed its corporate name in October 2005 after MSI changed its partner in this joint venture from U.S.-based Citigroup, to MetLife, Inc., also of the United States. Mitsui Sumitomo MetLife Insurance specializes in variable individual annuities. Using counters at banks as its main sales channel, this company sells its products through a wide range of city and regional banks and is also setting up a wholesale staff to further upgrade its services. Such efforts have already yielded significant results and Mitsui Sumitomo MetLife Insurance has achieved tremendous sales growth.

Mitsui Sumitomo MetLife Insurance is an excellent example of a successful sales strategy, with the know-how of an overseas partner being skillfully utilized.

In the future, Mitsui Sumitomo Kirameki Life Insurance and Mitsui Sumitomo MetLife Insurance will both strive for stable and continuous growth utilizing the characteristics of their respective sales structures and product features.

Financial Services

In the Financial Services business, our primary field of focus is providing services for defined contribution pension plans centering on Japanese 401k plans. MSI has received approval to serve as an administrator, thereby allowing us to independently offer our own integrated services. We are working quickly toward making responses as 401k plans further penetrate the market over the next few years, at the end of which time qualified pension plans will no longer exist. Additionally, we are utilizing financial engineering techniques to launch such risk finance services as weather derivatives. Also, we are providing services that respond to financing needs through corporate financing guarantees that utilize our high credit rating. We plan to further cultivate these businesses in the future.

Risk-Related Business

Through InterRisk Research Institute & Consulting, Inc., we provide an array of risk management services and consulting services. Currently, there is high demand for business continuity management consulting. This business entails providing advice using know-how on maintaining business operations or ensuring continued plant operations in the event that manufacturers or other types of companies face an unexpected disaster. We have had inquiries about this business not only from large companies but from an extremely high number of small- and medium-sized businesses as well. On a different front, we are also moving into such fields as nursing care services and health and medical fields. MITSUI SUMITOMO INSURANCE Care Network Co., Ltd. is involved in the operation of nursing care facilities. In this way, we are working to offer unique services that only a non-life insurance group can provide.

Q5

Finally, do you have any special message for shareholders, including your thoughts on the redistribution of profits to shareholders?

We adhere to a basic policy of redistributing an appropriate level of profits to our shareholders, which is in keeping with a policy of maintaining stable dividends, while flexibly executing buy-backs of our own shares. Specifically, our policy is to strive to distribute to shareholders 40% of core profit as defined by the MSI Group. For fiscal 2005, annual dividends per share amounted to ¥13.00 (US$0.11), an increase of ¥3.50 from the previous fiscal year. Also, during the fiscal year we commenced the payment of interim dividends.

The MSI Group's most important assets are its human resources. When employees can fully exercise their capabilities, the Company also achieves growth, making it possible to further upgrade our customer service. I would like to see the MSI Group aim for a new start as "a bright, unconstrained corporate group capable of smooth and clear communications." In such an environment, the people working for the MSI Group can utilize their inherent capabilities and devote themselves more fully to customers. On this basis, we will strive to enhance our corporate quality, raise our corporate value, and increase returns to our shareholders as we aim to maximize shareholder value.

Toshiaki Egashira
President and CEO

Positioning of Challenge 10, Stage I

Under the objectives of Challenge 10, through maximizing core profits in each of its five major businesses, the domestic non-life insurance business will account for approximately 55% of the MSI Group's core profit in 2010. Particularly, efforts are aimed at achieving expansion of the life insurance business and the overseas business.

Fiscal 2003 Core Profit: ¥64 billion

Financial services and risk-related business (1%)

Life insurance business (6%)

Overseas business (14%)

Domestic non-life insurance business (79%)

Fiscal 2003

Stage I (Fiscal 2005-2006) Fiscal 2006 No. 1 Targets

Amount of increase in consolidated net premiums written: No. 1

Growth rate of net premiums written from domestic non-life insurance: No. 1

Overseas gross premiums and net income: No. 1

Growth rate of life insurance amount in force (Mitsui Sumitomo Kirameki Life): No. 1

Combined ratio: No. 1

Rate of investment return (income): No. 1

Three Initiatives for Innovation

Marketing innovation

- Reform the distribution channel and institute operational reforms among sales staff and agents.

Claims-handling service innovation

- Reform claims-handling service.

Operational innovation

- Reform products and customer satisfaction operational processes.

MS WAVE II (previous medium-term management plan)

Final Year (fiscal 2004)

Growth rate of net premiums written from domestic non-life insurance: No. 1

Consolidated net premiums written from non-life insurance underwriting: No. 2

Rate of investment return: No. 1

Amount of life insurance in force by non-life insurance subsidiary: No. 3

Combined ratio: No. 1

Challenge 10, *Stage I*

Management Numerical Targets

STAGE I Figures	*Fiscal 2005*	*Fiscal 2006 Targets*	(Yen in billions)
(MSI on a Non-consolidated Basis)			
Net premiums	¥1,338	¥1,360	(Note 1)
Combined ratio	90.5 %	92.1 %	(Notes 1, 2)
Net loss ratio	59.7 %	61.2 %	(Note 1)
Net expense ratio	30.8 %	30.9 %	(Note 1)
Net interest and dividend income	¥79	¥75	
Net income	¥65	¥70	(Note 3)
(MSI Group on a Consolidated Basis)			
Net premiums	¥1,469	¥1,518	(Note 1)
Group core profit	¥74	¥80	(Note 4)
Group ROE	4.2 %	3.9 %	(Note 5)
Overseas Business			
Core profit	¥(1.4)	¥11	(Note 6)
Life Insurance Business			
Life insurance amount in force	¥7,917	¥8,964	(Note 7)
Core profit	¥8.5	¥9.5	(Note 8)
Financial Services and Risk-Related Business			
Core profit	¥2.6	¥1.8	(Notes 9, 10)

Notes:

1. Excludes refundable premiums under *Modo-Rich* automobile insurance policies that provide for return of premium on maturity (takes account of the impact of abolition of the governmental reinsurance program of compulsory automobile liability insurance).
2. The combined ratio is the sum of the net loss ratio and the net expense ratio.
3. Net interest and dividend income is interest and dividends received minus income credited to investment deposits by policyholders.
4. Group core profit equals consolidated net income minus capital gains and losses on stocks (buying and selling gains and losses, etc.), minus evaluation gains and losses on credit derivatives, minus other special gains and losses, minus consolidated net income of life insurance subsidiaries, plus profit before the provision of additional policy reserve for standard underwriting reserve at Mitsui Sumitomo Kirameki Life, plus equity in earnings under U.S. GAAP of Mitsui Sumitomo MetLife and certain other items. (All profit figures are on an after-tax basis.)

The MSI Group has formulated the Challenge 10 long-term vision, with a target date of fiscal 2010. In April 2005, MSI began implementing the Challenge 10, Stage I medium-term management plan as the first phase covering the initial two years of fiscal 2005 and 2006 (April 2005 through March 2007).

Challenge 10
Long-term Vision

Challenge 10 is the MSI Group's long-term vision under which we aim to achieve growth to become a world top-class insurance and financial group. Guided by this vision, the MSI Group plans to develop its domestic non-life insurance, financial services, and risk-related business while attaining significant growth in its life insurance and overseas business. As a result, the Group will build an even stronger business base, with the overall aim of attaining a twofold increase in its core profit from current levels by fiscal 2010.

Three types of innovation: marketing innovation, claims-handling service innovation, and operational innovation

Personnel, organizations, and workforce structure adapted to the Group's strategies

Fiscal 2010 core profit:

Exceed ¥100 billion

- Financial services and risk-related business (5%)
- Life insurance business (20%)
- Overseas business (20%)
- Domestic non-life insurance business (55%)

Fiscal 2010

Stage II *Fiscal* 2007-2008

Stage III *Fiscal* 2009-2010

Position CSR as the backbone for activities of all MSI Group members and aim to be a world-class company in all aspects of corporate quality

Customer Satisfaction (CS)

Set quantitative targets and specific indicators and become No. 1 in CS through focusing on "Providing products and services that exceed customer expectations," "Creating a claims-handling service system that will make MSI No. 1 in terms of customer satisfaction," and "Building strong bonds of trust with customers."

Capital Policy

While working toward capital sufficiency and stability, aim to raise corporate value by increasing ROE through an optimal asset structure, an optimal allocation of capital, and aggressive investments in growth businesses.

Risk Management and Compliance

Strive for world-class quality based on the *Mitsui Sumitomo Insurance Group Charter on Professional Conduct*, internal controls, and risk/return management.

Corporate Governance

Aim for systems that enable top-level governance.

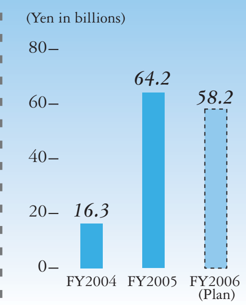
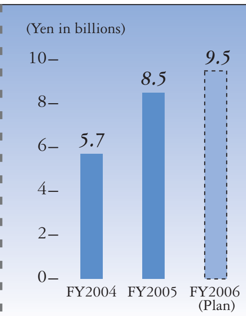
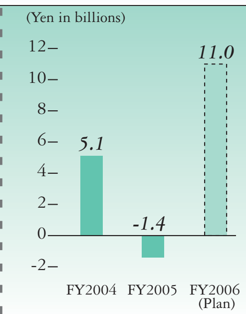
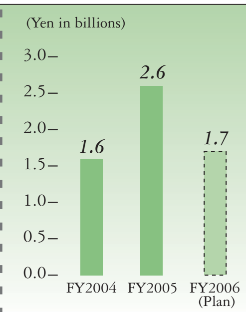
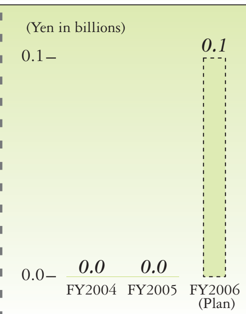
Seven Major Business Strategy Targets

1. Amount of increase in consolidated net premiums written: No. 1 in Japanese market
2. Non-consolidated net premiums written: No. 2 in Japanese market
3. Overseas gross premiums and net income: No. 1 in Japanese market
4. Net income among life insurance subsidiaries of non-life insurers: No. 1 in Japanese market
   (Mitsui Sumitomo Kirameki Life + annuity business subsidiary)
5. Combined ratio: No. 1 in Japanese market
6. Rate of investment return: No. 1 in Japanese market
7. Group ROE: 7%

5. Group ROE is Group core profit divided by shareholders' equity on a consolidated basis (defined as the average of shareholders' equity at the beginning and at the end of the fiscal period).
6. Core profit of the overseas business is profit from overseas departments on a non-consolidated basis, plus equity in earnings of overseas insurance Group companies.
7. Life insurance amount in force is the value of contracts written and outstanding of Mitsui Sumitomo Kirameki Life (excluding Group insurance).
8. Core profit of the life insurance business is profit before the provision of additional policy reserve for standard underwriting reserve at Mitsui Sumitomo Kirameki Life, plus equity in earnings under U.S. GAAP of Mitsui Sumitomo MetLife.
9. Core profit of the financial services business is the profit of financial service businesses on a non-consolidated basis, plus equity in earnings of financial service business Group companies.
10. Core profit of the risk-related business is equity in earnings of risk-related business Group companies.

The MSI Group at a Glance

Business Fields	Company	Overview
Domestic Non-Life Insurance	Mitsui Sumitomo Insurance Company, Limited	We offer top-quality products and services through an extensive domestic network of 729 sales branch offices and 59,000 agents. At the same time, we operate a network of 256 claims-handling offices employing approximately 6,000 claims-handling professionals, and this network helps to give customers a sense of security and peace of mind.
Life Insurance	Mitsui Sumitomo Kirameki Life Insurance Company, Limited Mitsui Sumitomo MetLife Insurance Co., Ltd.	Mitsui Sumitomo Kirameki Life Insurance offers an extensive lineup of highly distinctive life insurance products and services that address the particular needs of each customer. Mitsui Sumitomo MetLife Insurance is an insurance company with individual annuities as its main products. Mitsui Sumitomo MetLife Insurance provides customers with an array of appealing products, combining the experience and know-how of MSI and U.S.-based MetLife, Inc.
Overseas Business	An overseas network consisting of 52 subsidiaries and affiliated companies covering 63 cities in 39 countries	Utilizing our long years of experience in international business, we are focusing on upgrading and expanding the MSI Group network in various regions worldwide. We are now undertaking our overseas business through an overseas network spanning 63 cities in 39 countries, centered on Asian countries, which are experiencing remarkable growth. This network is one of the largest overseas networks of any Japanese non-life insurance company. We offer products and services that respond to a diversity of risks throughout the world.
Financial Services	Financial Services Division Sumitomo Mitsui Asset Management Company, Limited MITSUI SUMITOMO INSURANCE Venture Capital Company, Limited	The Financial Services Division utilizes leading-edge financial engineering techniques to offer a diverse range of financial services, including defined contribution pension plans, financial guarantees, and alternative risk transfer (ART). Sumitomo Mitsui Asset Management is one of the largest asset management companies in Japan, with its operations consisting of two businesses: investment advisory services and management of investment trusts. MITSUI SUMITOMO INSURANCE Venture Capital focuses mainly on taking a “hands-on investment approach,” which includes not only financial support but also management support following investment.
Risk-Related Business	InterRisk Research Institute & Consulting, Inc. MITSUI SUMITOMO INSURANCE Care Network Company, Limited American Appraisal Japan Co., Ltd. INTERPARTNER ASSISTANCE JAPAN, LTD.	The Risk-Related Business is carried out via four companies: InterRisk Research Institute & Consulting, a risk management specialist that undertakes risk management-related business; MITSUI SUMITOMO INSURANCE Care Network, which engages in the nursing care business; American Appraisal Japan, which is involved with comprehensive asset appraisal consulting; and INTERPARTNER ASSISTANCE JAPAN, a provider of emergency assistance services.

Market Environment & Strategy	Main Products/Services	Core Profit
While the beginning of a downtrend in Japan's population is evident, we expect that this decline will have no immediate significant impact on our business in the run-up to 2010, the final year of Challenge 10. The Japanese government has clarified its policies related to pensions, medical care, and nursing care, and the burden of public funds shouldered by the government for social insurance is being decreased. The negative impact of global warming is now becoming apparent in the form of ever-larger natural disasters. Japanese society is undergoing profound changes, covering such areas as the protection of personal information and intellectual assets as well as reforms to the Corporate Law. These changes are bringing new risks that pose threats to both corporations and individuals.	All types of non-life insurance for companies and individuals under the signature trademark "*MOST* is the best!"	
Amid Japan's ultra-low interest rate and deflationary environments, major life insurance companies are still facing a host of challenging issues that include a severe fund management environment and issues related to their conventional direct-employment sales organizations, which have been subject to a considerable turnover of staff. These companies also have to deal with negative spreads on products sold in the past that had high assumed rates of return, while traditional products are losing their luster amid a decline in general prices. On the bright side, the segment of high net worth individuals is expanding, and people in this segment are seeking ways to more effectively utilize their funds.	Mitsui Sumitomo Kirameki Life Insurance: Family Income Insurance This insurance provides monthly fixed compensation for the contract period when the policyholder's family loses their source of essential funds for daily life due to death or serious injury. Because the insured amount of compensation gradually declines over time, premiums are relatively lower than those for traditional term insurance. Mitsui Sumitomo MetLife Insurance: Lifetime Guarantee Type Variable Annuity This product enables policyholders to receive annuity payments one year after the contract. It guarantees a lifetime annuity payment and minimum death benefit equivalent to the difference of the total premium paid and total annuity payment received. Even in the annuitization phase, assets continue to be invested via a special account.	
The non-life insurance industry still has ample room for growth in numerous countries, particularly Asian countries. Together with the ongoing advance of societies and economies, companies and individuals will face increased risks as well as more-complex risks. The makeup of natural disasters is also changing as a result of global warming. Although circumstances differ, insurance markets in each country and region are also gradually changing in tandem with shifts in social, environmental, and customer needs. In Asian countries in particular, growth and liberalization of insurance markets are expected to accelerate in parallel with economic growth.	All types of non-life insurance, worldwide insurance programs for companies, insurance for individuals, reinsurance companies specializing in natural disaster risk, and reinsurance companies for property damage	
Japan's financial environment is undergoing profound changes. The long-standing zero interest rate policy has been terminated, and modern-day trends including reform of the pension system and the advance of financial engineering techniques are being accompanied by expectations of significant growth in new business opportunities. Additionally, a changing global environment is expected to trigger growing demand not only for traditional insurance-based solutions but also ART solutions.	Defined contribution pension plans, weather derivatives, financial guarantees, investment trusts, and venture capital	
With the ongoing diversification of society, we are operating in an age of competition in services that is not limited to insurance products. In the future, there is expected to be a growing need for our risk-related services. These services range from business continuity management and complex appraisals of intellectual assets and business to the operation of home-visit nursing care businesses and care facilities as well as the provision of services for emergency repairs to and transportation of accident-damaged vehicles and arranging introductions and transportation to medical facilities for persons who become sick or injured overseas. We expect that needs for our risk-related services will continue to rise in the future.	ERM (Enterprise Risk Management) BCM (Business Continuity Management) Fee-based, long-term care facilities Business appraisal Roadside assistance	

Domestic Non-Life Insurance

The MSI Group's domestic non-life insurance business is handled by Mitsui Sumitomo Insurance formed in October 2001 through a merger between Mitsui Marine and Fire Insurance and The Sumitomo Marine and Fire Insurance.

Outline of Business

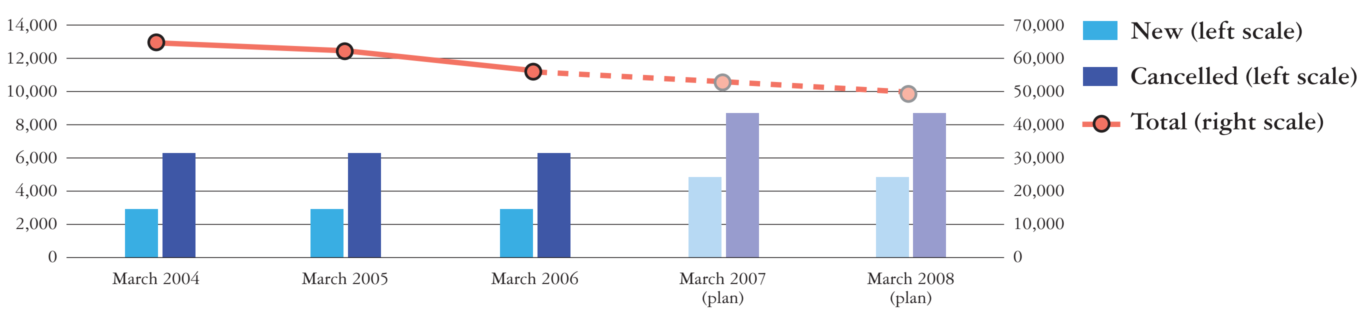
MSI operates an extensive nationwide network that includes 729 sales offices, 256 claims-handling offices, and approximately 59,000 agents. At the end of fiscal 2005, Group core profit in Japan by MSI rose to ¥64.2 billion, keeping the highest rate of growth for net premiums written and the No. 3 share of the market. Fully leveraging our advantageous positioning as a member of both the Mitsui and Sumitomo groups, which combine the strengths of numerous companies, we are responding to customer needs by offering a wide lineup of distinctive products through the corporate sector, retail channels, and financial institutions.

Initiatives Under Challenge 10 and Future Issues

To enhance our customer response capabilities, we are concurrently undertaking three reforms, namely "reform of our sales network structure," "reform of agent activities," and "reform of marketing activities." In carrying out these reforms, we are striving to create a structure capable of providing world-class services based on "the customers' view." Specifically, "reform of our sales network structure" focuses on consolidating and moving toward larger-scale agents, as we transition to a structure possessing strong sales capabilities, and on streamlining the network from 59,000 agents at the end of fiscal 2005 to 50,000 agents by the end of fiscal 2007. Committed to creating our own distinctive marketing methods and service structure, we are also devising reforms that include upgrading our IT systems and training programs to cultivate agents capable of carrying out high-quality business operations. To offer products that can be easily understood by customers and agents alike, we are promoting product reforms through efforts that include simplifying complex contracts and IT systems. Under Challenge 10, we aim for core profit of ¥59.7 billion at the end of fiscal 2006 in our domestic non-life insurance business.

We plan for our domestic non-life insurance business to generate approximately 55% of the MSI Group's core profit in fiscal 2010, the final year of Challenge 10, versus 79% in fiscal 2003. As around 80% of core profit is currently derived from domestic non-life insurance, this target underscores our intention to realize a more-balanced earnings structure.

Number of agents: new, cancelled and total



Life Insurance

The MSI Group's Life Insurance business is conducted by two companies, Mitsui Sumitomo Kirameki Life Insurance and Mitsui Sumitomo MetLife Insurance. Both companies have steadily expanded the volume of their businesses since their establishment and are now positioned as one of the drivers of the MSI Group's growth under Challenge 10.

Outline of Business

Commencing operations in 1996, Mitsui Sumitomo Kirameki Life Insurance, a wholly owned subsidiary of MSI, is proud to have the top growth rate among life insurance subsidiaries of non-life insurers in Japan. Mitsui Sumitomo Kirameki Life Insurance sells highly distinctive products mainly through cross-selling activities carried out by MSI's non-life insurance agents. At the end of fiscal 2005, the balance of individual life insurance and individual annuity in force for Mitsui Sumitomo Kirameki Life Insurance stood at ¥7,917.9 billion, ranking No. 3 among subsidiaries of non-life insurers.

Commencing operations in October 2002, Mitsui Sumitomo MetLife Insurance, a joint venture with MetLife, Inc., primarily handles individual annuities that are sold mainly through agent financial institutions. During the three and a half years from its inception to the end of fiscal 2005, Mitsui Sumitomo MetLife Insurance has smoothly expanded its business, with the outstanding balance of life insurance in force reaching ¥1,591 billion. Mitsui Sumitomo MetLife Insurance places particular emphasis on variable annuities and commands the industry's No. 2 position for these products.

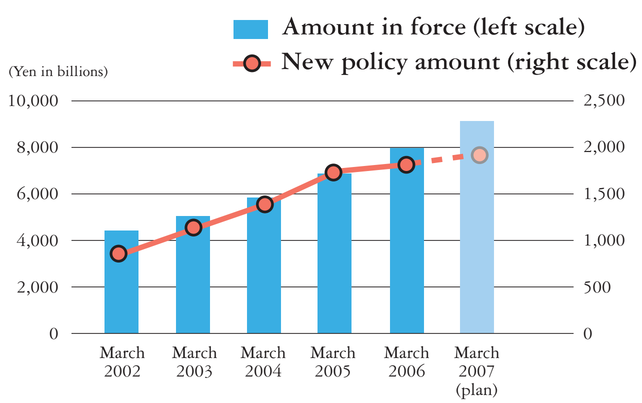
Initiatives Under Challenge 10 and Future Issues

We have positioned the life insurance business as one of the pillars of the MSI Group's future earnings and are committed to promoting our life insurance business utilizing the Group's comprehensive strengths that include its major brand power, extensive target customer segments, and strong distribution network. Under Challenge 10, Stage I, we aim to generate core profit of ¥9.5 billion for our entire life insurance business in fiscal 2006.

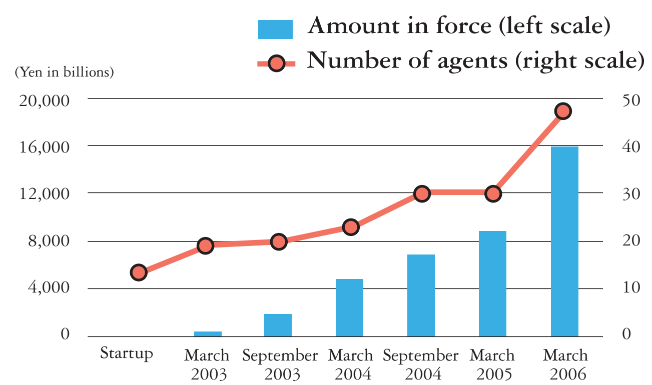
Mitsui Sumitomo Kirameki Life Insurance is striving to achive its target of becoming No. 1 in terms of the growth rate of life insurance in force by the end of fiscal 2006. Mitsui Sumitomo Kirameki Life Insurance will make its utmost efforts to attain this target by drawing on its unique strengths, namely, 1) outstanding sales capabilities, 2) strong product development capabilities, and 3) a sound financial foundation evidenced by a high credit rating and solvency margin. We will further strengthen sales capabilities by increasing the number of top-performing agents in life insurance sales and specialists in sales education of agents deployed nationwide. We will also strengthen the consulting sales channel initiated in October 2005 by fully utilizing in-house staff.

Meanwhile, Mitsui Sumitomo MetLife Insurance will use its product development capabilities gained though its affiliation with U.S.-based MetLife to successively introduce new products that meet the diverse needs of the growing market for individual annuities. At the end of fiscal 2005, Mitsui Sumitomo MetLife Insurance was selling products through alliances with 47 banks, *shinkin* banks (credit unions), and securities companies across Japan.

Insurance in force and new policy amount for Mitsui Sumitomo Kirameki Life Insurance



Insurance in force and number of agents for Mitsui Sumitomo MetLife Insurance



Overseas Business

MSI undertakes its overseas business through a network of overseas offices, branches, and Group companies. We provide insurance products tailored to the specific needs of customers in countries and regions worldwide and also offer an array of risk solutions matched to the global business development needs of our client companies.

Outline of Business

From our origins in Japan, we have achieved continuous growth in our overseas business that has been driven by strong capabilities in providing a wide variety of risk solutions cultivated in Europe, the Americas, and Asia.

We are one of the largest foreign-affiliated non-life insurers in Asia, having expanded our presence significantly in 2004 by acquiring the full non-life insurance Asian business operations of Aviva plc, and in 2005, acquiring Mingtai Fire & Marine Insurance Co., Ltd. in Taiwan. We are now eyeing further significant expansion of business in Asia, which continues to record dramatic growth. Russia also has ample growth potential, and in 2005 we opened representative offices in Moscow and St. Petersburg through a tie-up with Ingosstrakh Insurance Company Ltd. In Europe, our insurance underwriting operations as a member of Lloyds is generating steady growth, while in the Americas, we are making further strides in improving business results despite a harsh business environment. In our reinsurance business, our subsidiaries in Bermuda and Dublin, Ireland are successfully expanding their business.

Initiatives Under Challenge 10 and Future Issues

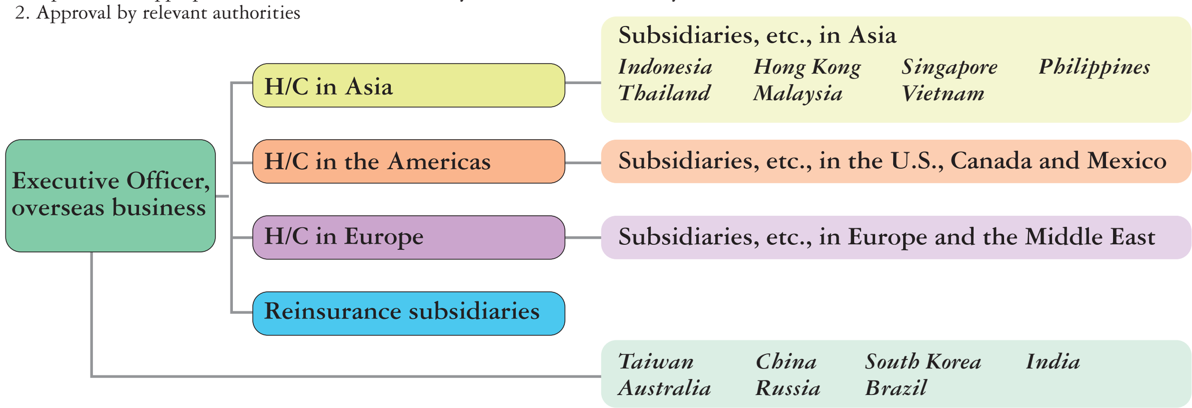
By 2010, the final year of Challenge 10, we plan for our overseas business to generate 20% of the MSI Group's core profit. We foresee continued large growth in our Asian business, thanks to ongoing contributions by new companies joining the MSI Group. Under Challenge 10, Stage I, we had initially aimed for core profit of ¥10.0 billion by the end of fiscal 2006, but have now revised our target upward to ¥11.0 billion. As other key targets of Challenge 10, Stage I, we aim to be No. 1 among Japanese companies in terms of overseas gross premiums and net income. In fiscal 2005, gross premiums amounted to ¥236.8 billion, a jump of around 36% from the previous fiscal year, and we will continue working to expand and raise the quality of our portfolio.

With an eye to the future, subject to approval by relevant authorities, we plan to shift to a structure comprised of three regional holding companies in Asia, the Americas, and Europe, thereby enhancing administrative and audit functions and realizing prompt decision-making and business execution that is even more regionally focused. Other objectives in our overseas business are to realize corporate social responsibility (CSR), with management based on thoroughgoing compliance, while making our utmost efforts to contribute to the development of the countries and regions where we operate.

Overseas Organizational Structure

Overseas organization under three holding companies (H/Cs)

Subject to:
1. Update of an appropriate administrative and audit system of overseas offices by Head Office
2. Approval by relevant authorities



Financial Services

The Financial Services business is composed of MSI's Financial Services Division, asset management company Sumitomo Mitsui Asset Management and venture capital specialist MITSUI SUMITOMO INSURANCE Venture Capital. Through these three companies, we offer a wide assortment of financial services to meet the diverse needs of customers.

Outline of Business

In the defined contribution pension plan business, which are handled by MSI's Financial Services Division, we have promoted sales of such products as JIP general 401k plans for small- and medium-sized companies, while proactively ascertaining their needs for defined contribution pension plans, thereby earning extensive acclaim from these customers. Mainly through alliances with banks, we are also aggressively cultivating business in pension schemes for individuals introduced primarily by large corporations, targeting persons leaving their companies in mid-career.

In the financial guarantees field, we seek to meet our clients' needs of diversifying their funding methods by offering asset securitization schemes using advanced financial engineering techniques. Additionally, we have expanded reinsurance underwriting of financial guarantees as we strive to increase our earnings. In alternative risk transfer (ART) operations, we solidified our global business alliances with U.S. and European partner companies for weather derivative products. In Japan, we expanded sales of weather derivatives, focusing on products covering risk related to temperature, rainfall, and snowfall.

Sumitomo Mitsui Asset Management is one of the largest asset management companies in Japan, with operations focused on the two fields of investment advisory services and management of investment trusts. Sumitomo Mitsui Asset Management responds to a broad spectrum of customer needs in asset management with an abundant selection of top-quality professional services. As of the end of fiscal 2005, the outstanding balance of assets managed under investment advisory contracts amounted to ¥8,600 billion, while the total amount of investment trust assets managed reached ¥2,200 billion.

MITSUI SUMITOMO INSURANCE Venture Capital emphasizes a "hands-on investment approach," which identifies venture companies with growth potential and provides not only financial support, but also extensive management support following investment. In fiscal 2005, we invested in 26 companies. Also noteworthy, in September 2005 MITSUI SUMITOMO INSURANCE Venture Capital established a buyout fund that involves joint investment, and executed its first buyout investment in March 2006.

Looking ahead, we will continue to diversify our earnings sources and expand our profits leveraging MSI's high credit rating, extensive agent network, and cutting-edge financial engineering techniques.

Risk-Related Business

MSI undertakes its Risk-Related Business through four companies: InterRisk Research Institute & Consulting, a risk management specialist; MITSUI SUMITOMO INSURANCE Care Network, which is involved in nursing care businesses; American Appraisal Japan, which offers comprehensive asset appraisal consulting; and INTERPARTNER ASSISTANCE JAPAN, a provider of roadside assistance services.

Outline of Business

Demand for risk consulting has grown steadily in line with current recognition of the importance of risk management. Winning high acclaim from customers, companies in our Risk-Related Business engage in businesses that provide specific consulting, services, and arrangements, covering areas ranging from business to disasters and nursing care. We have worked to develop our Risk-Related Business while maintaining close ties with the MSI Group's four other business fields (Non-Life Insurance, Life Insurance, Overseas Business and Financial Services). In the future as well, we will continue to develop services that meet customer needs.

Basic Policies on Corporate Governance

MSI has designated the "further strengthening of corporate governance" as one of its most crucial management issues and is actively promoting a host of related initiatives. Through the efficient utilization of its management resources and appropriate risk management, MSI is striving to achieve long-term stability and development by creating a transparent management framework with proper checking functions, aimed at raising its corporate value.

Corporate Governance Structure

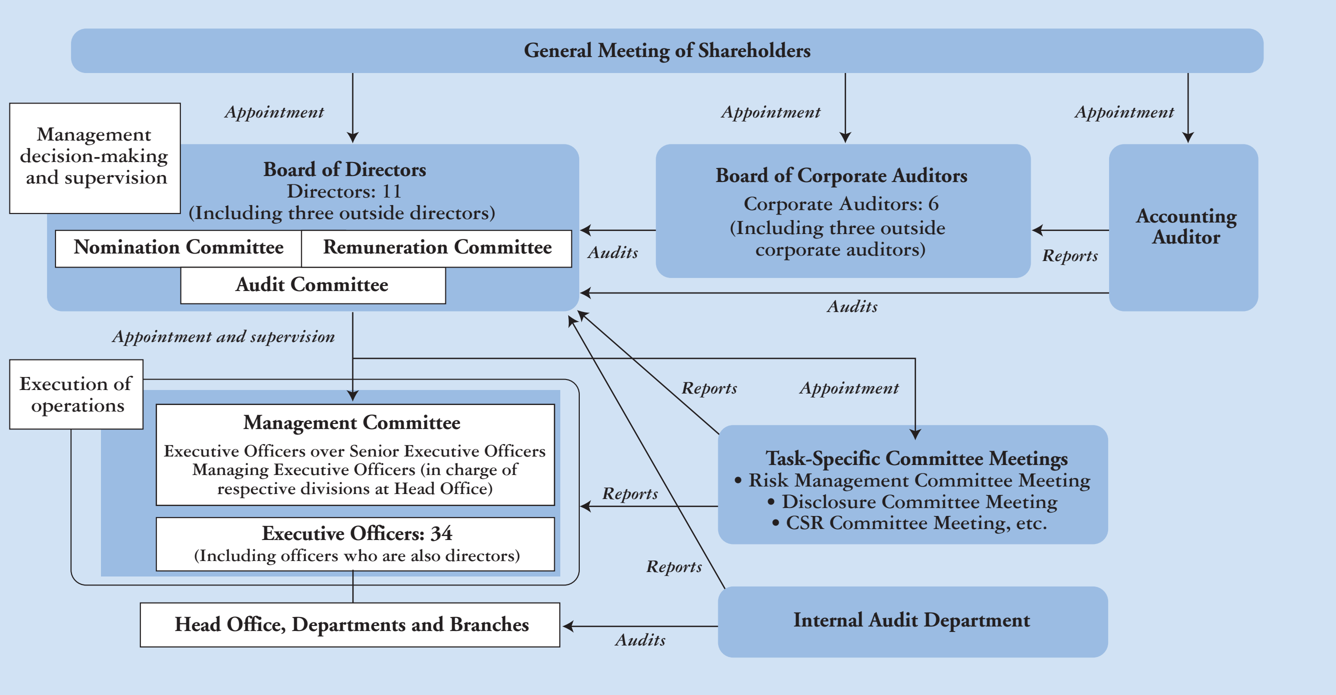
MSI has adopted the corporate auditor governance model and is working to improve corporate governance by strengthening the functions of its Board of Directors and Board of Corporate Auditors in addition to emphasizing proactive disclosure. To ensure quick decision-making together with the appropriate monitoring of management activities, the Company has introduced an executive officer system. In doing so, we aim to make a clear distinction between the roles of the Board of Directors, which decides on important Group-wide management matters and oversees the Group's operations from an overall perspective, and the roles of the executive officers, who are responsible for executing day-to-day business activities.

In a move to further fortify its corporate governance functions, MSI has abolished the previous managing and senior managing director title positions, while concurrently appointing three outside directors. Moreover, to ensure transparency in management, the Nomination Committee, the Remuneration Committee, and the Audit Committee, which include outside directors, have been established as internal committees within the Board of Directors.

MSI has set up the Management Committee as an organization responsible for deliberating key issues pertaining to management of MSI and the MSI Group, including management policies and corporate strategies as well as important issues related to the execution of business activities. Other internal bodies and discussions that deliberate on vital management matters concerning the execution of business activities include the Disclosure, Risk Management, and CSR committee meetings.

MSI's corporate auditors carry out audits of directors' execution of their responsibilities and internal control by participating in important meetings, including the Board of Directors, the Management Committee, and other key committees where important matters are decided; examining important documents; visiting the Head Office, departments, branches, and overseas offices to conduct audits; and checking subsidiaries. MSI has chosen KPMG AZSA & Co. as its accounting auditor.

Corporate Governance Framework (as of September 1, 2006)



Basic Policy on Compliance

To sustain ongoing development, it is imperative that companies carry out their business activities in strict adherence to laws while maintaining the highest sense of ethics. As the basis for the fundamental values shared by all MSI employees and the execution of appropriate and lawful corporate activities, MSI formulated the *Mitsui Sumitomo Insurance Group Charter on Professional Conduct*, with the aim of imbuing all officers and employees with a thorough awareness of compliance.

Compliance Structure

The Compliance Department carries out unified management of compliance matters related to insurance sales and claims payments, establishes policies for compliance implementation that includes the formulation of compliance programs and compliance manuals, and handles the planning and advocacy pertaining to rules of business operation. The promotion of compliance at each department at the Head Office and at regional headquarters is also monitored along with regular reports being made to management regarding the results of the analysis of this monitoring as well as the status of compliance activities.

The Compliance Department also ascertains any case of potential misconduct based on customer questionnaires and complaints and is also entrusted with investigation functions that include confirming the facts and determining whether matters actually constitute misconduct. Accordingly, the Compliance Department thoroughly promotes comprehensive compliance and responds to any violations of laws.

Specific Compliance Activities

Compliance Program

A compliance program that functions as a practical compliance plan is formulated each fiscal year by the Board of Directors. Based on this plan, each department formulates a Compliance Initiatives Plan that incorporates specific execution measures and also undertakes activities to promote compliance with laws and regulations.

Compliance Manuals

MSI has formulated two types of compliance manuals (an edition for common use and an edition for each department) that contain the *Mitsui Sumitomo Insurance Group Charter on Professional Conduct*, regulations for obeying laws, laws to be observed by officers and employees, as well as explanations of actual examples of compliance matters. The manual for common use is distributed to all officers and employees for reference at all times.

Education and Training

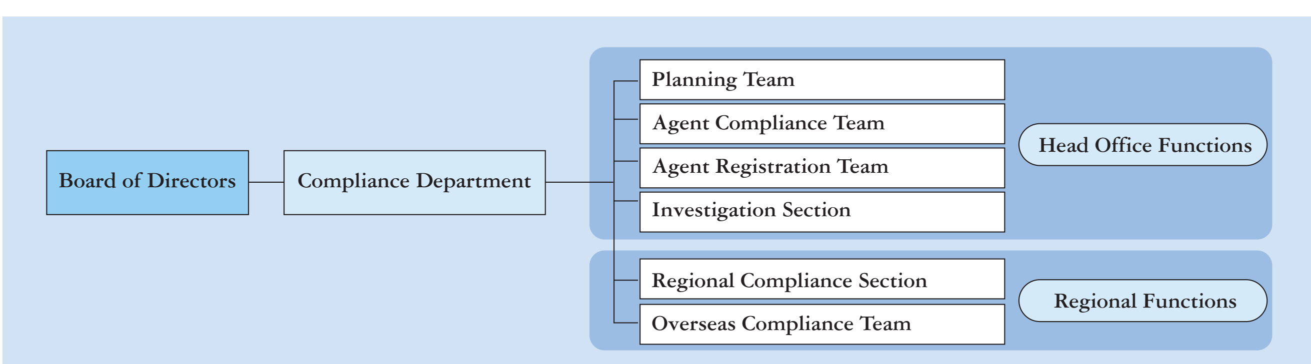
The Compliance Department holds training for all employees twice per year during “compliance strengthening months” as part of initiatives to extensively reform employee awareness and behavior. Concentrated training is also held on a rotational basis at MSI’s operational bases throughout the organization. Rather than focusing on a one-way transmission of compliance knowledge, this training aims at promoting two-way dialogue with employees to ensure they acquire an even deeper understanding of compliance.

Internal Reporting System

We have established an internal reporting system that allows employees to directly report compliance-related problems. This system is separate from other internal reporting and consultation channels through organizational structures.

Monitoring Activities

In marketing and claims-handling services, we carry out activities, centering on our monthly business operation inspections, for quickly detecting and correcting inadequacies in everyday business operations.



DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE AUDITORS

Seated from left: Ken Ebina, Yoshiaki Shin, Toshiaki Egashira, Hitoshi Matsuno
Standing from left: Kenji Koroyasu, Yasuyoshi Karasawa, Katsuaki Ikeda, Hiromi Asano, Hitoshi Ichihara, Eiko Kono, Iwao Taka

Directors

Chairman

Yoshiaki Shin

President

Toshiaki Egashira

Ken Ebina
Hitoshi Matsuno
Hiromi Asano
Katsuaki Ikeda
Hitoshi Ichihara
Yasuyoshi Karasawa

Outside Directors

Eiko Kono
Kenji Koroyasu
Iwao Taka

Executive Officers

Chief Executive Officer

Toshiaki Egashira

Vice President Executive Officer

Ken Ebina

Senior Executive Officers

Yoshihiko Mikuni
Hitoshi Matsuno
Toshihiro Nakagawa
Isamu Endo
Hiromi Asano
Kazuo Kondo

Managing Executive Officers

Kazuo Araya
Koichi Kubota
Katsuaki Ikeda
Ichiro Iijima
Michio Hatakeyama
Hideharu Nishida
Hitoshi Ichihara
Yasuyoshi Karasawa
Toshio Irie

Executive Officers

Hisao Mitsubori
Hironobu Nanba
Yukihiro Kawadu
Katsumi Ochi
Koji Amano
Makoto Toyoshima
Shigeru Kondo
Masamichi Irie
Toshio Yagi
Keizo Yamamoto
Junichi Ui
Katsuhiko Kaneyoshi
Yukio Higuchi
Shizuka Sasaki
Susumu Ichihara
Yasuo Kishimoto
Shuhei Horimoto

Corporate Auditors

Standing Corporate Auditors

Yasuo Tsutsumi
Michio Nozaki
Sanpei Nozaki

Corporate Auditors

Sosuke Yasuda
Megumi Suto
Kuniaki Nomura

(As of September 1, 2006)

Basic Policy

As part of efforts to respond accurately to increasingly complex and diverse risks in its business operations while raising management quality and fulfilling responsibilities to customers, shareholders, and other stakeholders, MSI has positioned risk management as a top management issue and works to correctly identify and assess risks and implement appropriate risk management measures.

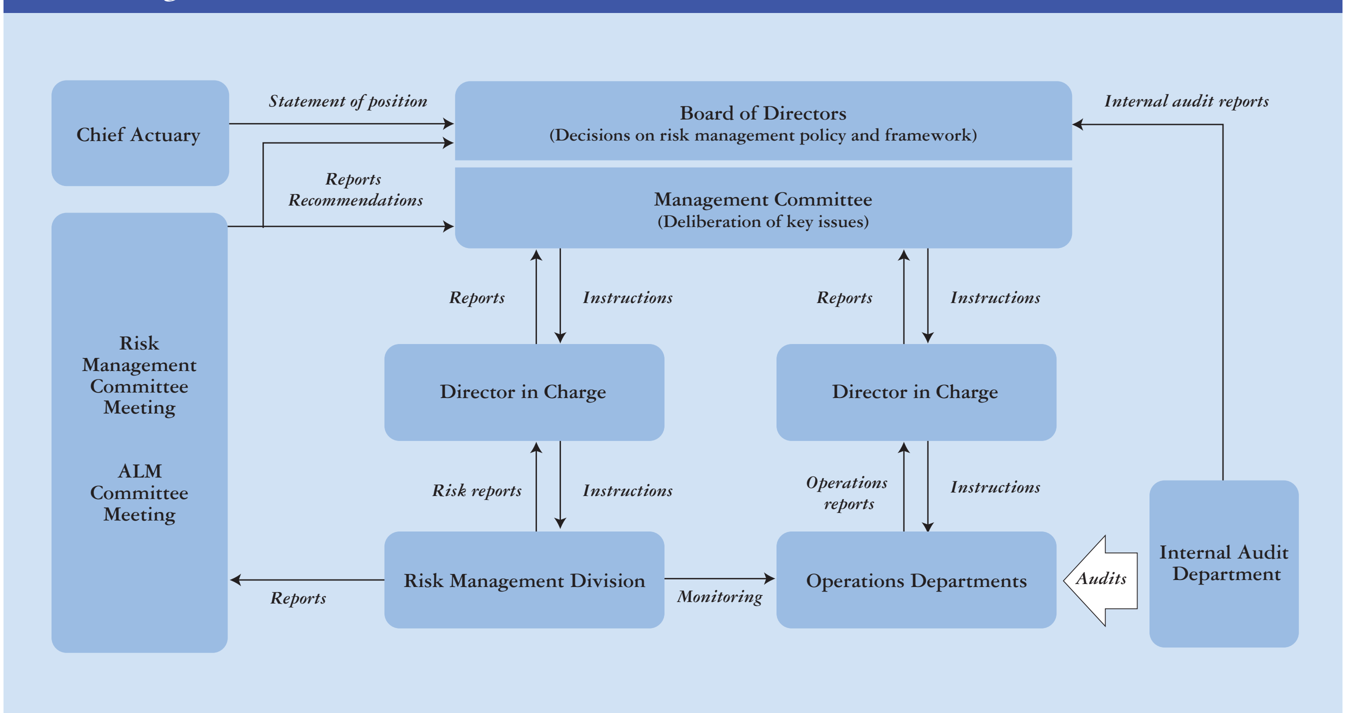
Risk Management Framework

MSI's Board of Directors has formulated the Basic Policy on Risk Management, a common policy covering the entire MSI Group that encapsulates a basic shared thinking as part of a Group-wide approach to risk management. MSI broadly categorizes risks into insurance underwriting risk, investment risk, and operational risk. Under this policy, however, MSI has prescribed regulations and criteria for more finely focused risk management based on the characteristics of each type of risk. Moreover, MSI has established the Risk Management Committee Meeting, whose members report to the Board of Directors, to promote thorough, efficient and effective risk management activities. The departments in charge of each business operation handle management of individual risks, while the members of the Risk Management Committee Meeting carry out cross-sectional, comprehensive risk management and monitoring on a Company-wide basis.

Functioning as secretariats for the Risk Management Committee Meeting, risk monitoring sections including the Corporate Risk Management Department and the Financial Risk Management Department investigate the state of risk management and risks while checking on each department in charge of respective business operations. The members of the Asset Liability Management (ALM) Committee Meeting monitor appropriate product design and asset management by analyzing market risk. We have also set up the Internal Audit Department to perform internal audits of various Company organizations, including Group companies. By executing respective functions in a parallel and organized manner, MSI's risk management structure is firmly positioned to perform monitoring and checking and utilize functions for reporting on the status of any risks to management.

To ensure the protection of personal information, including the handling of customer information, MSI has established the Information Security Section and has formulated the Information Management Regulations in addition to the Information Security Policy incorporated in the Group's basic policy.

Risk Management Framework



The MSI Group's Stance on CSR

A high level of fairness and honesty are prerequisites for engaging in the insurance business, which is the MSI Group's core business. Additionally, insurance companies possess social and public aspects that include contributing to the stability of the social and economic structure by compensating customers for unforeseen losses and helping reduce or eliminate risks.

MSI's management philosophy begins with the mission statement "Through our insurance and financial services businesses, we commit ourselves to bringing security and safety to people and businesses around the world and making a lasting contribution to the enrichment of society." In accordance with the characteristics of the insurance business and our mission statement, we consider CSR to be one of the crucial activities forming the backbone of our business operations. As such, one of the overriding slogans of our Challenge 10 long-term vision is to "raise corporate value within the framework of CSR."

Structure for CSR Initiatives

In August 2003, MSI established the CSR Committee Meeting, comprising the MSI President and CEO as committee chairman as well as principal board members and general managers of Head Office departments. Since its inception, the members of the committee meeting have made unceasing efforts to achieve an optimal overall balance of CSR initiatives and to raise the level of CSR activities, while monitoring progress from a comprehensive perspective to ensure that CSR activities become firmly entrenched and are implemented on an ongoing basis. In addition, approximately 690 general managers and CSR Promotion Representatives have been appointed to lead CSR initiatives in branches and offices in Japan and at principal overseas bases. Augmenting these efforts, in October 2004 MSI set up the CSR Section within its Corporate Planning Department to specialize in CSR. Responsible for planning and implementing cross-departmental initiatives, the CSR Section is overseen by a manager dedicated to handling CSR endeavors, while other staff members have joint responsibilities in the section as well as in the Human Resources, General Affairs, Corporate Communications, and Compliance departments.

Establishment of the Group Charter

In October 2004, MSI announced the *Mitsui Sumitomo Insurance Group Charter on Professional Conduct*. The charter was crafted based on employee discussion meetings convened at all principal offices, and drafts of the charter were made available to employees and their opinions and ideas were solicited. The final draft of the charter was then completed taking these opinions and ideas into consideration. The entire process culminating with the completion of the final version of the charter required more than one year.

The MSI Group has identified seven stakeholders—defined as any members of society with some connection with the Group—that include six groups, namely customers, shareholders, agents, business partners, employees, and local communities and the international community, in addition to the natural environment. The charter articulates how the MSI Group should act toward these stakeholder groups and the environment and stipulates the Group's "seven responsibilities" for responding to respective stakeholders. The charter's core ideas and values and the reasons why these seven principles must be fulfilled are clarified at the beginning of the charter as the preamble. The charter concludes with "Our Conduct," a statement of what actions individual employees should take. MSI has positioned its charter as the nucleus of its CSR initiatives and the basis of its activities.

The charter symbolizes the MSI Group's corporate culture and constitutes a pledge regarding the actions MSI Group employees will take toward stakeholders and the environment. The Group's overseas offices, including subsidiaries and branches, have prepared their own original charters suited to their respective countries and circumstances.

MSI Management Score

Highlighting a commitment to promoting a good balance of CSR initiatives, the MSI Group is evaluating its CSR activities from an overall perspective. As evaluation standards, the Group has formulated the MSI CSR Management Score system made up of 69 evaluation criteria. Under this system, each related department prepares an evaluation draft detailing progress of its own initiatives covered by these criteria. The members of the CSR Committee Meeting make a final evaluation and verify overall progress.

While maintaining awareness of individual evaluation criteria, we are moving forward with initiatives that include:

— Initiatives for familiarizing all management and staff with the *Mitsui Sumitomo Insurance Group Charter on Professional Conduct*.
— A framework for direct dialogue between the president and a range of stakeholder groups.

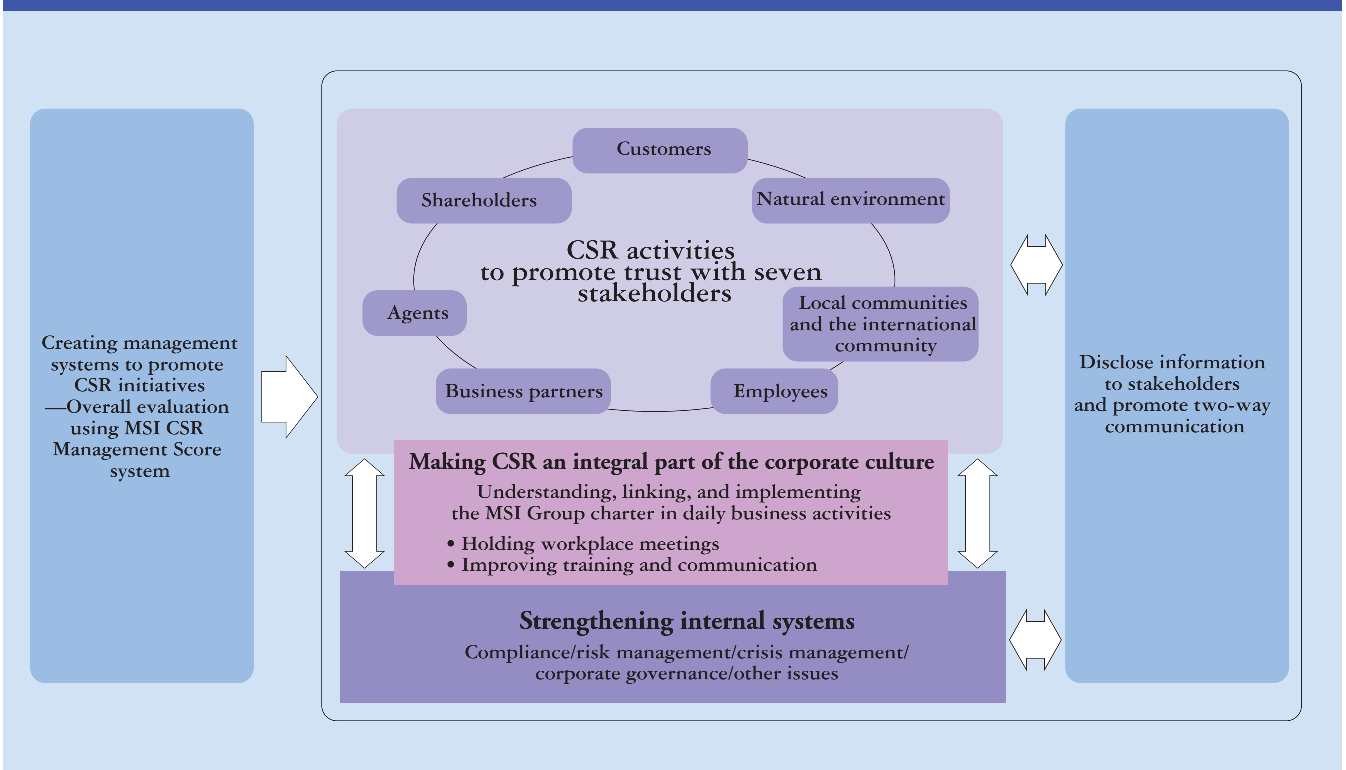
CSR Accounting

The MSI Group has become the first financial institution in Japan to introduce CSR accounting and lists the results in its CSR reports. Guided by the recognition that CSR is a strategic investment indispensable for the sustainable development of the MSI Group, we formulated our proprietary "CSR Accounting Criteria" and, to the greatest extent possible, have quantitatively ascertained, measured, and compiled the related costs and effects of CSR initiatives. The three CSR initiatives covered are "social contribution and philanthropy activities," "ethical and compliance activities," and "environment-protection activities."

Although our CSR accounting tabulations presently cover only the three initiatives, we plan to gradually extend the scope of these activities to initiatives concerning responsibilities toward customers, agents, and employees.

The introduction and disclosure of CSR accounting gives us a useful tool for communicating with stakeholders by quantitatively ascertaining and measuring the related costs and effects of CSR activities

Interrelationships Among CSR Initiatives



as much as possible. At the same time, the introduction of CSR accounting is aimed at making CSR even more deeply engrained in our corporate culture.

CSR Meetings

MSI holds CSR Meetings throughout Japan. These meetings allow employees to discuss situations in which implementing the MSI Group charter in their daily work is proving difficult as well as to consider specific initiatives and future tasks to be undertaken at their respective workplaces. The charter becomes truly meaningful only when each employee thoroughly understands and identifies with the charter and implements it in their daily work. To put this charter into practice, we create an environment that enables discussion for identifying related problems and deficiencies. Concurrently, to ensure these initiatives become firmly entrenched and extend to all Group employees, we have made CSR an integral component of employee training programs. In addition, we have set up a “Let’s Talk About CSR!” bulletin board on the Company’s intranet for exchanging information on examples of CSR initiatives and for gathering suggestions for improvement.

In fiscal 2006, under the Group-wide unified slogan of “putting the first priority on the customers’ view,” we have established and are putting into practice CSR initiative categories at respective bases throughout the world.

Taking the Lead in the United Nations Global Compact

In June 2004, MSI became the first financial institution in Japan to participate in the United Nations Global Compact. Participation in the Global Compact represents an expression of a management stance showing respect for human rights and working conditions as well as a commitment to protecting the environment and preventing corruption. MSI’s participation in the compact also represents a reaffirmation of its commitment to CSR. At present, MSI serves as chair of the Global Compact Steering Committee in Japan and thus serves as the leader of activities carried out by the network of domestic companies participating in the Global Compact.

Topic

On May 18, 2006, an opinion-exchange meeting was held between top managers of companies participating in the Global Compact and United Nations Secretary-General Kofi Annan, who was visiting Japan. MSI Chairman Yoshiaki Shin attended this meeting and, as the representative of the network, made a speech about the current status and future direction of the network.

FINANCIAL SECTION

GAAP in the United States

Contents

FIVE-YEAR SUMMARY

MITSUI SUMITOMO INSURANCE CO., LTD. AND SUBSIDIARIES
FOR THE YEARS ENDED MARCH 31, 2002, 2003, 2004, 2005 AND 2006

	Yen in millions				
	2002	2003	2004	2005	**2006**
For the year:					
Net premiums written	¥1,232,000	¥1,300,681	¥1,375,973	¥1,402,977	**¥1,458,507**
Net premiums earned	1,182,675	1,228,000	1,308,059	1,357,748	**1,422,801**
Premium income for life insurance contracts	137,324	147,761	157,840	175,169	**205,158**
Investment income, net of investment expenses	124,029	116,603	118,603	119,479	**156,102**
Total revenue	1,436,710	1,490,205	1,673,309	1,703,388	**1,834,260**
Total expenses	1,384,084	1,421,874	1,482,733	1,636,315	**1,653,283**
Net income (loss) from underwriting	5,355	17,484	39,496	(49,911)	**25,516**
Net income	25,981	38,312	123,493	42,629	**124,123**
At year-end:					
Total investments	5,784,255	5,355,672	6,062,414	6,345,976	**7,481,988**
Total assets	7,416,455	7,076,642	7,806,916	8,217,329	**9,412,292**
Total shareholders' equity	1,827,169	1,543,053	1,957,675	2,029,802	**2,637,278**
	Percent				
Key ratios*:					
Loss ratio	54.9%	55.5%	56.2%	67.7%	**62.0%**
Combined loss and expense ratio	97.8	96.4	95.2	102.7	**97.6**
Annual percentage change:					
Net income from underwriting	—	226.4	125.9	(226.4)	**—**
Investment income, net of investment expenses	(9.7)	(6.0)	1.7	0.7	**30.7**

Net income and total shareholders' equity for 2004 and 2005 have been restated. See Note (24) of Notes to Consolidated Financial Statements on page 69.
* The key ratios relate to property and casualty insurance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

1. Overview

This Management's Discussion and Analysis (MD&A) aims to provide readers with information concerning matters that could affect the MSI Group's financial condition and business results. Specifically, upon describing the MSI Group's businesses and explaining points for consideration in the Overview section, the information provided herein includes: critical accounting policies and estimates, summary of business results, cash flow analysis and financial position, issues to be addressed by the Company, risk analysis, solvency margin ratio, and MSI's credit rating.

(1) Description of businesses

The following is a description of the MSI Group's principal businesses and the positioning of Group companies within these businesses.

1) Non-Life Insurance Business

MSI and one affiliated company engage in the non-life insurance business in Japan. Overseas, the non-life insurance business is undertaken by MSI in addition to a total of 27 affiliated companies, including Mitsui Sumitomo Insurance USA Inc., Mitsui Sumitomo Insurance Company of America, Mitsui Sumitomo Insurance Company (Europe), Limited, and Mitsui Sumitomo Insurance (Singapore) Pte Ltd.

2) Non-Life Insurance-Related Businesses

In Japan, we carry out non-life insurance-related businesses via 11 affiliated companies, including Mitsui Sumitomo Insurance Claims Adjusting Company, Limited, while overseas we undertake non-life insurance-related business through 37 companies, including Mitsui Sumitomo Insurance Group Holdings (U.S.A.), Inc.

3) Life Insurance Business

The MSI Group's Life Insurance business in Japan is carried out by Mitsui Sumitomo Kirameki Life Insurance Company, Limited and Mitsui Sumitomo MetLife Insurance Co., Ltd.

4) Asset Management-Related Business

Sumitomo Mitsui Asset Management Company, Limited engages in investment and investment advisory services businesses in Japan, while the latter business is carried out overseas by three affiliated companies. In Japan, 14 affiliated companies, including MITSUI SUMITOMO INSURANCE Venture Capital Co., Ltd., are involved in asset management-related businesses, and overseas this business is undertaken by four affiliated companies.

(2) Points to Be Noted Regarding Figures

MSI, the core company of the MSI Group, is a Japanese corporation and prepares its legal consolidated financial statements in accordance with Japanese laws. At the time of the merger in 2001, the percentage of U.S. shareholders exceeded 10% and therefore MSI issued and filed an F-4 with the U.S. Securities and Exchange Commission (SEC) in accordance with the U.S. Securities Act of 1933. Subsequently, the number of U.S. shareholders did not exceed the prescribed number, and MSI thus discontinued the filing of an annual report (20-F) with the SEC in accordance with the U.S. Securities Exchange Act of 1934. Nonetheless, MSI has a high composition of foreign shareholders (40.2% of total shareholders at the end of March 2006), and thus for the convenience of overseas readers, MSI continues to prepare and disclose its financial statements based on U.S. accounting standards ("U.S. GAAP"), which are highly recognized worldwide.

The financial statements prepared for this report are based on U.S. GAAP. Therefore, in principle, this MD&A uses figures in accordance with U.S. GAAP as mentioned above. On the other hand, MSI is a Japanese corporation and the MSI Group's sales (net premiums written) are mainly derived from the Japanese market. Accordingly, the preparation of various MSI Group plans as well as the management of monthly business results are unambiguously based on Japanese accounting principles ("Japan GAAP"). As such, Challenge 10, Stage I, the MSI Group's long-term vision with a target date of fiscal 2010 and medium-term management plan covering the initial two years of the plan for fiscal 2005 and 2006 (pages 8 and 9) that articulates our strategic targets, has been prepared based on core profit mainly under Japan GAAP. For the sake of convenience in comparing results versus plans, we also disclose profit figures based on Japan GAAP for reference at the end of the section entitled Summary of Business Results.

2. Critical Accounting Policies and Estimates

We have identified the accounting policies that are critical to our business operations and the understanding of its results of operations. These critical accounting policies are those which involve complex or subjective decisions or assessments, and relate to insurance reserves, policy acquisition costs, and the determination of the value of financial assets, including impairment charges. In each case, the determination of these items is fundamental to our financial conditions and results of operations, and requires management of the Company to make complex judgments and estimates based on information and financial data that may change in the future periods. Actual results could differ from those estimates.

Insurance Reserves

Liabilities for reported and estimated losses and claims and for related adjustment expenses for property and casualty insurance contracts are based upon the accumulation of case estimates for losses and related adjustment expenses reported prior to the close of the accounting period on direct and assumed business. Provision has also been made based upon past experience for unreported losses and for adjustment expenses not identified with specific claims. The Company believes that the liabilities for unpaid losses and adjustment expenses at March 31, 2005 and 2006 are adequate to cover the ultimate cost of losses and claims incurred to those dates, but the provisions are necessarily based on estimates and no representation is made that the ultimate liability may not exceed or fall short of such estimates.

For life insurance contracts, reserves for future policy benefits are determined by the net level premium method. Assumed interest rates range from 1.00% to 3.10%. Anticipated rates of mortality are based on the 1996 Mortality Table modified by the recent experience of Japanese life insurance companies.

Policy Acquisition Costs

Policy acquisition costs are deferred and amortized over the periods in which the related premiums are earned. Acquisition costs include agent commissions and certain other costs which vary with and are directly related to the acquisition of business. Such deferred costs are limited to the excess of the unearned premiums over the sum of expected claim costs, claim adjustment expenses and policy maintenance expenses.

Investments in Equity and Fixed Maturity Securities

Trading securities are recorded at fair value with unrealized gains and losses included in income. Securities available for sale are recorded at fair value with net unrealized gains and losses reported, net of tax, in accumulated other comprehensive income. Securities held to maturity, which the Company has positive intent and ability to hold to maturity, are recorded at amortized cost.

For investments that have experienced a decline in value below their respective cost that is considered to be other than temporary, the declines are recorded as realized losses on investments in the consolidated statements of income. Gains and losses on the sale of investments are included in realized gains and losses in the consolidated statements of income based on the trade date. The cost of investments sold is determined on a moving-average basis.

Investments in Loans

The Company grants mortgage, commercial and consumer loans primarily to customers throughout Japan. As a result of this geographic concentration of outstanding loans, the ability of the Company's debtors to honor their contracts is much more dependent upon the general economic conditions in Japan than those competitors with a greater geographic dispersion of borrowing.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and an allowance for credit losses.

Loans are placed on a cash (non-accrual) basis when it is deemed that the payment of interest or principal is doubtful of collection, or when interest or principal is past due for 90 days or more.

All interest accrued but not collected for loans placed on non-accrual status or charged off is reversed against interest income. The interest on these loans is accounted for on a cash basis until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loan Loss Allowance

The allowance for credit losses is established as losses are estimated to have occurred through a provision for credit losses charged to earnings. Credit losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific allowance is established for loans that are classified as impaired when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of the loan. The general allowance covers other-than-impaired loans and is established based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfalls in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for mortgage and commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent. Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

3. Summary of Business Results

During the fiscal year ended March 31, 2006, the Japanese economy achieved recovery supported by such factors as a high level of corporate earnings and an increase in private-sector capital investment in addition to increased consumer spending owing to the favorable turnaround in the employment situation and income environment.

In Japan's non-life insurance industry, premium income and interest and dividend received increased, reflecting the aforementioned economic trends, while loss ratios declined due to relatively light damage from natural disasters, all of which led to an improvement in the balances of revenues and expenses.

Amid these circumstances, the MSI Group implemented a host of measures under the Challenge 10, Stage I medium-term management plan launched in the fiscal year ended March 31, 2006. With corporate social responsibility (CSR) serving as the cornerstone of management, these measures included raising corporate quality, further strengthening growth capabilities and earnings power, and proactively carrying out our businesses, centering on our core non-life insurance business, life insurance business, and overseas business in addition to financial services and risk-related business. The implementation of these measures led to the following business results for the fiscal year.

MSI achieved steady growth in net premiums earned, premium income for life insurance contracts, and investment income. Thus, total revenue rose 7.7% from the previous fiscal year to ¥1,834.3 billion. On the other hand, growth in total expenses was held to 1.0%, to ¥1,653.3 billion, mainly because of lower claims payments for natural disasters. Therefore, income before income taxes rose sharply from ¥67.1 billion in the previous fiscal year, to ¥181.0 billion, a rise of 169.8%. After subtracting such items as income taxes, net income amounted to ¥124.1 billion, up 191.2% from ¥42.6 billion in the previous fiscal year.

Business results by segment were as follows.

Non-Life Insurance

In the non-life insurance business, we moved decisively to strengthen our overseas business by taking steps that included the acquisition of insurance companies in Asia. In products for households, we launched sales of *MOST First Class*, a top-grade automobile insurance product, and *MS New Stage*, a lump-sum annuity savings-type traffic accident insurance product. Meanwhile, we also sold company-oriented products that included *New Business Pikaichi* fire insurance targeted at small- and medium-sized businesses. As a result, net premiums written increased ¥55.5 billion, or 4.0%, to ¥1,458.5 billion. Accordingly, net premiums earned rose 4.8% to ¥1,422.8 billion. Investment income also increased ¥34.4 billion, or 31.2%, to ¥144.7 billion. Therefore, total revenue in the non-life insurance business increased 6.5% from the previous fiscal year to ¥1,617.7 billion. On the other hand, losses incurred (excluding claims adjustment expenses), a principal component of expenses, decreased ¥37.1 billion to ¥881.6 billion, owing to a decline in natural disasters. Hence, total expenses decreased 0.9% to ¥1,450.2 billion. As a result, income before income taxes in the non-life insurance business increased 201.2% to ¥167.5 billion.

Premiums and losses by category of insurance are as follows.

Hull Insurance

Net premiums written by MSI increased 4.9% compared with the previous fiscal year due to such factors as efforts to expand our sales foundation and the effects of a weakening of the yen. Overseas subsidiaries recorded a sharp rise in net premiums written owing to increases from existing subsidiaries as well as an increase in the number of consolidated subsidiaries and the effects of the depreciation of the yen. As a result, overall net premiums written rose 15.0% from the previous year to ¥16.6 billion. Although there was an improvement in losses from natural disasters as well as in large losses, losses incurred jumped 18.9% to ¥14.5 billion due mainly to a rise in small-scale accidents.

Cargo and Transit Insurance

MSI recorded a 9.6% increase in net premiums written that resulted from efforts to expand our sales foundation and to the effects of a rise in raw materials prices and the weakening of the yen in addition to increasingly brisk distribution activities globally. Overseas subsidiaries posted a steep rise in net premiums written owing to increases at existing subsidiaries and to an increase in the number of consolidated subsidiaries. Accordingly, overall net premiums written rose 16.5% to ¥83.3 billion. An increase in losses incurred was held to 5.0%, to ¥34.7 billion, due to the absence of large losses in Japan or overseas.

Fire and Allied Lines Insurance

MSI worked to expand sales, with efforts focused mainly on promoting *Home Pikaichi*, a product for homeowners, and *New Business Pikaichi*, a new product targeted at small- and medium-sized businesses. As a result, net premiums written for fire and allied lines insurance increased 3.8%. Net premiums written by overseas subsidiaries rose sharply due to increases at existing subsidiaries and a rise in the number of consolidated subsidiaries, as well as the effects of a weakening of the yen. As a result, overall net premiums written increased 9.1% to ¥205.2 billion. Losses incurred declined 37.1% to ¥97.8 billion, due to a sharp decrease in losses from natural disasters in Japan.

Personal Accident Insurance

Net premiums written for personal accident insurance rose 8.1% to ¥143.2 billion, thanks to increases in net premiums written for *ViV Shushin* whole life medical insurance and group accident and illness insurance. Losses incurred increased 10.9% to ¥60.1 billion.

Voluntary Automobile Insurance
Although a large volume of previously sold *Modo-Rich* automobile insurance policies matured and refund payments on these policies increased, net premiums written increased 0.8% to ¥587.3 billion. This increase was due to efforts to expand sales, mainly for *MOST First Class*, a new automobile insurance product, as well as a rise in net premiums written by overseas subsidiaries that resulted from an increase in the number of overseas consolidated subsidiaries and the effects of a weakening of the yen. Losses incurred declined 0.5% to ¥370.8 billion owing to such factors as a decline in natural disaster-related losses.

Compulsory Automobile Liability Insurance
Net premiums written declined 1.2% to ¥193.4 billion due to the implementation of a reduction in the basic premium rates (a decline in the government subsidies for compulsory automobile liability insurance premiums) in April 2005. However, because compulsory automobile liability insurance is mostly under long-term contracts of two or three years, the effects of a sharp rise in net premiums written in the previous years, resulting from discontinuation of the obligatory reinsurance to the government, were deferred to the following years on an accrual basis. Therefore, in contrast to net premiums written, net premiums earned increased 4.6%. Losses incurred rose 11.3% to ¥154.4 billion.

Other Property and Casualty Insurance
Supported by an increase in revenue from liability insurance, net premiums written for other property and casualty insurance rose 5.2% to ¥229.6 billion. Losses incurred decreased 2.1% to ¥149.3 billion.

Investment Income and Realized Gain on Investments (Non-Life Insurance Sector)
Investment income amounted to ¥144.7 billion, up 31.2% from the previous fiscal year. This increase was due to the following reasons.

(1) An increase in investible funds owing to an increase in net cash provided by operating activities
(2) An increase in the number of companies raising or restoring dividends amid an overall recovery in corporate earnings that resulted from a favorable turnaround in macroeconomic conditions in Japan
(3) A rise in domestic and overseas stock prices
(4) A trend toward a weakening of the yen

Realized gain on investments amounted to ¥50.1 billion, virtually the same as in the previous fiscal year.

Life Insurance
In the life insurance business, wholly owned subsidiary Mitsui Sumitomo Kirameki Life Insurance Company, Limited proactively carried out its business activities under the basic strategies of "Strengthen life insurance sales," "Ensure customer satisfaction and convenience," and "Improve profitability."

The marketing structure for life insurance is centered mainly on cross-sales with MSI. To further strengthen cross-sales, specialist staff for providing sales guidance have been assigned to MSI's sales bases throughout Japan. In addition to promoting cross-sales, in October 2005 Mitsui Sumitomo Kirameki Life Insurance Company, Limited established the FC Business Division to undertake consultation-based sales by direct-sales staff. Regarding products, we focused on sales of products that respond to the expansion in insurance products sold mainly through banks. These products included "lump-sum endowment insurance (surrender value based on market prices)," "*MS Shushin* premium-based plan (market interest sensitive, variable whole life savings type)" that allows coverage to be set based on the amount of premiums for each payment, and "increasing-term life insurance with revised insurance premiums and additional step-ups." These measures and proactive sales activities led to growth in the amount of individual insurance and individual annuity insurance in force, which supported a 17.1% increase in premium income for life insurance contracts to ¥205.2 billion. Additionally, investment income also rose, and thus total revenue grew 17.9%, to ¥220.3 billion. On the other hand, despite a 19.5% rise in payment of life insurance benefits, efforts to curb other operating expenses held growth in total expenses to 17.9% to ¥206.9 billion. As a result, income before income taxes in the life insurance business rose 17.3% to ¥13.4 billion.

As explained in the Overview section, various plans of the MSI Group are prepared based on Japan GAAP. For comparison purposes, principal figures for the fiscal year based on Japan GAAP are as follows. The financial statements based on Japan GAAP are at the end of this report. Reconciliation between figures based on U.S. and Japan GAAP are contained in the Segment Information in the notes to the financial statements prepared in accordance with U.S. GAAP.

Principal figures based on Japan GAAP for the fiscal year ended March 31, 2006 are as follows.

(1) Net premiums written in non-life insurance rose 4.0% to ¥1,464.1 billion.
(2) Ordinary income increased 4.2% to ¥2,106.9 billion. Under Japan GAAP, ordinary income includes net premiums on non-life insurance, life insurance premiums, and investment income in addition to deposit premiums, which is a fund that is later returned to policyholders.
(3) Ordinary profit, which is the total of ordinary income minus ordinary expenses, surged 45.8% to ¥127.7 billion. This primarily reflected a decrease in insurance claims payments along with decline in natural disasters. Moreover, we achieved significant improvements in the loss ratio and combined ratio, which are primary indicators of profitability.
(4) As a result, net income rose 9.0% to ¥71.7 billion. Net income based on Japan GAAP was ¥52.5 billion less than net income under U.S. GAAP mainly for the following reasons.
   1) Under Japan GAAP, to prepare for natural disasters, a significant amount of funding was made to the catastrophe loss reserve. Under U.S. GAAP, however, no such

funding for the catastrophe loss reserve was made.

2) There is a difference between U.S. GAAP and Japan GAAP regarding the recognition of gains and losses on marketable securities of investee companies when these companies merge.

(5) ROE was 4.1%, down 0.5 percentage point from the previous fiscal year. This reflected a large increase in unrealized gains on investment, net of tax, which accompanied a rise in Japan's stock prices.

(6) Total assets at fiscal year-end amounted to ¥8,592.9 billion, up 16.1% from the previous fiscal year-end. Total assets based on Japan GAAP were ¥819.4 billion less than compared with under U.S. GAAP. This is mainly because deferred policy acquisition costs are not recognized and unearned premiums and unpaid loss reserves are recorded on a net basis under Japan GAAP.

4. Cash Flow Analysis and Financial Position

Net cash provided by operating activities amounted to ¥373.6 billion compared with ¥236.9 billion in the previous fiscal year, reflecting favorable financial results for the year ended March 31, 2006.

Net cash used in investing activities amounted to ¥258.5 billion compared with ¥222.2 billion in the previous year. Newly generated cash was mainly invested in fixed securities.

Net cash used in financing activities increased from ¥12.9 billion in the previous fiscal year to ¥100.5 billion.

Total assets at March 31, 2006 stood at ¥9,412.3 billion, a 14.5% gain compared with the previous fiscal year-end. Total investments (other than investments in subsidiaries) climbed 17.9% to ¥7,482.0 billion. This change was mainly due to an increase in unrealized gains on investment securities. Total shareholders' equity was ¥2,637.3 billion, a substantial increase over the figure of ¥2,029.8 billion at the end of the previous fiscal year. The principal contributor to this change was an augmentation in accumulated other comprehensive income owing to an increase in unrealized gains on investment securities.

The equity ratio was 28.0% compared with 24.7% at the end of the previous fiscal year.

5. Issues to be Addressed by the Company

(1) Medium-Term Management Plan Challenge 10, Stage I

Japan's non-life insurance industry is witnessing signs of improved business results, which reflects economic trends. On the other hand, there is a trend toward the risk of increasingly large-scale natural disasters and demands for further strengthening risk acceptance capacity and risk handling capabilities. Deregulation has spurred a continued trend toward simplification of the product examination process by authorities and led to an expanding range of insurance products that can be sold through banks. As these trends unfold, it is becoming evermore important to address increasingly diverse customer needs in insurance products and services and to respond accurately to demands for protecting customers. As reflected by these developments, the economic environment surrounding Japan's non-life insurance industry is approaching a new stage of transformation.

Within this climate, MSI is working toward the completion of its two-year medium-term management plan, Challenge 10, Stage I. In undertaking this plan, MSI has designated raising its corporate quality as a top-priority issue and is proactively instituting a host of measures to fulfill CSR obligations, which include fulfilling responsibilities for explaining products and properly paying insurance claims, with the customer being the focal point of these efforts, while ensuring even more thorough compliance and risk management and strengthening corporate governance. Additionally, MSI will offer products and services that meet customer needs, further upgrade claims-handling services, fortify marketing, promote development of overseas business based on a tripolar structure in the three regions of Asia, Europe, and the Americas, and establish a solid business foundation, particularly in Asia. We will also upgrade our business in personal insurance fields, including life and medical insurance, strengthen our asset management capabilities, and further fortify our growth potential and earnings power to achieve sustainable development of our businesses and expand shareholder value. Through these measures, MSI aims to become a world-class insurance and financial services group that can dynamically undertake business, centered on its core non-life, life insurance and overseas businesses, in addition to financial services and risk-related business.

(2) Alliances for Strengthening Growth Potential and Earnings Power

MSI established a joint venture with U.S.-based CitiGroup and began selling personal annuities in October 2002. Subsequently, in July 2005 Citigroup sold its life insurance and annuity business, including the aforementioned joint venture, to MetLife, Inc., of the United States, making MetLife our new partner in this joint venture. Later, on October 1, 2005, the name of this company was changed to Mitsui Sumitomo MetLife Insurance Co., Ltd. The joint venture will continue to carry out sales centered on individual annuities.

(3) Administrative Measures Against MSI

(a) On November 25, 2005, MSI received a remedial action order from the Financial Services Agency (FSA) of Japan pursuant to Article 132, Paragraph 1 of the Insurance Business Law for operating an insufficient monitoring system for claims payments such as extra expense claims. An outline of the specific administrative measures follows.

1) Summary of Administrative Measures

The remedial action order calls for the following actions.

a) Improve and strengthen management monitoring systems to prevent any failure to pay incidental insurance claims.

b) Review and establish procedures (including pamphlets and claims invoices) for providing explanations to customers.

c) Build a structure for mutual ties and cooperation among the Product Development Division, Payment Division, Systems Division, and other related divisions during the product development stage.

d) Review procedures and documentary forms related to payment operations, including systems, ledgers, regulations, and various manuals, and implement thorough training and education for personnel involved in payment operations.

2) Summary of Reasons for Administrative Measures

a) There were an extremely large number of instances of failure to pay incidental insurance claims as well as the nonpayment of claims in accordance with various items prescribed in business and services documents and regular insurance contracts.

b) There was insufficient awareness of the importance of establishing a system for the payment of incidental claims and initiatives for establishing a payment monitoring system were also insufficient.

c) The establishment of procedures such as those for payment operations and a thoroughly correct awareness of products were insufficient, and there were no systems in place for proper undertaking of business affairs and for checking on the payment of incidental claims.

d) During product development, there was no structure sufficiently in place for ensuring ties among departments to prevent failure to pay incidental insurance claims.

e) The cause of the failure to pay was a structural problem characterized by an absence of a management monitoring structure and internal monitoring structure that stemmed from the lack of any system covering functions ranging from product development to payment monitoring.

(b) Additionally, on June 21, 2006, MSI received from the FSA an order for partial suspension of business as well as a remedial action order pursuant to Article 133 and Article 132, Paragraph 1 of the Insurance Business Law, respectively. We deeply regret causing such a situation in the insurance industry, where high trustworthiness is paramount. We would like to express our sincere apologies to our policyholders and related parties for any significant inconvenience.

The outline and other matters concerning the administrative measures are set forth as follows.

1) Outline of Measures and Laws and Regulations for Authorizing the Measures

a) Order for partial suspension of business pursuant to Article 133 of the Insurance Business Law

(1) To suspend operations related to the Company's license for engaging in non-life insurance business, namely, the conclusion of insurance contracts, insurance marketing operations, and the surety bond business, from July 10, 2006 (Monday) to July 23, 2006 (Sunday).

(2) To suspend business relating to the conclusion of insurance contracts and the insurance marketing operations for whole life medical insurance policies and others from July 10, 2006 until the FSA confirms that MSI has improved its management and administrative systems for third-sector insurance products.

(3) To suspend operations relating to the application for approval and notification of the establishment and revision of insurance products as well as application for approval to engage in agent businesses for financial institutions, including other insurance companies, from June 22, 2006 (Thursday) to June 21, 2007 (Thursday), or up to a date on or after December 22, 2006 in the case that the FSA confirms that MSI has improved its internal management systems and administrative systems.

(4) To suspend business relating to the application for approval of the establishment of overseas subsidiaries and notification of establishment of overseas branches, offices, and representative offices, and establishment of overseas joint venture companies from June 22, 2006 (Thursday) to September 21, 2006 (Thursday).

b) Remedial Action Order for Business Pursuant to Article 132, Paragraph 1 of the Insurance Business Law

(1) Improve and strengthen corporate governance
- To establish a management system for ensuring a framework for reporting on business operations and for reforming decision-making processes and corporate governance.
- To improve and strengthen internal audit systems.
- To strengthen headquarters' monitoring and surveillance of overseas bases.

(2) Improve and strengthen claims payment monitoring system
- To review and improve claims payment monitoring, including the establishment of a fair and accurate examination system and procedures and the establishment of systems.
- To review and improve the product development monitoring system.
- To establish a system for ensuring quick and appropriate customer responses in the event of nonpayment or failure to make proper payment of claims.

(3) Improve and strengthen protection and convenience for policyholders
- To establish a monitoring system covering employees and agents to ensure proper insurance solicitation activities and customer explanations.
- To review and improve systems for responding to and handling complaints and for handling improprieties.

(4) Improve and strengthen system for compliance with laws and ordinances
- To make a thorough review of and improvement to system for compliance with laws or ordinances.

- To take necessary procedures if a situation could be in conflict with laws, ordinances, and regulations and formulate improvement measures to prevent any recurrence.

(5) Clarify responsibilities of officers and employees

- To clarify responsibilities for all officers and employees who caused the problems that led to the order for suspension of business and remedial action order.

2) Facts Leading to Administrative Measures

a) Inappropriate non-payment of claims on whole life medical insurance policies and other third-sector products

Upon investigating past cases of non-payment of claims for third-sector products, it was recognized that there were numerous inappropriate non-payment of claims (927 cases totaling ¥166 million).

b) Failure to properly pay claims for extraordinary expenses, etc.

Upon reexamination of the results of reviews of failure to pay claims for incidental expenses, it was recognized that there were numerous cases of failure to pay among the cases that were not subject to the previous reviews (17,296 cases totaling ¥719 million).

c) Inappropriate monitoring of agents

It was recognized that there were incidents of inappropriate conduct, including advances of premiums and illegal use of customers' seals by agents of the Company.

d) Systems for handling complaints and incidents of misconduct

It was recognized that there were cases in which the Company did not take appropriate measures to handle complaints regarding the payment of insurance claims. Additionally, the Company did not take appropriate response measures such as investigating and confirming complaints relating to matters that could constitute misconduct.

e) Overseas network monitoring system

The Head Office's department in charge of overseas affairs failed to satisfactorily carry out monitoring and investigations and surveillance of overseas bases regarding an incident involving inappropriate expenditures of an overseas subsidiary.

f) Management monitoring system

There was a problem concerning management functions, as management was unaware of the existence of the problem of non-payment of insurance claims and entrusted the divisions in charge with investigating the situation and with considering and implementing measures regarding the failure to make payments. Moreover, the internal audit system did not function sufficiently.

3) Measures for Preventing Recurrence

To prevent the recurrence of such a situation, the Company will continually review and strengthen its management and entire internal administrative systems. This will include extensively reviewing its internal structure and ensuring thorough compliance with laws and ordinances based on the idea that ensuring customer satisfaction is the basis for operating all of our businesses.

a) Strengthen business monitoring for medical insurance

- Set up a system for checking claims payment operations by the investigation committee, which includes external specialists.
- Review the business process flow for underwriting and claims payments.
- Thoroughly reeducate employees and agents.

b) Strengthen claims payment monitoring

- Reform the claims-handling service structure.
- Strengthen functions for checking on the state of appropriate claims payments.
- Strengthen functions for monitoring and supervision of claims payment operations.
- Increase and strengthen staff for claims payments for medical insurance.
- Strengthen ties between the Claims Payment Division and the Product Development Division during the product development process.

c) Strengthen insurance marketing monitoring system

- Strengthen and upgrade organization for promoting compliance.
- Rebuild compliance education systems for employees and agents.
- Review marketing (solicitation) rules and strengthen checking systems.

d) Strengthen complaint handling system

- Build a system for analyzing complaint-related information and establish a system for utilizing this information to improve business operations.
- Strengthen and thoroughly implement employee education for responding to complaints.

e) Strengthen internal audit system

- Strengthen internal audit methods through measures that include expanding the scope of internal audits.
- Increase and strengthen internal audit staff.

f) Strengthen and improve internal monitoring system at overseas bases

Strengthen monitoring by the Head Office for the following initiatives at our overseas bases.

- Strengthen system for promotion of compliance.
- Strengthen surveillance functions of the Board of Directors.
- Strengthen internal audit functions for overseas bases.

4) Business Improvement Plan

The Company devised and submitted a business improvement plan to the FSA on July 21, 2006 in response to the June 21, 2006 Remedial Action Order issued by the FSA. Under the plan, the Company is drastically improving and strengthening corporate governance, claims payment and product development administration systems, policyholder protection and benefits, and the legal compliance system. Meanwhile, the Company is working on formulating a new Group vision, with its entire personnel involved and every customer comment respected. We have also launched a new corporate culture creation project targeted at improved transparency in management and better lines of communication.

All officers and employees of the Company take the fact of these administrative measures with utmost seriousness and are eager to resolutely implement the plan, putting the first priority on the customers' view, and thus restore confidence of customers and other stakeholders. To this end, the Company has and will, on a monthly basis during the first year, disclose and update on the progress it has made on the Company's website.

6. Risk Analysis

The following matters possibly affecting the MSI Group's business results and financial conditions could have a significant impact on investors' decisions.

(1) Risk of large amounts of claims payments due to natural disasters

There are instances of large monetary damage from such natural disasters as typhoons and earthquakes. Accordingly, the MSI Group prepares for such damages through the use of reinsurance and by accumulating reserves for catastrophic losses. Nevertheless, there is a possibility that unexpectedly large-scale natural disasters could occur as a result of irregular weather caused by global warming and other factors, resulting in risk that the Group would incur large amounts of claim payments for these disasters, causing a worsening of business results.

Moreover, there is a risk that the Group could incur a loss because of worsening fund management due to an increase in claims payments and other factors as well as the necessity of having to procure funds at a cost significantly above normal rates and the unavoidable sale of assets at extremely low prices.

(2) Reinsurance risk

The MSI Group uses reinsurance to disperse its underwritten insurance liabilities from insurance contracts and to stabilize earnings. Nevertheless, there is a risk that changing conditions in reinsurance markets leading to a sharp rise in premiums could cause the Group's financial balance to worsen. There is also a risk that the Group would be unable to sufficiently obtain reinsurance and its insurance underwriting capabilities could decline.

Additionally, the Group bears reinsurance company credit risk whereby it would be unable to collect reinsurance recoveries due to such factors as bankruptcy of the reinsurance company.

(3) Risk of loss resulting from unforeseen changes, including changes in the economic and social environments

Although insurance companies establish premiums at levels based on forecasts of probable future damages, there is a possibility that the actual amount of damages could exceed forecasts. Particularly in cases where the insured periods extend over a long time, there is a possibility of significant changes in initially assumed environments and conditions and that unforeseen damages could occur. Consequently, there is risk that the resultant need to increase reserves for insurance in this situation or other factors could constrict earnings.

The Company sells long-term third-sector products and savings-type insurance with pre-determined fixed expected rates of return (products with a guaranteed fixed yield). However, there is a risk that a change in future interest rates could lead to a change in the valuation amount of insurance liabilities based on the originally assumed interest rate.

(4) Risk of intensifying competition resulting from further industry deregulation and increased entry of new participants

The MSI Group's business environment is becoming increasingly harsh due to such factors as advancing deregulation, which is leading to mutual market participation by life and non-life insurance companies, new entries into the non-life insurance industry that include companies from other industries and foreign insurance companies, and a lowering of premium levels. There is a risk that intensifying competition resulting from such further deregulation and the increased entry of new participants could constrict earnings.

(5) Asset management risk

The MSI Group possesses various types of investment assets, including marketable securities, loans, and real estate. The main risks associated with these assets are as follows.

1) Risk of stock price declines

The Company holds large amounts of stock from the perspective of maintaining relationships with business partners over the long and medium terms. Nevertheless, there is a risk of valuation losses and losses on sales of stocks in the event of a large decline in future stock prices.

2) Interest rate risk

There is a risk of a decline in the value of Company assets with fixed interest rates such as bonds and loans in the event of a rise in interest rates.

3) Exchange rate risk

The Company holds assets denominated in foreign currencies, mainly the U.S. dollar and the Euro. Nevertheless, there is a risk that the value of these assets could decline due to the effects of exchange rate movements.

4) Credit risk

There is a risk of a decline in the value of such Company assets as stocks, corporate bonds, and loans due to a bankruptcy or decline in the creditworthiness of bond issuers or borrowers as well as the risk that principal and interest will be unrecoverable.

(6) Life insurance business risk

The MSI Group engages in the life insurance business and is steadily expanding this business. Just as in the non-life insurance business, in the life insurance business there is a risk of a loss resulting from unexpected changes in the economic and social environments as well as risk of intensifying competition due to further deregulation.

(7) Overseas businesses risk

The MSI Group actively carries out its overseas operations in Asia, Europe, and the Americas through branches and subsidiaries. Nevertheless, there is a risk of unexpected changes in the political, economic, and social environments in respective countries as well as changes to various regulations and exchange rate fluctuations.

(8) Risk of leakage of customer information

The MSI Group holds large volumes of customer information, including personal information. There is a risk that the trust of customers and society could be lost in the unexpected event of leakage of large volumes of information. There is also a possibility of receiving administrative measures from oversight authorities related to management inadequacies resulting from such incidents as information leakage. There is thus a risk that this could have an impact on the Group's business results.

(9) Business operation risk

This risk concerns the MSI Group's business activities and includes risk of damage to business operations and risk of losing the trust of customers and society due to an administrative error, legal violation, impropriety by an employee, criminal action by an outside party, malfunction of information systems, and the occurrence of an accident or catastrophe. Moreover, there is a possibility of receiving administrative measures caused by one of these problems, and there is a risk that this could have an impact on the Group's business results.

(10) Risk from changes in laws and systems

The MSI Group carries out its operations based on regulations under various laws and ordinances, including the Insurance Business Law, and the Group issues financial reports based on various accounting standards. There is a risk that the Group's business results could be influenced in the future by revisions to these systems and laws and ordinances, changes in insurance product selling methods and contents of products, as well as changes in methods of computation of reserves for insurance contracts and accounting treatment.

7. Solvency Margin Ratio

The solvency margin ratio is the solvency margin amount (payment capability, for example, capital and reserves) as a percentage of total risk, which is calculated as "risk exceeding ordinary forecast" based on the Ministry of Finance of Japan's (MOF) Notice No. 50, issued in 1996, and Articles 86 and 87 of the Enforcement Regulations of the Insurance Business Law of Japan.

As an indicator of an insurance company's ability to pay claims in the event of risk exceeding ordinary forecasts, in the event that the solvency margin ratio falls below a fixed level, regulatory authorities may require the insurance company to submit a plan for management reform.

According to Notice No. 3 of the MOF and the FSA, a solvency margin ratio of 200% indicates that an insurance company has sufficient capability to pay insurance claims and other obligations.

In cases where the solvency margin is considered to be high, an exceedingly high level of owned capital and internal reserves lowers such profitability ratios as ROE. The Company has a fundamental corporate governance policy of both maintaining a high solvency margin ratio and pursuing increased ROE.

The Company's Solvency Margin Ratio

As of March 31, 2005 and 2006

(Yen in billions)

	2005	**2006**	Change
Solvency margin total amount	¥2,481.4	**¥3,321.3**	839.9 (33.8%)
Risk amount	483.7	**595.5**	111.8 (23.1%)
Solvency margin ratio	1,026.0%	**1,115.4%**	+89.4 points

8. MSI's Credit Rating

Standard & Poor's, Moody's Investors Service, and A.M. Best Company are the world's leading rating agencies and rate the debt performance capability (creditworthiness) of debt issuers. Their evaluations are based on periodic reviews of financial data as well as management strategies and are results of analyses done using the proprietary models of each rating agency.

The Company receives ratings on its capability to perform its debt obligations from insurance contracts as well as its capability to perform debt obligations from the issue of commercial paper and other specific debt obligations. The Company's ratings on its capability to perform debt obligations from insurance contracts are presented below. These ratings illustrate the high evaluation that leading rating agencies have of the Company's financial position.

As of July 31, 2006

Standard & Poor's	Financial Strength Rating	AA-
Moody's Investors Service	Insurance Financial Strength Rating	Aa3
Moody's Investors Service	Short-Term Insurance Financial Strength Rating	Prime-1
A.M. Best Company	Financial Strength Rating	A+

Note: These ratings are entirely the opinion of the respective agencies and are thus not to be construed as payment guarantees. Also, these ratings are subject to revision.

SUMMARY OF PREMIUMS WRITTEN

Direct Premiums Written

The following table summarizes premiums directly written by Mitsui Sumitomo Insurance for the fiscal years ended March 31 by major lines of property and casualty insurance.

	2002		2003		2004	
Hull	¥ 20,368	1.52%	¥ 19,232	1.40%	¥ 20,172	1.40%
Cargo and Transit	59,741	4.47	63,352	4.61	70,816	4.92
Fire and Allied Lines[1]	191,921	14.37	200,643	14.61	223,035	15.49
Personal Accident[2]	127,000	9.51	125,032	9.10	128,504	8.93
Voluntary Automobile	603,151	45.15	576,510	41.96	583,550	40.53
Compulsory Automobile Liability[3]	149,911	11.22	181,560	13.22	183,855	12.77
Other[4]	183,851	13.76	207,359	15.10	229,746	15.96
Total	¥1,335,943	100.00%	¥1,373,688	100.00%	¥1,439,678	100.00%

1. Includes savings-type insurance and Earthquake Insurance
2. Includes savings-type insurance
3. Japanese law requires that all automobiles be covered by Compulsory Automobile Liability Insurance. See Note 2 (m) of the notes to consolidated financial statements.
4. Of which, major lines of insurance are Liability, Aviation, Workers' Compensation, and Movables Comprehensive All Risks, including savings-type insurance

Amounts in the table have been restated from amounts previously reported as if the pre-merger companies had been combined for all periods presented.
See Note 1 (a) of the notes to consolidated financial statements, page 44.

Net Premiums Written*

The following table shows the breakdown of net premiums written and reinsurance by major lines of property and casualty insurance for the fiscal years ended March 31, 2005 and 2006.

	Reinsurance Premiums Assumed			Reinsurance Premiums Ceded		
	2005	**2006**	**2006**	2005	**2006**	**2006**
Hull	¥ 7,070	**¥ 7,955**	**$ 67,992**	¥ 13,914	**¥ 17,047**	**$ 145,701**
Cargo and Transit	13,725	**13,716**	**117,231**	21,040	**22,232**	**190,017**
Fire and Allied Lines[1]	26,914	**34,247**	**292,709**	67,879	**79,793**	**681,991**
Personal Accident[2]	1,662	**1,789**	**15,291**	6,204	**7,836**	**66,975**
Voluntary Automobile	3,816	**4,697**	**40,145**	5,084	**9,719**	**83,068**
Compulsory Automobile Liability[3]	154,092	**152,312**	**1,301,812**	145,531	**140,667**	**1,202,282**
Other[4]	39,201	**35,680**	**304,957**	53,947	**49,974**	**427,128**
Total	¥246,480	**¥250,396**	**$2,140,137**	¥313,599	**¥327,268**	**$2,797,162**

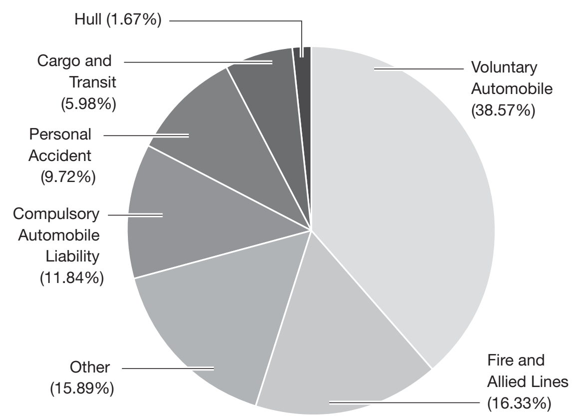
1.–4. Same as above notes for Direct Premiums Written

*Net Premiums Written = (Direct Premiums Written + Reinsurance Premiums Assumed - Reinsurance Premiums Ceded)

(Yen in millions; dollars in thousands)				
2005		2006		
¥ 21,249	1.45%	**¥ 25,656**	**1.67%**	**$ 219,282**
78,816	5.36	**91,798**	**5.98**	**784,598**
229,087	15.58	**250,760**	**16.33**	**2,143,248**
136,998	9.32	**149,237**	**9.72**	**1,275,530**
583,678	39.70	**592,275**	**38.57**	**5,062,179**
187,180	12.73	**181,757**	**11.84**	**1,553,479**
233,088	15.86	**243,896**	**15.89**	**2,084,581**
¥1,470,096	100.00%	**¥1,535,379**	**100.00%**	**$13,122,897**

Direct Premiums Written (2006)

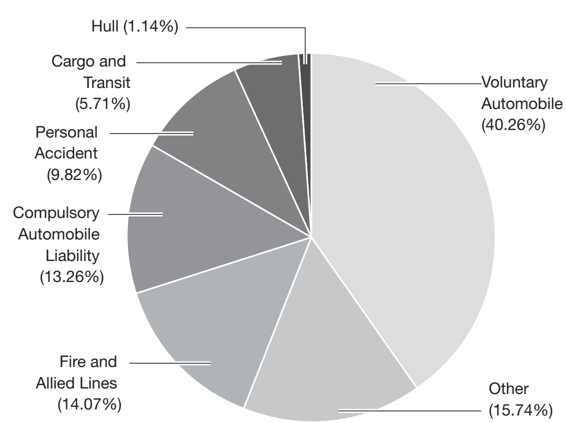
Total ¥1,535.4 billion



(Yen in millions; dollars in thousands)				
Net Premiums Written				
2005		2006		
¥ 14,405	1.03%	**¥ 16,564**	**1.14%**	**$ 141,573**
71,501	5.10	**83,282**	**5.71**	**711,812**
188,122	13.41	**205,214**	**14.07**	**1,753,966**
132,456	9.44	**143,190**	**9.82**	**1,223,846**
582,410	41.51	**587,253**	**40.26**	**5,019,256**
195,741	13.95	**193,402**	**13.26**	**1,653,009**
218,342	15.56	**229,602**	**15.74**	**1,962,410**
¥1,402,977	100.00%	**¥1,458,507**	**100.00%**	**$12,465,872**

Net Premiums Written (2006)

Total ¥1,458.5 billion



LOSS AND EXPENSE RATIOS

The following table outlines the loss and expense ratios of Mitsui Sumitomo Insurance for the fiscal years ended March 31. Loss ratios represent the ratio of net losses incurred to net premiums earned.

	Yen in millions					Dollars in thousands
	2002	2003	2004	2005	**2006**	**2006**
Hull:						
Net premiums written	¥ 13,123	¥ 12,782	¥ 13,568	¥ 14,405	**¥ 16,564**	**$ 141,573**
Net premiums earned	12,144	12,895	13,584	13,616	**15,551**	**132,915**
Losses incurred	10,772	14,442	10,423	12,199	**14,508**	**124,000**
Loss ratio	88.7%	112.0%	76.7%	89.6%	**93.3%**	
Cargo and Transit:						
Net premiums written	¥ 53,155	¥ 57,347	¥ 64,950	¥ 71,501	**¥ 83,282**	**$ 711,812**
Net premiums earned	52,995	56,802	63,459	69,815	**79,963**	**683,445**
Losses incurred	25,043	23,235	24,440	33,058	**34,722**	**296,769**
Loss ratio	47.3%	40.9%	38.5%	47.4%	**43.4%**	
Fire and Allied Lines:						
Net premiums written	¥ 166,531	¥ 170,294	¥ 186,591	¥ 188,122	**¥ 205,214**	**$ 1,753,966**
Net premiums earned	150,328	149,838	156,447	163,248	**180,143**	**1,539,684**
Losses incurred	58,153	58,862	56,923	155,525	**97,810**	**835,983**
Loss ratio	38.7%	39.3%	36.4%	95.3%	**54.3%**	
Personal Accident:						
Net premiums written	¥ 125,392	¥ 123,898	¥ 125,499	¥ 132,456	**¥ 143,190**	**$ 1,223,846**
Net premiums earned	130,410	126,099	124,977	127,528	**133,476**	**1,140,821**
Losses incurred	49,596	50,951	51,672	54,187	**60,089**	**513,581**
Loss ratio	38.0%	40.4%	41.3%	42.5%	**45.0%**	
Voluntary Automobile:						
Net premiums written	¥ 602,832	¥ 575,869	¥ 581,514	¥ 582,410	**¥ 587,253**	**$ 5,019,256**
Net premiums earned	593,876	596,454	589,329	581,065	**590,052**	**5,043,179**
Losses incurred	342,008	333,971	342,272	372,558	**370,790**	**3,169,145**
Loss ratio	57.6%	56.0%	58.1%	64.1%	**62.8%**	
Compulsory Automobile Liability:						
Net premiums written	¥ 90,514	¥ 165,035	¥ 194,018	¥ 195,741	**¥ 193,402**	**$ 1,653,009**
Net premiums earned	87,676	107,606	157,480	185,264	**193,871**	**1,657,017**
Losses incurred	55,787	74,867	113,320	138,756	**154,440**	**1,320,000**
Loss ratio	63.6%	69.6%	72.0%	74.9%	**79.7%**	
Other:						
Net premiums written	¥ 180,453	¥ 195,456	¥ 209,833	¥ 218,342	**¥ 229,602**	**$ 1,962,410**
Net premiums earned	155,246	178,306	202,783	217,212	**229,745**	**1,963,632**
Losses incurred	107,925	125,211	136,620	152,488	**149,264**	**1,275,761**
Loss ratio	69.5%	70.2%	67.4%	70.2%	**65.0%**	
Total:						
Net premiums written	¥1,232,000	¥1,300,681	¥1,375,973	¥1,402,977	**¥1,458,507**	**$12,465,872**
Net premiums earned	1,182,675	1,228,000	1,308,059	1,357,748	**1,422,801**	**12,160,693**
Losses incurred	649,284	681,539	735,670	918,771	**881,623**	**7,535,239**
Loss ratio	54.9%	55.5%	56.2%	67.7%	**62.0%**	
Loss adjustment expenses incurred—unallocated	¥ 57,779	¥ 64,216	¥ 67,937	¥ 62,614	**¥ 68,855**	**$ 588,504**
Ratio of losses and loss adjustment expenses incurred to premiums earned	59.8%	60.7%	61.4%	72.3%	**66.8%**	
Underwriting and administrative expenses incurred	¥ 468,261	¥ 464,321	¥ 464,441	¥ 426,333	**¥ 448,832**	**$ 3,836,171**
Ratio of underwriting and administrative expenses incurred to premiums written	38.0%	35.7%	33.8%	30.4%	**30.8%**	
Combined loss and expense ratio	97.8	96.4	95.2	102.7	**97.6**	
Net premiums/direct premiums written ratio	92.2	94.7	95.6	95.4	**95.0**	

Amounts in the table have been restated from amounts previously reported as if the pre-merger companies had been combined for all periods presented.
See Note 1 (a) of the notes to consolidated financial statements, page 44.

INVESTMENTS

The following table summarizes the investments of Mitsui Sumitomo Insurance at March 31, 2005 and 2006.

	Yen in millions		Percent of total investments		Dollars in thousands
Cost or amortized cost	2005	**2006**	2005	**2006**	**2006**
Bonds:					
Japanese bonds	¥2,287,094	**¥2,448,166**	45.23%	**45.24%**	**$20,924,496**
Foreign bonds	828,026	**963,065**	16.37	**17.80**	**8,231,325**
Total bonds	3,115,120	**3,411,231**	61.60	**63.04**	**29,155,821**
Stocks—other than affiliates:					
Japanese companies	845,669	**874,503**	16.72	**16.16**	**7,474,385**
Foreign companies	170,309	**203,469**	3.37	**3.76**	**1,739,051**
Total common stock—other than affiliates	1,015,978	**1,077,972**	20.09	**19.92**	**9,213,436**
Loans—other than affiliates:					
Mortgage loans on real estate	19,048	**15,129**	0.38	**0.28**	**129,308**
Mortgage loans on vessels and facilities	844	**708**	0.02	**0.01**	**6,051**
Collateral and guaranteed loans	367,353	**392,004**	7.26	**7.24**	**3,350,462**
Unsecured loans	387,487	**364,704**	7.66	**6.74**	**3,117,128**
Total loans	774,732	**772,545**	15.32	**14.28**	**6,602,949**
Other:					
Short-term investments	98,804	**93,829**	1.95	**1.73**	**801,957**
Investment real estate	52,179	**53,034**	1.03	**0.98**	**453,282**
Long-term investments	423	**2,690**	0.01	**0.05**	**22,991**
Total investments	¥5,057,236	**¥5,411,301**	100.00%	**100.00%**	**$46,250,436**

	Yen in millions		Percent of total investments		Dollars in thousands
Value shown on balance sheets	2005	**2006**	2005	**2006**	**2006**
Bonds:					
Japanese bonds	¥2,346,643	**¥2,442,926**	36.98%	**32.65%**	**$20,879,709**
Foreign bonds	878,793	**1,011,747**	13.85	**13.52**	**8,647,410**
Total bonds	3,225,436	**3,454,673**	50.83	**46.17**	**29,527,119**
Stocks—other than affiliates:					
Japanese companies	2,018,390	**2,881,991**	31.80	**38.52**	**24,632,402**
Foreign companies	176,012	**223,226**	2.77	**2.98**	**1,907,914**
Total common stock—other than affiliates	2,194,402	**3,105,217**	34.57	**41.50**	**26,540,316**
Loans—other than affiliates:					
Mortgage loans on real estate	19,048	**15,129**	0.30	**0.20**	**129,308**
Mortgage loans on vessels and facilities	844	**708**	0.01	**0.01**	**6,051**
Collateral and guaranteed loans	367,353	**392,004**	5.79	**5.24**	**3,350,462**
Unsecured loans	387,487	**364,704**	6.11	**4.87**	**3,117,128**
Total loans	774,732	**772,545**	12.21	**10.33**	**6,602,949**
Other:					
Short-term investments	98,804	**93,829**	1.56	**1.25**	**801,957**
Investment real estate	52,179	**53,034**	0.82	**0.71**	**453,282**
Long-term investments	423	**2,690**	0.01	**0.04**	**22,992**
Total investments	¥6,345,976	**¥7,481,988**	100.00%	**100.00%**	**$63,948,615**

CONSOLIDATED BALANCE SHEETS

MITSUI SUMITOMO INSURANCE CO., LTD. AND SUBSIDIARIES
MARCH 31, 2005 AND 2006

	Yen in millions		Dollars in thousands
Assets	2005	**2006**	**2006**
Investments—other than investments in affiliates (Notes 3 and 13)**:**			
Securities available for sale:			
Fixed maturities, at fair value	¥3,043,851	**¥3,193,503**	**$27,294,897**
Equity securities, at fair value	2,194,402	**3,105,217**	**26,540,316**
Securities held to maturity:			
Fixed maturities, at amortized cost	181,585	**261,170**	**2,232,222**
Mortgage loans on real estate	19,048	**15,129**	**129,308**
Investment real estate, at cost less accumulated depreciation of ¥56,721 million in 2005; ¥65,384 million ($558,838 thousand) in 2006	52,179	**53,034**	**453,282**
Policy loans	34,898	**38,615**	**330,043**
Other long-term investments	721,209	**721,491**	**6,166,590**
Short-term investments	98,804	**93,829**	**801,957**
Total investments	6,345,976	**7,481,988**	**63,948,615**
Cash and cash equivalents	366,228	**385,165**	**3,292,009**
Investments in and indebtedness from affiliates:			
Investments	56,727	**59,480**	**508,376**
Indebtedness (Note 13)	1,807	**2,164**	**18,496**
Total investments in and indebtedness from affiliates	58,534	**61,644**	**526,872**
Accrued investment income	20,919	**22,071**	**188,641**
Premiums receivable and agents' balances	117,597	**123,341**	**1,054,197**
Prepaid reinsurance premiums	210,137	**211,485**	**1,807,564**
Funds held by or deposited with ceding reinsurers	61,556	**70,786**	**605,009**
Reinsurance recoverable on paid losses	77,398	**63,162**	**539,846**
Reinsurance recoverable on unpaid losses	234,097	**233,369**	**1,994,607**
Property and equipment, net of accumulated depreciation (Note 4)	208,958	**215,355**	**1,840,641**
Deferred policy acquisition costs (Note 2(h))	375,661	**390,618**	**3,338,615**
Goodwill (Note 15)	31,132	**56,790**	**485,385**
Other assets	109,136	**96,518**	**824,939**
Total assets	¥8,217,329	**¥9,412,292**	**$80,446,940**

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Yen in millions 2005	Yen in millions 2006	Dollars in thousands 2006
Liabilities:			
Losses and claims (Note 9):			
Reported and estimated losses and claims	¥ 899,191	**¥1,013,615**	**$ 8,663,376**
Adjustment expenses	37,866	**42,902**	**366,684**
Total losses and claims	937,057	**1,056,517**	**9,030,060**
Unearned premiums	1,346,393	**1,408,577**	**12,039,120**
Future policy benefits for life insurance contracts	625,717	**738,422**	**6,311,300**
Investment deposits by policyholders (Notes 10 and 13)	2,329,218	**2,265,283**	**19,361,393**
Indebtedness to affiliates.	12,574	**13,240**	**113,162**
Accrued income taxes (Note 6):			
Payable	6,944	**28,369**	**242,470**
Deferred applicable to:			
Unrealized gains on investments	463,677	**745,432**	**6,371,214**
Other	45,908	**69,943**	**597,803**
Total accrued income taxes	516,529	**843,744**	**7,211,487**
Retirement and severance benefits (Note 8)	88,511	**84,544**	**722,598**
Ceded reinsurance balances payable	85,474	**91,685**	**783,632**
Short-term debt (Note 7)	13,583	**10,740**	**91,795**
Long-term debt (Notes 7 and 13)	99,995	**99,997**	**854,675**
Other liabilities	130,003	**159,296**	**1,361,504**
Total liabilities	6,185,054	**6,772,045**	**57,880,726**
Minority interests	2,473	**2,969**	**25,376**
Shareholders' equity:			
Common stock:			
Authorized—3,000,000,000 shares; issued—1,513,184,880 shares in 2005 and 1,513,184,880 shares in 2006 (Note 17)	137,495	**137,495**	**1,175,172**
Other shareholders' equity:			
Additional paid-in capital (Note 17)	86,498	**86,507**	**739,376**
Retained earnings:			
Appropriated (Note 18):			
Legal reserve	43,697	**47,142**	**402,923**
Reserve for price fluctuation	20,462	**23,538**	**201,179**
Unappropriated (Note 19)	1,202,269	**1,300,591**	**11,116,162**
Accumulated other comprehensive income (Note 20)	603,892	**1,119,326**	**9,566,889**
Treasury stock, 81,919,773 shares in 2005 and 92,563,719 shares in 2006, at cost	(64,511)	**(77,321)**	**(660,863)**
Total shareholders' equity	2,029,802	**2,637,278**	**22,540,838**
Commitments and contingent liabilities (Note 16)			
Total liabilities and shareholders' equity	¥8,217,329	**¥9,412,292**	**$80,446,940**

CONSOLIDATED STATEMENTS OF INCOME

MITSUI SUMITOMO INSURANCE CO., LTD. AND SUBSIDIARIES
FOR THE YEARS ENDED MARCH 31, 2004, 2005 AND 2006

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Revenues:				
Net premiums written	¥1,375,973	¥1,402,977	**¥1,458,507**	**$12,465,872**
Less increase in unearned premiums	67,914	45,229	**35,706**	**305,179**
Net premiums earned (Note 11)	1,308,059	1,357,748	**1,422,801**	**12,160,693**
Premium income for life insurance contracts (Note 11)	157,840	175,169	**205,158**	**1,753,487**
Investment income, net of investment expenses (Note 3)	118,603	119,479	**156,102**	**1,334,205**
Realized gains on investments (Note 3)	88,807	50,992	**50,199**	**429,051**
Total revenues	1,673,309	1,703,388	**1,834,260**	**15,677,436**
Expenses:				
Losses, claims and loss adjustment expenses (Note 11):				
Losses and claims incurred and provided for	735,670	918,771	**881,623**	**7,535,239**
Related adjustment expenses	67,937	62,614	**68,855**	**588,504**
Policyholder benefits for life insurance contracts (Note 11)	133,846	150,510	**179,913**	**1,537,718**
Policy acquisition costs	371,458	366,063	**338,058**	**2,889,385**
Investment income credited to investment deposits by policyholders (Note 10)	56,330	53,487	**50,840**	**434,530**
Other expenses (Note 5)	117,492	84,870	**133,994**	**1,145,248**
Total expenses	1,482,733	1,636,315	**1,653,283**	**14,130,624**
Income before income taxes	190,576	67,073	**180,977**	**1,546,812**
Income taxes (Note 6)**:**				
Current	37,342	13,818	**35,497**	**303,393**
Deferred	29,723	10,503	**20,797**	**177,752**
Total income taxes	67,065	24,321	**56,294**	**481,145**
Minority interests	18	123	**560**	**4,787**
Net income	¥ 123,493	¥ 42,629	**¥ 124,123**	**$ 1,060,880**

	Yen			Dollars
Earnings per share (Notes 2(p) and 19)**:**				
Net income:				
Basic	¥85.73	¥29.55	**¥87.08**	**$0.74**
Diluted	83.88	29.55	**87.08**	**0.74**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

MITSUI SUMITOMO INSURANCE CO., LTD. AND SUBSIDIARIES
FOR THE YEARS ENDED MARCH 31, 2004, 2005 AND 2006

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Net income	¥123,493	¥ 42,629	**¥124,123**	**$1,060,880**
Other comprehensive income, net of tax (Note 20)**:**				
Foreign currency translation adjustments	(7,103)	333	**15,514**	**132,598**
Unrealized gains on securities	295,335	24,865	**500,813**	**4,280,453**
Net losses on derivative instruments	(235)	(94)	**(102)**	**(872)**
Minimum pension liability adjustment	18,283	38,812	**(791)**	**(6,760)**
Other comprehensive income	306,280	63,916	**515,434**	**4,405,419**
Comprehensive income	¥429,773	¥106,545	**¥639,557**	**$5,466,299**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

MITSUI SUMITOMO INSURANCE CO., LTD. AND SUBSIDIARIES
FOR THE YEARS ENDED MARCH 31, 2004, 2005 AND 2006

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Common stock:				
Balance at beginning of year	¥ 126,376	¥ 137,495	**¥ 137,495**	**$ 1,175,172**
Conversion of convertible debentures	11,119	—	**—**	**—**
Balance at end of year	137,495	137,495	**137,495**	**1,175,172**
Additional paid-in capital:				
Balance at beginning of year	75,372	86,490	**86,498**	**739,299**
Conversion of convertible debentures	11,116	—	**—**	**—**
Gain on sales of treasury stock	2	8	**9**	**77**
Balance at end of year	86,490	86,498	**86,507**	**739,376**
Legal reserve:				
Balance at beginning of year	38,953	41,167	**43,697**	**373,479**
Transfer from unappropriated retained earnings (Note 18)	2,214	2,530	**3,445**	**29,444**
Balance at end of year	41,167	43,697	**47,142**	**402,923**
Reserve for price fluctuation:				
Balance at beginning of year	6,831	13,438	**20,462**	**174,888**
Transfer from unappropriated retained earnings (Note 18)	6,607	7,024	**3,076**	**26,291**
Balance at end of year	13,438	20,462	**23,538**	**201,179**
Unappropriated retained earnings:				
Balance at beginning of year	1,077,797	1,181,561	**1,202,269**	**10,275,803**
Net income for the year	123,493	42,629	**124,123**	**1,060,880**
Dividends paid (Note 19)	(10,886)	(12,367)	**(19,280)**	**(164,786)**
Transfers to (Note 18):				
Legal reserve	(2,214)	(2,530)	**(3,445)**	**(29,444)**
Reserve for price fluctuation	(6,607)	(7,024)	**(3,076)**	**(26,291)**
Other	(22)	—	**—**	**—**
Balance at end of year (Note 19)	1,181,561	1,202,269	**1,300,591**	**11,116,162**
Accumulated other comprehensive income (Note 20)**:**				
Balance at beginning of year	233,696	539,976	**603,892**	**5,161,470**
Other comprehensive income, net of tax	306,280	63,916	**515,434**	**4,405,419**
Balance at end of year	539,976	603,892	**1,119,326**	**9,566,889**
Treasury stock:				
Balance at beginning of year	(15,972)	(42,452)	**(64,511)**	**(551,376)**
Purchase of common share	(26,499)	(22,059)	**(12,810)**	**(109,487)**
Reissuance of common share	19	—	**—**	**—**
Balance at end of year	(42,452)	(64,511)	**(77,321)**	**(660,863)**
Total shareholders' equity	¥1,957,675	¥2,029,802	**¥2,637,278**	**$22,540,838**

	Yen			Dollars
Cash dividends per share (Note 19)	¥7.50	¥8.50	**¥9.50**	**$0.08**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

MITSUI SUMITOMO INSURANCE CO., LTD. AND SUBSIDIARIES
FOR THE YEARS ENDED MARCH 31, 2004, 2005 AND 2006

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Net cash provided by operating activities (Note 21)	¥ 280,735	¥236,886	**¥ 373,618**	**$3,193,316**
Cash flows from investing activities:				
Proceeds from:				
Securities available for sale:				
Fixed maturities	553,264	659,959	**553,057**	**4,726,983**
Equity securities	666,968	144,463	**114,403**	**977,803**
Fixed maturities available for sale matured	177,498	218,728	**252,373**	**2,157,034**
Fixed maturities held to maturity matured	629	—	**6,545**	**55,940**
Investment real estate	172	—	**165**	**1,410**
Collection of:				
Mortgage loans on real estate	10,013	6,368	**4,804**	**41,060**
Policy loans	31,063	29,980	**34,702**	**296,598**
Other long-term investments	155,358	192,853	**250,612**	**2,141,983**
Purchases of:				
Securities available for sale:				
Fixed maturities	(1,009,872)	(989,440)	**(1,048,873)**	**(8,964,726)**
Equity securities	(530,084)	(86,873)	**(105,180)**	**(898,974)**
Securities held to maturity:				
Fixed maturities	(485)	(421)	**(8,202)**	**(70,102)**
Investments in:				
Mortgage loans on real estate	(4,469)	(3,908)	**(658)**	**(5,624)**
Policy loans	(30,255)	(31,773)	**(38,419)**	**(328,367)**
Other long-term investments	(208,589)	(242,840)	**(264,485)**	**(2,260,556)**
Increase (decrease) in cash received under securities lending transactions	43,989	(20,459)	**26,176**	**223,726**
Decrease (increase) in short-term investments, net	1,834	(27,784)	**4,773**	**40,795**
Increase in investments in and indebtedness from affiliates	(18,239)	(66,446)	**(24,377)**	**(208,350)**
Decrease (increase) in property and equipment, net	2,119	(5,048)	**(13,904)**	**(118,838)**
Business acquired, net of cash acquired	2,988	—	**—**	**—**
Business disposed of, net of cash held by the disposed business	(190)	—	**—**	**—**
Other, net	5,108	449	**(1,971)**	**(16,846)**
Net cash used in investing activities	(151,180)	(222,192)	**(258,459)**	**(2,209,051)**
Cash flows from financing activities:				
Decrease in investment deposits by policyholders	(102,445)	(75,777)	**(64,529)**	**(551,530)**
Decrease in commercial paper	—	(823)	**(2,643)**	**(22,590)**
Proceeds from long-term debt	—	100,214	**300**	**2,564**
Repayment of long-term debt	—	(800)	**(500)**	**(4,273)**
Repayment of short-term debt	(70)	(356)	**—**	**—**
Acquisition of treasury stock	(26,499)	(22,098)	**(12,831)**	**(109,667)**
Dividends paid to shareholders	(10,928)	(12,407)	**(19,377)**	**(165,615)**
Other, net	(174)	(826)	**(877)**	**(7,496)**
Net cash used in financing activities	(140,116)	(12,873)	**(100,457)**	**(858,607)**
Effect of exchange rate changes on cash and cash equivalents	1,252	2,597	**4,235**	**36,197**
Net change in cash and cash equivalents	(9,309)	4,418	**18,937**	**161,855**
Cash and cash equivalents at beginning of year	371,119	361,810	**366,228**	**3,130,154**
Cash and cash equivalents at end of year	¥ 361,810	¥366,228	**¥ 385,165**	**$3,292,009**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED AND SUBSIDIARIES

(1) Basis of Presentation

(a) Nature of Operations

On October 1, 2001, Mitsui Sumitomo Insurance Company, Limited ("the Company") was formed through the merger of Mitsui Marine and Fire Insurance Company, Limited and The Sumitomo Marine & Fire Insurance Company, Limited.

The Company and subsidiaries operate mainly in the Japanese domestic insurance industry and sell a wide range of property and casualty insurance products. Also, the Company sells life insurance products through a wholly owned subsidiary and a joint venture company. Overseas operations are conducted mostly in Southeast Asia, Europe and the United States of America through overseas branches and subsidiaries.

(b) Basis of Financial Statements

The Company and its domestic subsidiaries maintain their books of account in accordance with accounting principles generally accepted in Japan ("Japan GAAP"), and its foreign subsidiaries generally maintain their books of account in accordance with those of the countries of their domicile.

Certain adjustments and reclassifications have been made in the accompanying consolidated financial statements to conform with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The accompanying consolidated financial statements are expressed in yen.

(c) Use of Estimates

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, intangibles and goodwill; valuation allowances for receivables and deferred income tax assets; valuation of derivative instruments; insurance-related liabilities; and assets and obligations related to employee benefits. Actual results could differ from those estimates.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The significant subsidiaries include:

Mitsui Sumitomo Kirameki Life Insurance Company, Limited
MITSUI SUMITOMO INSURANCE Venture Capital Co., Ltd.
Mitsui Sumitomo Insurance Group Holdings (U.S.A.), Inc.
Mitsui Sumitomo Insurance USA Inc.
Mitsui Sumitomo Insurance Company of America
Mitsui Sumitomo Insurance Company (Europe), Limited
Mitsui Sumitomo Insurance (London Management) Ltd
Mitsui Sumitomo Insurance (London) Limited
MSI Corporate Capital Limited
Mitsui Sumitomo Reinsurance Limited
MS Frontier Reinsurance Limited
Mitsui Sumitomo Insurance (Singapore) Pte Ltd
MSIG Holdings (Asia) Pte. Ltd.
Aviva General Insurance Pte. Ltd.
Mitsui Sumitomo Insurance Company (Hong Kong), Limited
Aviva General Insurance Limited
Mingtai Fire & Marine Insurance Co., Ltd.
Aviva Insurance Berhad
Mitsui Sumitomo Seguros S/A.
PT. Asuransi Mitsui Sumitomo Indonesia
PT. Aviva Insurance
Aviva General Insurance (Thai) Company Limited

In the year ended March 31, 2006, the Company obtained more than 50% of the outstanding shares of Aviva Insurance Berhad and PT. Aviva Insurance according to the sales and purchase agreement with Aviva plc incorporated in the United Kingdom to acquire Aviva's general insurance operations in Asia.

The Company also purchased 100% of the outstanding shares of Mingtai Fire & Marine Insurance Co., Ltd., ("Mingtai") which is the non-life insurer ranked second in the Taiwanese non-life insurance industry in terms of gross written premiums.

These acquired entities were included in consolidation from the year ended March 31, 2006.

In December 2003, the Financial Accounting Standards Board ("FASB") issued Revised Interpretation No. 46, "Consolidation of Variable Interest Entities ('FIN46R')." FIN46R clarifies how to identify variable interest entities ("VIEs") and how to determine when a business enterprise should include the assets, liabilities and non-controlling interests of VIEs in its consolidated financial statements. A company that absorbs a majority of a VIE's expected losses, receives a majority of a VIE's expected residual returns, or both, is the primary beneficiary and is required to consolidate the VIEs into its financial statement. The Company or the consolidated subsidiary provides guarantees or similar contracts to various entities and is the primary beneficiary or holds a significant variable interest in VIEs. See Note 14 for additional information required by FIN46R.

All material intercompany balances and transactions have been eliminated in consolidation.

The following affiliates of the Company are accounted for under the equity method.

Mitsui Sumitomo Insurance (Malaysia) Bhd.
Sumitomo Mitsui Asset Management Company, Limited
Mitsui Sumitomo MetLife Insurance Co., Ltd.

Mitsui Sumitomo MetLife Insurance Co., Ltd. is a 51%-owned affiliate and is accounted for under the equity method because the controlling financial interest does not rest with the Company pursuant to the joint venture agreement.

(b) Cash Equivalents

The Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

(c) Investments in Equity and Fixed Maturity Securities

Trading securities are recorded at fair value with unrealized gains and losses included in income. Securities available for sale are recorded at fair value with net unrealized gains and losses reported, net of tax, in accumulated other comprehensive income. Securities held to maturity, which the Company has positive intent and ability to hold to maturity, are recorded at amortized cost.

For investments that have experienced a decline in value below their respective cost that is considered to be other than temporary, the declines are recorded as realized losses on investments in the consolidated statements of income. Gains and losses on the sale of investments are included in realized gains and losses in the consolidated statements of income based on the trade date. The cost of investments sold is determined on a moving-average basis.

(d) Investments in Loans

The Company grants mortgage, commercial and consumer loans primarily to customers throughout Japan. As a result of this geographic concentration of outstanding loans, the ability of the Company's debtors to honor their contracts is much more dependent upon the general economic conditions in Japan than those competitors with a greater geographic dispersion of borrowing.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and an allowance for credit losses.

Loans are placed on a cash (non-accrual) basis when it is deemed that the payment of interest or principal is doubtful of collection, or when interest or principal is past due for 90 days or more.

All interest accrued but not collected for loans placed on non-accrual status or charged off is reversed against interest income. The interest on these loans is accounted for on a cash basis until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses

The allowance for credit losses is established as losses are estimated to have occurred through a provision for credit losses charged to earnings. Credit losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific allowance is established for loans that are classified as impaired when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of the loan. The general allowance covers other-than-impaired loans and is established based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfalls in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for mortgage and commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent. Large groups of smaller-balance homogeneous loans are collectively evaluated for impairment.

(e) Accounts with Foreign Branches and Agents

The amounts included in the consolidated balance sheets at March 31, 2005 and 2006 with respect to foreign branches and agents of the Company represent data within three months before March 31, 2005 and 2006, respectively. The consolidated statements of income likewise include amounts for the corresponding periods ended on those dates.

(f) Property and Equipment

Property and equipment, including property classified as investment real estate, are stated principally at cost less accumulated depreciation on buildings and furniture and equipment. Depreciation is computed by the declining-balance method based on the estimated useful lives of the assets.

The cost and accumulated depreciation with respect to assets retired or otherwise disposed of are eliminated from the respective assets and related accumulated depreciation accounts. Any resulting profit or loss is credited or charged to income.

(g) Impairment or Disposal of Long-Lived Assets

In accordance with Statement of Financial Accounting Standard ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," long-lived assets, such as property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are stated at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The fair values of the assets are determined based on either quoted market prices or independent third party appraisals.

(h) Policy Acquisition Costs

Policy acquisition costs are deferred and amortized over the periods in which the related premiums are earned. Acquisition costs include agent commissions and certain other costs which vary with and are directly related to the acquisition of business. Such deferred costs are limited to the excess of the unearned premiums over the sum of expected claim costs, claim adjustment expenses and policy maintenance expenses.

Details of policy acquisition costs for the years ended March 31, 2004, 2005 and 2006 are as follows:

Property and casualty insurance:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Deferred at beginning of year ...	¥304,791	¥306,016	**¥315,317**	**$2,695,017**
Adjustment in connection with acquisition	—	2,190	**1,996**	**17,060**
Capitalized during year:				
Commissions and brokerage	214,880	217,695	**225,949**	**1,931,188**
Salaries and other compensation	101,055	97,315	**62,290**	**532,393**
Other underwriting costs	49,353	49,686	**44,231**	**378,043**
	365,288	364,696	**332,470**	**2,841,624**
Amortized during year	(364,063)	(357,585)	**(328,376)**	**(2,806,633)**
Deferred at end of year	¥306,016	¥315,317	**¥321,407**	**$2,747,068**

Life insurance:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Deferred at beginning of year ...	¥41,944	¥50,023	**¥60,344**	**$515,761**
Capitalized during year	15,474	18,799	**18,549**	**158,538**
Amortized during year	(7,395)	(8,478)	**(9,682)**	**(82,752)**
Deferred at end of year	¥50,023	¥60,344	**¥69,211**	**$591,547**

Other underwriting costs include certain policy issuance costs supporting underwriting functions. These costs are related to the acquisition of new business and renewals and include technology costs to process policies, policy forms and travel.

In the year ended March 31, 2006, the Company made certain changes to its approach to deferred policy acquisition costs as reflecting the elaboration of calculation method. Due to these changes, policy acquisition costs was reduced by ¥32,750 million ($279,915 thousand) compared with the computation based upon the conventional method and the same amount was transferred to other expenses. Consequently, net income and net income per share was decreased by ¥3,962 million ($33,863 thousand) and ¥2.78 ($0.02), respectively.

(i) Losses, Claims, Loss Adjustment Expenses and Policyholder Benefits

Liabilities for reported and estimated losses and claims and for related adjustment expenses for property and casualty insurance contracts are based upon the accumulation of case estimates for losses and related adjustment expenses reported prior to the close of the accounting period on direct and assumed business. Provision has also been made based upon past experience for unreported losses and for adjustment expenses not identified with specific claims. The Company believes that the liabilities for unpaid losses and adjustment expenses at March 31, 2005 and 2006 are adequate to cover the ultimate cost of losses and claims incurred to those dates, but the provisions are necessarily based on estimates and no representation is made that the ultimate liability may not exceed or fall short of such estimates.

For life insurance contracts, reserves for future policy benefits are determined by the net level premium method. Assumed interest rates range from 1.00% to 3.10%. Anticipated rates of mortality are based on the 1996 Mortality Table modified by the recent experience of Japanese life insurance companies.

(j) Insurance Revenue Recognition

Property and casualty insurance premiums are earned ratably over the terms of the related insurance contracts. Unearned premiums are recognized to cover the unexpired portion of premiums written. Life insurance premiums of long-duration contracts are recognized as revenue when due from policyholders.

(k) Reinsurance

Reinsurance contracts are accounted for in accordance with SFAS No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts." Under this statement, assets and liabilities relating to reinsurance contracts are reported on a gross basis. SFAS No. 113 also established guidelines for determining whether risk is transferred under a reinsurance contract. If risk is transferred, the conditions for reinsurance accounting are met. If risk is not transferred, the contract is accounted for as a deposit. All of the Company's reinsurance contracts meet the risk transfer criteria and are accounted for as reinsurance.

(l) Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(m) Compulsory Automobile Liability Insurance

Japanese law requires that all automobiles be covered by liability insurance for personal injury and that insurance companies may not refuse to issue such policies. The law provides that the regulatory authorities should not approve any application for upward premium rate adjustments if, in the opinion of the regulatory authorities, such adjustments would generate underwriting profits, for the program as a whole, or if it is deemed that the rate adjustments would compensate the insurers for excessive underwriting costs attributable to a lack of effective cost control on the part of the insurers. The law further stipulates that whenever premium rates are such that, in the opinion of the regulatory authorities, such premium revenues generate income which exceeds costs that are effectively controlled by insurers, for the program as a whole, the regulatory authorities may order a downward revision of premium rates.

The Company is not permitted to reflect any profit or loss from underwriting Compulsory Automobile Liability Insurance in the statutory financial statements prepared for distribution to shareholders, unless permission has been obtained from the Financial Services Agency of Japan. Rather, all such accumulated profits are recorded as a liability in the statutory financial statements.

In the accompanying consolidated financial statements, which are presented in accordance with U.S. GAAP, earned premiums of ¥157,480 million in the year ended March 31, 2004, ¥185,264 million in the year ended March 31, 2005, and ¥193,871 million ($1,657,017 thousand) in the year ended March 31, 2006 from underwriting Compulsory Automobile Liability Insurance were recognized as revenue.

(n) Foreign Currency Translation and Transactions

Foreign currency financial statements of the Company's subsidiaries have been translated in accordance with SFAS No. 52, "Foreign Currency Translation." Under this statement, assets and liabilities of the Company's subsidiaries and affiliates located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Income and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from the translation of foreign currency financial statements are excluded from the consolidated statements of income and are accumulated in "Foreign currency translation adjustments," which is included in accumulated other comprehensive income.

Gains or losses resulting from foreign currency transactions have been included in other expenses in the accompanying consolidated statements of income as losses of ¥3,327 million, losses of ¥115 million and gains of ¥2,095 million ($17,906 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively.

(o) Derivatives

All derivatives are recognized on the balance sheet at their fair value in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS No. 133."

On the date a derivative contract is entered into for hedging purposes, the Company designates the derivative as (1) a hedge of subsequent changes in the fair value of a recognized asset or liability ("fair value hedge") or (2) a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"). Fair value and cash flow hedges may involve foreign-currency risk "foreign-currency hedge"). Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged item that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item.

The Company documents all relationships between hedging instruments and hedged items, as well as its risk management objectives for undertaking various hedge transactions. The Company assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair values or cash flows of hedged items. A hedging relationship is considered highly effective when the changes in the fair value or cash flow of the hedged item are within a ratio of 80%-125%. If the result of assessment is considered as not highly effective, the Company discontinues hedge accounting.

(p) Net Income per Share

SFAS No. 128, "Earnings per Share" requires dual presentation of basic and diluted earnings per share ("EPS") with an appropriate reconciliation of both computations (see Note 19). Basic EPS is computed based on the average number of shares of common stock outstanding during each period. Diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

(q) Reclassification

Certain amounts as of and for the years ended March 31, 2004 and 2005 have been reclassified in the accompanying consolidated financial statements to conform with the March 31, 2006 presentation.

(r) Goodwill

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is tested for impairment at least annually, or more often if events or circumstances indicate there may be impairment.

(s) New Accounting Standards

In May 2005, SFAS No. 154, "Accounting Changes and Error Corrections," was issued. SFAS No. 154 replaces Accounting Principles Board Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS No. 154 is effective for accounting changes and corrections made in fiscal beginning after December 15, 2005. The adoption of SFAS No. 154 will not have a significant effect on the Company's consolidated financial statements.

In September 2005, Statement of Position ("SOP") 05-1, "Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts," was issued. SOP 05-1 provides guidance on accounting for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97. SOP 05-1 is effective for internal replacements occurring for fiscal year beginning after December 15, 2006. The effect on the Company's consolidated financial statements of adopting SOP 05-1 is currently evaluated.

In February 2006, SFAS No. 155 "Accounting for Certain Hybrid Financial Instrument, an amendment of SFAS No. 133 and No. 140," was issued. The amendments made by SFAS 155 resolve issues addressed in SFAS No. 133 Implementation Issue No. D1, and amends SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of fiscal years beginning after September 15, 2006. The adoption of SFAS No. 155 will not have a significant effect on the Company's consolidated financial statements.

In March 2006, SFAS No. 156 "Accounting for Servicing of Financial Assets, an amendment of SFAS No. 140," was issued.

SFAS No. 156 provides the guidance for the measurement methods for servicing assets and servicing liabilities. SFAS No. 156 is effective for fiscal year beginning after September 15, 2006. The adoption of SFAS No. 156 will not have a significant effect on the Company's consolidated financial statements.

(3) Investments

The amortized cost of fixed maturity securities or cost of equity securities and money trusts and related fair values at March 31, 2005 and 2006 were as follows:

Securities held to maturity:

	Yen in millions			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2005:				
Fixed maturity securities:				
Governments and government agencies and authorities other than U.S.	¥178,761	¥4,846	—	¥183,607
Other corporate bonds	2,824	3	—	2,827
Total securities held to maturity	¥181,585	¥4,849	—	¥186,434

	Yen in millions			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2006:				
Fixed maturity securities:				
Governments and government agencies and authorities other than U.S.	**¥211,000**	**¥701**	**¥(1,450)**	**¥210,251**
Other municipalities and political subdivisions	**47,057**	**—**	**(1,221)**	**45,836**
Other corporate bonds	**3,113**	**1**	**(25)**	**3,089**
Total securities held to maturity	**¥261,170**	**¥702**	**¥(2,696)**	**¥259,176**

	Dollars in thousands			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2006:				
Fixed maturity securities:				
Governments and government agencies and authorities other than U.S.	**$1,803,418**	**$5,991**	**$(12,393)**	**$1,797,016**
Other municipalities and political subdivisions	**402,197**	**—**	**(10,436)**	**391,761**
Other corporate bonds	**26,607**	**9**	**(214)**	**26,402**
Total securities held to maturity	**$2,232,222**	**$6,000**	**$(23,043)**	**$2,215,179**

Securities available for sale:

	Yen in millions			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount/ Fair Value
March 31, 2005:				
Fixed maturity securities:				
U.S. government and government agencies and authorities	¥ 86,580	¥ 3,357	¥ (1,818)	¥ 88,119
U.S. municipalities and political subdivisions	115	5	—	120
Other governments and government agencies and authorities	510,880	24,478	(954)	534,404
Other municipalities and political subdivisions	870,954	34,968	(1,214)	904,708
Convertibles and bonds with warrants attached	14,628	731	(6)	15,353
Other corporate bonds	1,450,378	53,623	(2,854)	1,501,147
Total fixed maturity securities	2,933,535	117,162	(6,846)	3,043,851
Equity securities	1,015,978	1,185,522	(7,098)	2,194,402
Total securities available for sale	¥3,949,513	¥1,302,684	¥(13,944)	¥5,238,253

	Yen in millions			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount/ Fair Value
March 31, 2006:				
Fixed maturity securities:				
U.S. government and government agencies and authorities	**¥ 93,269**	**¥ 7,076**	**¥ (1,062)**	**¥ 99,283**
U.S. municipalities and political subdivisions	**130**	**6**	**—**	**136**
Other governments and government agencies and authorities	**614,831**	**15,654**	**(7,550)**	**622,935**
Other municipalities and political subdivisions	**820,226**	**22,142**	**(6,648)**	**835,720**
Convertibles and bonds with warrants attached	**3,885**	**651**	**(10)**	**4,526**
Other corporate bonds	**1,617,720**	**31,885**	**(18,702)**	**1,630,903**
Total fixed maturity securities	**3,150,061**	**77,414**	**(33,972)**	**3,193,503**
Equity securities	**1,077,972**	**2,029,282**	**(2,037)**	**3,105,217**
Total securities available for sale	**¥4,228,033**	**¥2,106,696**	**¥(36,009)**	**¥6,298,720**

	Dollars in thousands			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount/ Fair Value
March 31, 2006:				
Fixed maturity securities:				
U.S. government and government agencies and authorities	**$ 797,171**	**$ 60,479**	**$ (9,077)**	**$ 848,573**
U.S. municipalities and political subdivisions	**1,111**	**51**	**—**	**1,162**
Other governments and government agencies and authorities	**5,254,966**	**133,795**	**(64,530)**	**5,324,231**
Other municipalities and political subdivisions	**7,010,479**	**189,248**	**(56,821)**	**7,142,906**
Convertibles and bonds with warrants attached	**33,205**	**5,564**	**(85)**	**38,684**
Other corporate bonds	**13,826,666**	**272,521**	**(159,846)**	**13,939,341**
Total fixed maturity securities	**26,923,598**	**661,658**	**(290,359)**	**27,294,897**
Equity securities	**9,213,436**	**17,344,290**	**(17,410)**	**26,540,316**
Total securities available for sale ..	**$36,137,034**	**$18,005,948**	**$(307,769)**	**$53,835,213**

Trading securities:

	Yen in millions			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2005:				
Money trusts included in short-term investments	¥54,148	¥2,728	¥(1,494)	¥55,382

	Yen in millions			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2006:				
Money trusts included in short-term investments	**¥49,895**	**¥727**	**¥(730)**	**¥49,892**

	Dollars in thousands			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2006:				
Money trusts included in short-term investments	**$426,453**	**$6,213**	**$(6,239)**	**$426,427**

The changes in net unrealized gains and losses on trading securities have been included in the accompanying consolidated statements of income as gains of ¥2,713 million, losses of ¥554 million and losses of ¥1,237 million ($10,573 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively.

The amortized cost and fair values of investments in fixed maturity securities held to maturity and available for sale at March 31, 2006 by contractual maturity were as follows:

Securities held to maturity:

	Yen in millions		Dollars in thousands	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	**¥ 2,306**	**¥ 2,308**	**$ 19,709**	**$ 19,726**
Due after one year through five years	**4,069**	**4,053**	**34,778**	**34,641**
Due after five years through ten years	**178,342**	**175,887**	**1,524,291**	**1,503,308**
Due after ten years	**76,453**	**76,928**	**653,444**	**657,504**
	¥261,170	**¥259,176**	**$2,232,222**	**$2,215,179**

Securities available for sale:

	Yen in millions		Dollars in thousands	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	**¥ 251,095**	**¥ 261,288**	**$ 2,146,111**	**$ 2,233,231**
Due after one year through five years	**1,358,872**	**1,391,688**	**11,614,291**	**11,894,769**
Due after five years through ten years	**1,159,553**	**1,153,364**	**9,910,709**	**9,857,812**
Due after ten years	**380,541**	**387,163**	**3,252,487**	**3,309,085**
	¥3,150,061	**¥3,193,503**	**$26,923,598**	**$27,294,897**

Actual maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties.

The methods of determining the fair value of the Company's fixed maturity and equity securities are described in Note 13.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2005 and 2006, were as follows:

Securities held to maturity:

	Yen in millions					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2005:						
Fixed maturities	¥—	¥—	¥—	¥—	¥—	¥—

	Yen in millions					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2006:						
Fixed maturities	**¥190,388**	**¥(2,696)**	**¥—**	**¥—**	**¥190,388**	**¥(2,696)**

	Dollars in thousands					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2006:						
Fixed maturities	**$1,627,248**	**$(23,043)**	**$—**	**$—**	**$1,627,248**	**$(23,043)**

Securities available for sale:

	Yen in millions					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2005:						
Fixed maturities...	¥231,464	¥(6,029)	¥23,529	¥ (817)	¥254,993	¥ (6,846)
Equity securities...	46,126	(3,127)	54,230	(3,971)	100,356	(7,098)
Total securities.....	¥277,590	¥(9,156)	¥77,759	¥(4,788)	¥355,349	¥(13,944)

	Yen in millions					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2006:						
Fixed maturities...	**¥1,560,262**	**¥(29,386)**	**¥122,239**	**¥(4,586)**	**¥1,682,501**	**¥(33,972)**
Equity securities...	**39,858**	**(813)**	**13,968**	**(1,224)**	**53,826**	**(2,037)**
Total securities.....	**¥1,600,120**	**¥(30,199)**	**¥136,207**	**¥(5,810)**	**¥1,736,327**	**¥(36,009)**

	Dollars in thousands					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2006:						
Fixed maturities...	**$13,335,573**	**$(251,162)**	**$1,044,778**	**$(39,197)**	**$14,380,351**	**$(290,359)**
Equity securities...	**340,666**	**(6,949)**	**119,384**	**(10,461)**	**460,050**	**(17,410)**
Total securities.....	**$13,676,239**	**$(258,111)**	**$1,164,162**	**$(49,658)**	**$14,840,401**	**$(307,769)**

Unrealized losses of fixed maturities were mainly caused by changes in interest rate. The majority of fixed securities are in high-grade, and the Company has the positive ability and intent to hold these securities until a market price recovery.

In evaluating the factors for securities available for sale, the Company presumes a decline in value to be other than temporary if the fair value of securities is 20% or more below its original cost for an expected period of time. In addition, the Company recognizes losses in situation where, even though the fair value has not remained 20% below its original cost for an expected period of time, it is considered that a decline of the fair value is significant.

At March 31, 2006, the Company determined the decline in value for securities with unrealized losses was not other than temporary in nature.

Gross realized and change in unrealized gains and losses from investments for the years ended March 31, 2004, 2005 and 2006 were as follows:

	Yen in millions			
	Fixed Maturities	Equity Securities	Other Investments	Total Gains
2004:				
Realized gains (losses)	¥ (4,437)	¥ 89,406	¥3,838	¥ 88,807
Change in unrealized gains (losses)	(95,507)	558,459	(932)	462,020
Combined realized and unrealized gains (losses)	¥(99,944)	¥647,865	¥2,906	¥550,827

	Yen in millions			
	Fixed Maturities	Equity Securities	Other Investments	Total Gains
2005:				
Realized gains (losses)	¥ 2,476	¥51,081	¥(2,565)	¥50,992
Change in unrealized gains (losses)	12,638	27,627	(108)	40,157
Combined realized and unrealized gains (losses)	¥15,114	¥78,708	¥(2,673)	¥91,149

	Yen in millions			
	Fixed Maturities	Equity Securities	Other Investments	Total Gains
2006:				
Realized gains (losses)	**¥ 3,332**	**¥ 57,348**	**¥(10,481)**	**¥ 50,199**
Change in unrealized gains (losses)	**(66,874)**	**848,821**	**659**	**782,606**
Combined realized and unrealized gains (losses)	**¥(63,542)**	**¥906,169**	**¥ (9,822)**	**¥832,805**

	Dollars in thousands			
	Fixed Maturities	Equity Securities	Other Investments	Total Gains
2006:				
Realized gains (losses)	**$ 28,479**	**$ 490,154**	**$(89,582)**	**$ 429,051**
Change in unrealized gains (losses)	**(571,573)**	**7,254,880**	**5,633**	**6,688,940**
Combined realized and unrealized gains (losses)	**$(543,094)**	**$7,745,034**	**$(83,949)**	**$7,117,991**

The net effect on shareholders' equity of unrealized gains and losses on available-for-sale securities at March 31, 2005 and 2006 was as follows:

	Yen in millions			
	Fixed Maturities	Equity Securities	Other Investments	Total Gains
March 31, 2005:				
Unrealized gains (losses), net	¥110,316	¥1,178,424	¥(142)	¥1,288,598
Deferred income taxes				(668,712)
				¥ 619,886

	Yen in millions			
	Fixed Maturities	Equity Securities	Other Investments	Total Gains
March 31, 2006:				
Unrealized gains, net	**¥43,442**	**¥2,027,245**	**¥517**	**¥2,071,204**
Deferred income taxes				**(950,505)**
				¥1,120,699

	Dollars in thusands			
	Fixed Maturities	Equity Securities	Other Investments	Total Gains
March 31, 2006:				
Unrealized gains, net	**$371,299**	**$17,326,880**	**$4,419**	**$17,702,598**
Deferred income taxes				**(8,123,966)**
				$ 9,578,632

Proceeds and gross realized gains and losses from sales of securities available for sale for the years ended March 31, 2004, 2005 and 2006 were as follows:

Fixed maturity securities:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Gross realized gains	¥ 13,115	¥ 10,785	**¥ 7,095**	**$ 60,641**
Gross realized losses	(17,367)	(8,309)	**(3,105)**	**(26,538)**
Net realized gains (losses)	(4,252)	2,476	**3,990**	**34,103**
Proceeds from fixed maturity securities	¥553,264	¥659,959	**¥553,057**	**$4,726,983**

Equity securities:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Gross realized gains	¥115,318	¥ 59,954	**¥ 62,310**	**$532,564**
Gross realized losses	(20,045)	(1,077)	**(1,722)**	**(14,718)**
Net realized gains	95,273	58,877	**60,588**	**517,846**
Proceeds from equity securities	¥666,968	¥144,463	**¥114,403**	**$977,803**

Bonds carried at ¥46,174 million at March 31, 2005 and ¥52,702 million ($450,444 thousand) at March 31, 2006, short-term investments carried at ¥52 million at March 31, 2005 and ¥641 million ($5,479 thousand) at March 31, 2006 and cash equivalents carried at ¥6,610 million at March 31, 2005 and ¥6,945 million ($59,359 thousand) at March 31, 2006 were deposited with certain foreign government authorities and certain other parties as required by law and/or for other purposes.

The Company engages in securities lending transactions whereby certain securities from its portfolio are loaned to other institutions for short periods and cash collateral is obtained for some transactions. The loaned securities remain as recorded assets of the Company and the amount of the cash collateral is recorded as cash and cash equivalents. The carrying amount of loaned securities recorded as securities available for sale at March 31, 2005 and 2006 was ¥54,574 million and ¥164,050 million ($1,402,137 thousand), respectively.

Mortgage loans on real estate are primarily mortgage loans on land and commercial buildings.

Policy loans are made to policyholders of long-term comprehensive insurance, long-term family traffic accident insurance and other long-term policies with refund at maturity. The maximum amount of loans is limited to 90% of return premiums on the policies.

Other long-term investments at March 31, 2005 and 2006 included the following:

	Yen in millions		Dollars in thousands
	2005	**2006**	**2006**
Mortgage loans on vessels and facilities	¥ 844	**¥ 708**	**$ 6,051**
Collateral and guaranteed loans	332,455	**353,389**	**3,020,419**
Unsecured loans	387,487	**364,704**	**3,117,129**
Other investments	423	**2,690**	**22,991**
	¥721,209	**¥721,491**	**$6,166,590**

Mortgage loans on vessels and facilities are generally joint loans in which other financial institutions participate. The Company participates in the hull insurance on these vessels.

Collateral loans are made generally to commercial enterprises and are secured principally by listed stocks and/or bonds of Japanese corporations. A portion of the loans is made jointly with other insurance companies.

Guaranteed loans are made generally to commercial enterprises, and payment is guaranteed principally by banks.

Unsecured loans are made to political subdivisions and independent government agencies and, on a selective basis, to corporate borrowers.

Certain guaranteed loans with the carrying amount of ¥15,170 million ($129,658 thousand) were securitized in the year ended March 31, 2006. A gain on the securitization in the amount of ¥103 million ($880 thousand) was recognized for the year ended March 31, 2006. There were no significant servicing assets and liabilities associated with the securitization at March 31, 2006.

Short-term investments at March 31, 2005 and 2006 included the following:

	Yen in millions		Dollars in thousands
	2005	**2006**	**2006**
Money trusts	¥55,382	**¥49,892**	**$426,427**
Invested cash	20,346	**23,914**	**204,393**
Commercial paper	13,083	**10,440**	**89,231**
Other	9,993	**9,583**	**81,906**
	¥98,804	**¥93,829**	**$801,957**

Call loans are short-term (overnight to three weeks) loans made to money market dealers and banks or securities houses through money market dealers. Call loans to money market dealers are secured by Japanese government bonds. Call loans to banks or securities houses are unsecured. The balance of call loans included in cash and cash equivalents as of March 31, 2005 and 2006 were ¥36,000 million and ¥18,000 million ($153,846 thousand), respectively.

The total recorded investment in impaired loans and the amount of the total valuation allowance at March 31, 2005 and 2006 were as follows:

	Yen in millions		Dollars in thousands
	2005	**2006**	**2006**
Recorded investment in impaired loans:			
Mortgage loans on real estate	¥ 2,139	**¥1,563**	**$13,359**
Mortgage loans on vessels and facilities	22	**8**	**68**
Unsecured loans	15,434	**7,383**	**63,103**
	¥17,595	**¥8,954**	**$76,530**
Valuation allowance:			
Mortgage loans on real estate	¥ 557	**¥ 335**	**$ 2,863**
Mortgage loans on vessels and facilities	1	**—**	**—**
Unsecured loans	12,037	**4,230**	**36,154**
	¥12,595	**¥4,565**	**$39,017**

The recorded investment in loans of nonaccrual status was approximately ¥14,975 million and ¥4,352 million ($37,197 thousand) as of March 31, 2005 and 2006, respectively. The recorded investment in loans past due 90 days or more and still accruing interest was approximately ¥544 million and ¥724 million ($6,188 thousand) as of March 31, 2005 and 2006, respectively.

An analysis of activity in the total allowance for credit losses related to loans during the years ended March 31, 2004, 2005 and 2006 is as follows:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Balance at beginning of year	¥20,235	¥19,314	**¥14,499**	**$123,923**
Charge (credit) to income	754	(1,108)	**(2,082)**	**(17,795)**
Principal charge-offs	(1,675)	(3,707)	**(5,538)**	**(47,333)**
Balance at end of year	¥19,314	¥14,499	**¥ 6,879**	**$ 58,795**

The total allowance for credit losses related to loans at March 31, 2005 and 2006 includes an allowance for doubtful accounts in the amount of ¥1,904 million and ¥2,314 million ($19,778 thousand), respectively, relating to loans which were not categorized in the above impaired loans. This allowance for doubtful accounts has been calculated by multiplying actual bad debt ratios computed based on the actual bad debt amounts during the past periods against outstanding balances.

The average recorded investment in impaired loans was approximately ¥29,445 million, ¥22,621 million and ¥13,275 million ($113,462 thousand) in the years ended March 31, 2004, 2005 and 2006, respectively. The Company recognized interest income from impaired loans of ¥454 million, ¥344 million and ¥214 million ($1,829 thousand) in the years ended March 31, 2004, 2005 and 2006, respectively, on a cash basis.

Other long-term investments include loans of ¥30 million as of March 31, 2005 and nil as of March 31, 2006 which had been non-income producing for the 12 months preceding each balance sheet date.

The components of net investment income for the years ended March 31, 2004, 2005 and 2006 were as follows:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Interest on fixed maturities	¥ 71,758	¥ 72,056	**¥ 76,713**	**$ 655,667**
Dividends from equity securities	31,887	32,269	**60,339**	**515,718**
Interest on mortgage loans on real estate	704	529	**434**	**3,709**
Rent from investment real estate	6,846	5,976	**6,361**	**54,368**
Interest on policy loans	1,195	1,203	**1,286**	**10,991**
Interest on other long-term investments	13,280	12,353	**11,666**	**99,709**
Interest on short-term investments	1,225	1,562	**2,328**	**19,897**
Interest on call loans	20	21	**12**	**103**
Other	3,752	4,753	**7,634**	**65,248**
Gross investment income	130,667	130,722	**166,773**	**1,425,410**
Less investment expenses	12,064	11,243	**10,671**	**91,205**
Net investment income	¥118,603	¥119,479	**¥156,102**	**$1,334,205**

In accordance with the Company's internal policy, the Company's portfolio is broadly diversified to ensure that there is no significant concentration of credit risk with any individual counterparties or group of counterparties. The concentrations of credit risk exceeding 10% of total shareholders' equity as of March 31, 2005 and 2006 were as follows:

	Yen in millions		Dollars in thousands
	2005	2006	2006
Japanese government	¥854,959	**¥1,019,964**	**$8,717,641**
Toyota Motor Corporation and its affiliates	423,532	**639,968**	**5,469,812**

(4) Property and Equipment

A summary of property and equipment as of March 31, 2005 and 2006 is as follows:

	Yen in millions		Dollars in thousands
	2005	2006	2006
Land	¥ 79,483	**¥ 83,085**	**$ 710,128**
Buildings	268,235	**266,535**	**2,278,077**
Furniture and equipment	101,772	**81,004**	**692,342**
Construction in progress	324	**4,599**	**39,308**
	449,814	**435,223**	**3,719,855**
Less accumulated depreciation	(240,856)	**(219,868)**	**(1,879,214)**
	¥208,958	**¥215,355**	**$1,840,641**

Property and equipment acquired in settling insurance claims included in other assets were ¥829 million and nil as of March 31, 2005 and 2006, respectively.

(5) Impairment Losses of Long-Lived Assets

The carrying amount of long-lived assets held for sale as of March 31, 2005 and 2006 were ¥501 million and ¥581 million ($4,966 thousand), respectively. The impairment losses on long-lived assets held for sale, included in other expenses, were ¥260 million and ¥7 million ($60 thousand) for the years ended March 31, 2005 and 2006, respectively. Those impairment losses on long-lived assets were recognized in the property and casualty insurance segment under SFAS No. 131.

The Company determined that expected future cash flows and estimated fair value were below the current carrying amount for one investment real estate. Consequently, the impairment loss on long-lived assets to be held and used, which arose from investment real estate, was included in realized gains (losses) on investments, in the amount of ¥5,889 million and ¥873 million ($7,462 thousand) for the years ended March 31, 2005 and 2006, respectively. The impairment loss on long-lived assets to be held and used, which arose from property and equipment was included in other expenses in the amount of ¥11,100 million and ¥85 million ($726 thousand) for the years ended March 31, 2005 and 2006, respectively. Those impairment losses on long-lived assets were recognized in the property and casualty insurance segment under SFAS No. 131.

(6) Income Taxes

Total income taxes for the years ended March 31, 2004, 2005 and 2006 were allocated as follows:

	Yen in millions			Dollars in thousands
	2004	2005	2006	2006
Taxes on income	¥ 67,065	¥24,321	**¥ 56,294**	**$ 481,145**
Taxes on other comprehensive income:				
Net unrealized gains on investments	166,684	15,292	**281,793**	**2,408,487**
Net losses on derivative instruments	(132)	(52)	**(58)**	**(496)**
Minimum pension liability adjustment	10,284	21,832	**(380)**	**(3,256)**
	¥243,901	¥61,393	**¥337,649**	**$2,885,880**

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 36%.

The effective tax rates of the Company for the years ended March 31, 2004, 2005 and 2006 differed from the Japanese statutory income tax rates for the following reasons:

	2004	2005	2006
Japanese statutory income tax rate	36.0%	36.0%	**36.0%**
Tax credit for dividends received	(1.9)	(5.5)	**(3.1)**
Expenses not deductible for tax purposes	0.6	1.7	**0.6**
Change in valuation allowance	0.9	7.3	**(1.6)**
Other	(0.4)	(3.2)	**(0.8)**
Effective tax rate	35.2%	36.3%	**31.1%**

The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and deferred tax liabilities at March 31, 2005 and 2006 were as follows:

	Yen in millions		Dollars in thousands
	2005	**2006**	**2006**
Deferred taxes applicable to items other than unrealized gains on investments and derivatives:			
Deferred tax assets:			
Reported and estimated losses and claims	¥ 36,162	**¥ 43,432**	**$ 371,214**
Adjustment expenses	8,752	**10,728**	**91,692**
Retirement and severance benefits	32,166	**30,759**	**262,897**
Computer software development costs	15,057	**13,547**	**115,786**
Impairment losses	50,865	**44,932**	**384,034**
Gains on sales of investments not recognized for financial statement purposes	38,711	**37,395**	**319,615**
Other	14,699	**23,908**	**204,343**
Total gross deferred tax assets	196,412	**204,701**	**1,749,581**
Less valuation allowance	(20,823)	**(17,935)**	**(153,290)**
Total net deferred tax assets	175,589	**186,766**	**1,596,291**
Deferred tax liabilities:			
Unearned premiums	67,613	**95,104**	**812,855**
Deferred policy acquisition costs	132,277	**136,775**	**1,169,017**
Property and equipment	7,398	**5,140**	**43,932**
Impairment of investments not recognized for financial statement purposes	13,888	**19,255**	**164,573**
Other	321	**435**	**3,717**
Total gross deferred tax liabilities	221,497	**256,709**	**2,194,094**
	45,908	**69,943**	**597,803**
Deferred tax liability applicable to unrealized gains on investments and derivatives	463,677	**745,432**	**6,371,214**
	¥509,585	**¥815,375**	**$6,969,017**

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax-planning strategies relating to the future reversal of temporary differences.

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, and the uncertainty of the future reversal of temporary differences, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the recorded valuation allowances, at March 31, 2006.

A significant portion of the valuation allowance was provided for impairment losses on real estate and equity securities amounting to ¥20,364 million and ¥17,390 million ($148,632 thousand) as of March 31, 2005 and 2006, respectively. The net change in total valuation allowance for the years ended March 31, 2004, 2005 and 2006 was an increase of ¥1,763 million, ¥4,902 million and a decrease of ¥2,888 million ($24,684 thousand), respectively.

(7) Short-term Debt and Long-term Debt

Short-term debt and long-term debt as of March 31, 2005 and 2006 consist of the following:

	Yen in millions		Dollars in thousands
	2005	**2006**	**2006**
0.4% Japanese yen debentures, due 2007	¥ 30,000	**¥ 30,000**	**$256,410**
0.8% Japanese yen debentures, due 2009	70,000	**70,000**	**598,291**
Bank loans with weighted average interest of 1.31%, due 2005	500	**—**	**—**
Bank loans with weighted average interest of 0.91%, due 2006	—	**300**	**2,564**
Commercial paper	13,083	**10,440**	**89,231**
	113,583	**110,740**	**946,496**
Less current portion classified as short-term debt	(13,583)	**(10,740)**	**(91,795)**
Less unamortized discount	(5)	**(3)**	**(26)**
Total long-term debt	¥ 99,995	**¥ 99,997**	**$854,675**

In November 2004, the Company issued ¥30,000 million of 0.4% unsecured debentures and ¥70,000 million of 0.8% unsecured debentures, with bullet repayment of maturity due December 20, 2007 and December 18, 2009, respectively.

(8) Retirement and Severance Benefits

The Company has defined benefit plans and a defined contribution plan. Defined benefit plans consist of an unfunded lump-sum payment benefit plan and funded non-contributory pension plans covering substantially all employees. Under the plans, employees are entitled to lump-sum or annuity payments based on the current rate of pay and length of service at retirement or termination of employment for reasons other than dismissal for cause. Directors and statutory auditors are not covered by the above plans and their benefits are accrued as earned.

In addition to the plans described above, the Company had an Employees' Pension Fund ("EPF") plan, which was a defined benefit pension plan established under the Japanese Welfare Pension Insurance Law ("JWPIL"). The plan was composed of (a) a substitutional portion based on the pay-related part of the old-age pension benefits prescribed by the JWPIL and (b) a corporate portion based on a non-contributory defined benefit pension arrangement.

On April 1, 2003, the Company obtained an approval from the Japanese Ministry of Health, Labour and Welfare ("JMHLW") for an exemption from the obligation for benefits related to future employee service under the substitutional portion. After the approval, the Company made applications for the exemption from the obligation to pay benefits for past employee service related to the substitutional portion of the EPF and received an approval from the JMHLW on April 1, 2004. As a result of the transfer of the substitutional portion, the Company established its own non-contributory defined benefit pension plan for its employees, which replaced the corporate portion of EPF.

Based on the approval, the Company transferred the benefit obligation and the related government-specified portion of the plan assets of the EPF to the government on December 21, 2004. In accordance with EITF No.03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities," the Company recognized the difference of ¥52,189 million between the substitutional portion of accumulated benefit obligation settled and the related plan assets transferred to the Japanese government as a subsidy from the government. The Company also recognized derecognition of previously accrued salary progression of ¥7,192 million and a settlement loss for the proportionate amount of the net unrecognized loss attributable to the substitutional portion of ¥37,379 million. The net gain of ¥22,002 million of the subsidy from the government, derecognition of previously accrued salary progression and the settlement loss is included in other expenses in the consolidated statement of income for the year ended March 31, 2005.

On April 1, 2005, a defined contribution plan was transferred from a portion of defined benefit plan in accordance with SFAS No.88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plan and for Termination Benefits". The transfer caused settlements and curtailments and the Company recognized the net gain of ¥2,485 million ($21,239 thousand), which consists of ¥23,738 million ($202,889 thousand) of gain by decrease of PBO, ¥18,325 million ($156,624 thousand) of loss by decrease of plan assets at fair value, ¥3,376 million ($28,855 thousand) of loss by depreciation of unrecognized net loss, and ¥449 million ($3,838 thousand) of loss by depreciation of unrecognized prior service cost.

The components of net periodic benefit cost for the years ended March 31, 2004, 2005 and 2006 were as follows:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Components of net periodic benefit cost:				
Service cost	¥12,915	¥13,540	**¥10,896**	**$93,128**
Interest cost	6,114	5,766	**5,239**	**44,778**
Expected return on plan assets	(4,409)	(5,247)	**(4,234)**	**(36,188)**
Amortization of prior service cost	(2,450)	(2,450)	**(2,509)**	**(21,444)**
Recognized actuarial loss	13,018	8,664	**1,565**	**13,376**
Net periodic benefit cost	¥25,188	¥20,273	**¥10,957**	**$93,650**

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets for the years ended March 31, 2004, 2005 and 2006 were as follows:

	Yen in millions			Dollars in thousands
	2004	2005	2006	2006
Change in benefit obligations:				
Benefit obligations at beginning of year	¥407,704	¥414,350	**¥279,799**	**$2,391,444**
Adjustment in connection with the acquisition	—	349	**3,269**	**27,940**
Service cost	12,915	13,540	**10,896**	**93,128**
Interest cost	6,114	5,766	**5,239**	**44,778**
Plan participants' contributions	168	46	**3**	**26**
Actuarial gain	(604)	(35,670)	**(1,141)**	**(9,752)**
Benefits paid	(11,947)	(10,450)	**(12,000)**	**(102,564)**
Benefit obligation transferred to government plan	—	(108,132)	**—**	**—**
Benefit obligation transferred to defined contribution plan	—	—	**(23,738)**	**(202,889)**
Benefit obligations at end of year	¥414,350	¥279,799	**¥262,327**	**$2,242,111**
Change in plan assets:				
Fair value of plan assets at beginning of year	¥146,966	¥187,244	**¥159,474**	**$1,363,025**
Adjustment in connection with the acquisition	—	—	**139**	**1,188**
Actual return on plan assets	22,378	4,834	**18,848**	**161,094**
Employer contributions	23,311	20,845	**9,067**	**77,496**
Plan participants' contributions	168	46	**3**	**26**
Benefits paid	(5,579)	(4,744)	**(6,111)**	**(52,231)**
Assets transferred to government plan	—	(48,751)	**—**	**—**
Assets transferred to defined contribution plan	—	—	**(18,325)**	**(156,624)**
Fair value of plan assets at end of year	¥187,244	¥159,474	**¥163,095**	**$1,393,974**
Funded status	¥(227,106)	¥(120,325)	**¥(99,232)**	**$(848,137)**
Unrecognized actuarial loss	126,812	45,512	**26,271**	**224,538**
Unrecognized prior service cost	(16,148)	(13,698)	**(10,739)**	**(91,786)**
Net amount recognized	¥(116,442)	¥ (88,511)	**¥(83,700)**	**$(715,385)**
Amounts recognized in the balance sheets consist of:				
Retirement and severance benefits	¥(177,085)	¥(88,511)	**¥(84,544)**	**$(722,598)**
Intangible assets	—	—	**53**	**453**
Accumulated other comprehensive income, gross of tax	60,643	—	**791**	**6,760**
Net amount recognized	¥(116,442)	¥(88,511)	**¥(83,700)**	**$(715,385)**
Pension plans with an accumulated benefit obligation in excess of plan assets:				
Projected benefit obligation	¥414,350	¥279,799	**¥262,327**	**$2,242,111**
Accumulated benefit obligation	364,271	242,928	**225,695**	**1,929,017**
Fair value of plan assets	187,244	159,474	**163,095**	**1,393,974**

In the year ended March 31, 2004, the Company exercised the special early retirement plan and recognized special termination benefits provided to employees in other expenses in the amount of ¥4,530 million.

The Company uses a measurement date of March 31 for all of its pension and severance plans.

The accumulated benefit obligation for the pension plan was ¥242,928 million and ¥225,695 million ($1,929,017 thousand) at March 31, 2005 and 2006, respectively.

Weighted-average assumptions used to determine benefit obligations at March 31, 2004, 2005 and 2006 were as follows:

	2004	2005	2006
Discount rate	1.50%	2.00%	**2.00%**
Rate of increase in future compensation	3.90% to 4.60%	3.90% to 4.60%	**4.10% to 4.60%**

Weighted-average assumptions used to determine net cost for the years ended March 31, 2004, 2005 and 2006 were as follows:

	2004	2005	2006
Discount rate	1.50%	1.50%	**2.00%**
Expected long-term return on plan assets	3.00%	3.00%	**3.00%**
Rate of increase in future compensation	3.90% to 4.60%	3.90% to 4.60%	**3.90% to 4.60%**

The discount rate is determined by reference to the Moody's Aa Corporate bond and Japan government bond at the measurement date, March 31, 2004, 2005 and 2006, based on the expected terms of benefit obligations.

The Company determines its expected long-term rate of return based on the expected long-term return of various asset categories in which it invests in consideration of the current expectations for future returns and the historical returns of each plan asset category.

The weighted-average asset allocation of the Company's pension benefits at March 31, 2005 and 2006 were as follows:

	2005	2006
Fixed maturities	57.5%	**58.4%**
Equity securities	35.1%	**38.1%**
Life insurance company general account	2.8%	**0.2%**
Cash and cash equivalents	4.6%	**3.3%**

The Company's investment policies are designed to be long-range stability of investment profit for ensuring adequate plan assets are available to provide future payments of pension benefits to eligible participants. The Company endeavors to obtain better performance more than earnings from the expected long-term rate of return on plan assets. Plan assets are invested in individual equities and fixed maturities using the guidelines of the model portfolio with a consideration of its performance, expected returns and risks. The Company evaluates its categories of plan assets allocation and can change its portfolios when it is needed.

The amount of cost contributed to defined contribution plans for the year ending March 31, 2006 was ¥1,338 million ($11,436 thousand).

The Company forecasts to contribute ¥3,103 million ($26,521 thousand) to the defined benefit pension plans in the year ending March 31, 2007.

Expected future benefit payments for the defined benefit pension plan are as follows:

Years ending March 31	Yen in millions	Dollars in thousands
2007	¥ 9,343	$ 79,855
2008	9,990	85,385
2009	10,213	87,291
2010	10,461	89,410
2011	11,617	99,291
2012–2016	62,714	536,017

(9) Liabilities for Losses and Claims

Activities in the liabilities for losses and claims and claim adjustment expenses for the years ended March 31, 2004, 2005 and 2006 are summarized as follows:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Balance at beginning of year	¥660,178	¥ 729,060	**¥ 937,057**	**$8,009,034**
Less: reinsurance recoverable	143,597	151,635	**234,097**	**2,000,829**
Net balance at beginning of year	516,581	577,425	**702,960**	**6,008,205**
Incurred related to:				
Current year insured events	844,417	1,019,265	**1,009,061**	**8,624,453**
Prior year insured events	13,855	15,321	**8,547**	**73,051**
Total incurred	858,272	1,034,586	**1,017,608**	**8,697,504**
Paid related to:				
Current year insured events	517,844	598,761	**517,384**	**4,422,086**
Prior year insured events	279,584	325,235	**390,252**	**3,335,487**
Total paid	797,428	923,996	**907,636**	**7,757,573**
Adjustment in connection with the acquisition	—	14,945	**10,216**	**87,317**
Net balance at end of year	577,425	702,960	**823,148**	**7,035,453**
Plus reinsurance recoverable	151,635	234,097	**233,369**	**1,994,607**
Balance at end of year	¥729,060	¥ 937,057	**¥1,056,517**	**$9,030,060**

(10) Investment Deposits by Policyholders

Certain property and casualty insurance policies offered by the Company include a savings feature in addition to the insurance coverage provided under the policy. In addition, certain types of personal injury and fire insurance policies are available with a deposit premium rider. The premium received from the policyholder is split between the insurance coverage and the savings portion of the policy based upon rates approved by the Financial Services Agency of Japan. Policy terms are mainly from 3 to 10 years.

The key terms of this type of policy are fixed at the inception of the policy and remain in effect during the policy period. The policyholder can terminate the savings-type insurance contract before the maturity date with a payment of a commission to the Company that equals the interest earned for approximately six months. The policyholder is informed at policy inception of the maturity value related to the savings portion of the policy. The maturity value of the policy represents the savings portion of the premium paid by the policyholder plus credited interest. The maturity value is paid on the policy maturity date unless a total loss as defined by the policy occurs during the policy term. No amount is paid under the savings portion of the policy if a total loss occurs during the policy term.

It is regarded as a total loss when an aggregate amount of claims paid in connection with accidents covered by the policy occurs within any one insurance year during the policy terms of insurance, regardless of whether claims are caused by one or more accidents, and reaches the insured amount covered by the policy. If a total loss occurs, the policy is immediately terminated. The annual frequency of total loss of major savings-type insurance contracts ranges from 0.04% to 0.26%.

The contractual rate of interest credited to the policy varies by product and is established at the beginning of the policy. The committed interest rate cannot be changed by the Company at any time during the policy term. Committed interest rates ranged from 0.1% to 1.5% for the years ended March 31, 2004, 2005 and 2006.

Premiums paid for the indemnity portion are allocated to income ratably over the terms of the related insurance contract. Premiums paid for the savings portion are credited to investment deposits by policyholders. Interest credited to investment deposits by policyholders is charged to income and presented as investment income credited to investment deposits by policyholders in the accompanying consolidated statements of income. When a total loss occurs, the remaining balance in investment deposits by policyholders corresponding to the total loss contract is reversed and recorded as premium revenue.

(11) Reinsurance

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. The Company cedes to reinsurers a portion of the risks it underwrites and pays reinsurance premiums to the reinsurers based upon the risks subject to reinsurance. The Company utilizes a variety of reinsurance arrangements, which are classified into two basic types: proportional reinsurance and excess-of-loss reinsurance. Proportional reinsurance is the type of reinsurance where the share of claims carried is proportionate to the share of premiums received. This type of reinsurance is used as a means to limit a loss amount on an individual-risk basis. The excess-of-loss type of reinsurance indemnifies the ceding company against a specified level of losses on underlying insurance policies in excess of a specified agreed amount. Excess-of-loss reinsurance is usually arranged in layers to secure greater capacity by offering various levels of risk exposure with different terms for reinsurers with different preferences. Although a reinsurer is liable to the Company to the extent of the risks assumed, the Company remains liable as the direct insurer to policyholders on all such risks. Failure of reinsurers to honor their obligations could result in losses to the Company. Because of the large amount of funds held by the Company under reinsurance treaties and the Company's favorable experience with its reinsurers, no material amount is believed to be uncollectible and no provision has been made for this contingency.

At March 31, 2006, there were no significant concentrations with a single reinsurer for reinsurance receivables and prepaid reinsurance premiums.

The effects of reinsurance on the results of operations of property and casualty insurance and life insurance for the years ended March 31, 2004, 2005 and 2006 were as follows:

Property and casualty insurance:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Premiums written:				
Direct	¥1,439,678	¥1,470,096	**¥1,535,379**	**$13,122,897**
Assumed	243,845	246,480	**250,396**	**2,140,137**
Ceded	(307,550)	(313,599)	**(327,268)**	**(2,797,162)**
Net premiums written	¥1,375,973	¥1,402,977	**¥1,458,507**	**$12,465,872**

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Premiums earned:				
Direct	¥1,391,069	¥1,427,437	**¥1,497,701**	**$12,800,864**
Assumed	213,730	235,792	**250,333**	**2,139,598**
Ceded	(296,740)	(305,481)	**(325,233)**	**(2,779,769)**
Net premiums earned	¥1,308,059	¥1,357,748	**¥1,422,801**	**$12,160,693**

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Losses and claims incurred:				
Direct	¥773,043	¥999,806	**¥925,201**	**$7,907,701**
Assumed	163,231	176,395	**199,416**	**1,704,410**
Ceded	(200,604)	(257,430)	**(242,994)**	**(2,076,872)**
Net losses and claims incurred	¥735,670	¥918,771	**¥881,623**	**$7,535,239**

Life insurance:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Premiums earned:				
Direct	¥158,098	¥175,509	**¥205,691**	**$1,758,043**
Ceded	(258)	(340)	**(533)**	**(4,556)**
Net premiums earned	¥157,840	¥175,169	**¥205,158**	**$1,753,487**

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Policyholder benefits:				
Direct	¥133,979	¥150,840	**¥180,217**	**$1,540,316**
Ceded	(133)	(330)	**(304)**	**(2,598)**
Net policyholder benefits	¥133,846	¥150,510	**¥179,913**	**$1,537,718**

(12) Derivative Financial Instruments

The Company utilizes derivative financial instruments (a) to manage interest rate risk and foreign exchange risk arising from its fixed maturities portfolio and (b) to generate trading revenues and fee income. All derivatives are recognized on the consolidated balance sheets at fair value as other assets or other liabilities.

All derivative transactions are controlled in accordance with the Company's risk management rules. Under these rules, the purpose of derivative financial instruments is predetermined in writing, the balance of trading derivatives is limited to the extent permitted by the internal guidelines and derivative instruments entered into for hedging purposes require the advance approval of management. The Company's portfolio is broadly diversified to ensure that there is no significant concentration of credit risk with any individual counterparty or group of counterparties. The Company's policies prescribe monitoring of creditworthiness and exposure on a counterparty-by-counterparty basis. Back-office functions, such as settlements or monitoring, are designed independently from the function responsible for dealings.

Derivatives used for interest rate risk and foreign exchange risk management

The Company uses interest rate swaps, currency swaps and foreign exchange forward contracts to hedge the exposure to variability in expected future cash flows arising from fixed maturity securities available for sale. Such swaps are accounted for as cash flow hedges, in which changes in the fair value of the hedging derivatives are reported in accumulated other comprehensive income. Such deferred amounts are subsequently reclassified into net investment income when the hedged interest cash flows affect earnings. The Company estimates that the net amount of existing gains at March 31, 2006 that will be reclassified into earnings within the next 12 months is ¥137 million ($1,171 thousand). The amounts of the hedges' ineffectiveness or components of derivative instruments' gain or loss excluded from the assessment of hedge effectiveness for the years ended March 31, 2005 and 2006 were insignificant.

Derivatives trading revenues

The Company uses a variety of derivative instruments, such as interest rate futures, forwards and options, interest rate and currency swaps, bond futures and options, foreign exchange forwards and options and credit derivatives, and non-derivative instruments, such as weather derivatives, to generate trading revenues and fee income. Changes in fair value of these derivatives are reported in realized gains (losses) on investments.

(13) Fair Value of Financial Instruments

The estimated fair values of the financial instruments at March 31, 2005 and 2006 were as follows:

	Yen in millions			
	2005		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Fixed maturities	¥ 3,225,436	¥ 3,230,285	**¥3,454,673**	**¥3,452,679**
Equity securities	2,194,402	2,194,402	**3,105,217**	**3,105,217**
Mortgage loans on real estate	19,048	18,797	**15,129**	**14,890**
Policy loans	34,898	34,898	**38,615**	**38,615**
Other long-term investments	721,209	711,783	**721,491**	**710,089**
Short-term investments	98,804	98,804	**93,829**	**93,829**
Cash and cash equivalents	366,228	366,228	**385,165**	**385,165**
Investment in affiliates	56,727	56,727	**59,480**	**59,480**
Indebtedness from affiliates	1,807	1,807	**2,164**	**2,158**
Accrued investment income	20,919	20,919	**22,071**	**22,071**
Premiums receivable and agents' balances	117,597	117,597	**123,341**	**123,341**
Weather derivatives	590	590	**2,545**	**2,545**
Derivative assets:				
Foreign exchange contracts	1,878	1,878	**1,032**	**1,032**
Interest rate contracts	1,522	1,522	**2,518**	**2,518**
Bond and equity index contracts	5	5	**268**	**268**
Credit derivatives	1,091	1,091	**1,184**	**1,184**
Financial liabilities:				
Investment deposits by policyholders	(2,329,218)	(2,606,977)	**(2,265,283)**	**(2,528,869)**
Indebtedness to affiliates	(12,574)	(12,574)	**(13,240)**	**(13,240)**
Short-term debt	(13,583)	(13,583)	**(10,740)**	**(10,740)**
Long-term debt	(99,995)	(99,995)	**(99,997)**	**(98,861)**
Weather derivatives	(280)	(280)	**(1,427)**	**(1,427)**
Derivative liabilities:				
Foreign exchange contracts	(6,758)	(6,758)	**(7,077)**	**(7,077)**
Interest rate contracts	(1,417)	(1,417)	**(3,568)**	**(3,568)**
Bond and equity index contracts	(3)	(3)	**—**	**—**
Credit derivatives	(432)	(432)	**(225)**	**(225)**

	Dollars in thousands	
	2006	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Fixed maturities	**$29,527,119**	**$29,510,076**
Equity securities	**26,540,316**	**26,540,316**
Mortgage loans on real estate	**129,308**	**127,265**
Policy loans	**330,043**	**330,043**
Other long-term investments	**6,166,590**	**6,069,137**
Short-term investments	**801,957**	**801,957**
Cash and cash equivalents	**3,292,009**	**3,292,009**
Investment in affiliates	**508,376**	**508,376**
Indebtedness from affiliates	**18,496**	**18,444**
Accrued investment income	**188,641**	**188,641**
Premiums receivable and agents' balances	**1,054,197**	**1,054,197**
Weather derivatives	**21,752**	**21,752**
Derivative assets:		
Foreign exchange contracts	**8,821**	**8,821**
Interest rate contracts	**21,521**	**21,521**
Bond and equity index contracts	**2,291**	**2,291**
Credit derivatives	**10,120**	**10,120**
Financial liabilities:		
Investment deposits by policyholders	**(19,361,393)**	**(21,614,265)**
Indebtedness to affiliates	**(113,162)**	**(113,162)**
Short-term debt	**(91,795)**	**(91,795)**
Long-term debt	**(854,675)**	**(844,966)**
Weather derivatives	**(12,197)**	**(12,197)**
Derivative liabilities:		
Foreign exchange contracts	**(60,487)**	**(60,487)**
Interest rate contracts	**(30,496)**	**(30,496)**
Bond and equity index contracts	**—**	**—**
Credit derivatives	**(1,923)**	**(1,923)**

The methodologies and assumptions used to estimate the fair values of financial instruments are as follows:

The carrying amounts of cash and cash equivalents, policy loans, accrued investment income, premiums receivable and agents' balances and short-term debt approximate their fair values due to the short-term maturities of these instruments.

(a) Investments in Fixed Maturities and Equity Securities

The fair values of fixed maturity securities are estimated based on quoted market prices for these or similar securities.

The fair values of equity securities are estimated based on quoted market prices.

(b) Investments in Mortgage Loans and Other Long-term Investments

The fair values of loans and other long-term investments with fixed interest rates are estimated by discounting future cash flows using estimates of market rates for securities with similar characteristics.

The carrying amounts of investments with floating interest rates approximate their fair values. The fair value of consumer loans, which are included in other long-term investments, in the amount of ¥311,738 million and ¥334,583 million ($2,859,684 thousand) at March 31, 2005 and 2006, respectively, approximates the carrying amount. The floating and fixed rates on consumer loans in the years ended March 31, 2004, 2005 and 2006 range from approximately 1.0% to 9.0%, and the remaining loan periods are from approximately six months to 35 years.

(c) Short-term Investments

The fair values of short-term investments where quoted market prices are available are estimated using quoted market prices. The carrying amounts for other instruments approximate their fair values because of the short maturities of such instruments.

(d) Investments in and Indebtedness from Affiliates

The fair values of loans to affiliates with fixed interest rates are estimated by discounting future cash flows using the long-term prime rate at the end of the year. The fair values of investments are estimated using quoted market prices for these or similar securities. The carrying amounts for other indebtedness approximate their fair values.

(e) Investment Deposits by Policyholders

The fair values of investment deposits by policyholders are estimated by discounting future cash flows using the interest rates currently being offered for similar contracts.

(f) Indebtedness to Affiliates and Long-term Debt

The fair values of these financial instruments are estimated using quoted market prices for these or similar characteristic instruments.

(g) Derivative Financial Instruments

Fair values of forward and futures contracts are estimated based on the closing market prices at the major markets.

Fair values of swap contracts are estimated based on the discounted values of future cash flows.

Fair values of option contracts and credit derivative contracts are estimated based on internally established models with consideration given to external models or based on quotes from brokers.

(14) Variable Interest Entities

The Company consolidates three entities under the provision of FIN46R.

In December 2004, the Company purchased the subordinated notes issued by a VIE formed for the purpose of guaranteeing the obligation of the Company under the reinsurance agreements. The VIE holds U.S. government securities to collateralize the guarantee and the Company absorbs a majority of the VIE's expected losses and receives a majority of the VIE's expected residual returns. The carrying value of the VIE's investments was ¥12,324 million ($105,333 thousand) at March 31, 2006, which was included in the consolidated balance sheet.

The Company provides guarantee insurance on credit derivative contracts engaged between a VIE. The VIE holds the credit derivative contracts with other entities and transfers the risk of the referenced credit to the Company through the guarantee insurance contract. The Company absorbs a majority of the VIE's expected losses. The total assets of the VIE amounted to ¥19 million ($162 thousand) at March 31, 2006, which were included in the consolidated balance sheet.

The Company engages in certain structured transactions, mainly securitization of independent third parties' assets through a VIE. The Company provides guarantee insurance for the VIE which is involved in the asset-backed securities business where it helps meet customers' financing needs by providing access to the commercial paper markets. The Company guarantees the redemption of commercial paper issued by the VIE and the Company absorbs a majority of the VIE's expected losses. The assets and liabilities of the VIE amounted to ¥10,442 million ($89,248 thousand) at March 31, 2006, which were included in the consolidated balance sheet.

Additionally, the Company and consolidated subsidiaries hold significant variable interests in the VIEs which transact credit derivative contracts with other entities and transfer the risk of the referenced credit to the Company and consolidated subsidiaries through the guarantee insurance contracts. The consolidated subsidiaries also hold significant variable interests in the VIEs which were structured by other parties for the purpose of project financing. As a means of ensuring timely repayment of the loan, the consolidated subsidiaries provide limited credit enhancement with the VIEs through the guarantee insurance contracts. The Company and consolidated subsidiaries do not retain a first-risk-of-loss position and do not absorb a majority of these VIE's expected losses. The maximum potential loss associated with those VIEs is estimated to be ¥40,501 million ($346,162 thousand) as of March 31, 2006.

(15) Goodwill

In February 2005, the Company acquired the general insurance operations in Asia from Aviva plc incorporated in the United Kingdom, for a cost of ¥36,669 million. The excess of the cost over the fair values of assets acquired and liabilities assumed was allocated to goodwill. Goodwill of ¥34,535 million ($295,172 thousand) was recognized on the consolidated balance sheet and was assigned to the property and casualty insurance segment.

The Company purchased 80% of the outstanding shares of PT. Aviva Insurance in July 2005 and 51% of the outstanding shares of Aviva Insurance Berhad in September 2005, according to the sales and purchase agreement with Aviva plc for a cost of ¥11,702 million ($100,017 thousand). The Company purchased another 47% of the outstanding shares of Aviva Insurance Berhad in December 2005 for a cost of ¥9,779 million ($83,581 thousand).

In August 2005, the Company also purchased 100% of the outstanding shares of Mingtai which is the non-life insurer ranked second in the Taiwanese non-life insurance industry in terms of gross written premiums, for a cost of ¥30,324 million ($259,179 thousand).

The excess of the cost over the fair values of assets acquired and liabilities assumed was allocated to goodwill. Goodwill of ¥16,218 million ($138,615 thousand) by the purchase of the outstanding shares of Aviva Insurance Berhad and goodwill of ¥6,037 million ($51,598 thousand) by the purchase of the outstanding shares of Mingtai were recognized on the consolidated balance sheet and was assigned to property and casualty insurance segment. No impairment loss on goodwill was recorded for the years ended March 31, 2005 and 2006, respectively.

(16) Commitments and Contingent Liabilities

At March 31, 2006, commitments outstanding for the purchase of property and equipment amounted to approximately ¥23,475 million ($200,641 thousand). At March 31, 2006, commitments outstanding for the purchase of investment real estate amounted to approximately ¥7,971 million ($68,128 thousand).

The Company is contingently liable for various financial guarantees totaling ¥10,295 million as of March 31, 2005 and ¥1,414 million ($12,085 thousand) as of March 31, 2006. Fees related to these guarantees totaling ¥143 million, ¥99 million and ¥72 million ($615 thousand) were recorded as revenue on an accrual basis by the Company for the years ended March 31, 2004, 2005 and 2006, respectively. These guarantees are provided in the ordinary course of business and include guarantees with respect to asset-backed securities, bonds, loans and other financial obligations. The contractual amounts of the financial guarantees reflect the Company's maximum exposure to credit loss in the event of nonperformance. The Company's policy related to providing these financial guarantees limits transactions to those with credit ratings of an investment grade or equivalent creditworthiness and limits the amount of a guarantee on any individual transaction.

Other than the financial guarantee contracts described above, the Company provides guarantees for reinsurance transactions written by Mitsui Sumitomo Insurance USA Inc., a wholly owned subsidiary of the Company. The maximum potential future payment associated with these transactions is estimated to be ¥10,700 million ($91,453 thousand) as of March 31, 2006. A liability of ¥16 million ($137 thousand) was recorded in connection with the guarantees as of March 31, 2006.

At March 31, 2006, the Company had a ¥4,170 million ($35,641 thousand) investment in a limited partnership with overseas partners. A condition of the support agreement is that additional investment shall be made by the limited partners, based on the pro rata share in the partnership, should there be a shortage of funds in the partnership. Considering the latest financial information of the partnership available to the Company as of February 25, 2006, its most recent balance sheet date, management believes the likelihood of an additional capital requirement is remote. In addition to the above commitment, the Company had a contract that would have provided a financial guarantee to the limited partnership; however, the amount of potential payment based on the contract was zero as of March 31, 2006. The obligation of the Company under the guarantee was fully collateralized with securities, and no net exposure existed as of March 31, 2006.

In the normal course of business, the Company enters into credit derivative transactions mainly as a protection seller. The maximum potential loss associated with these transactions was ¥449,413 ($3,841,137 thousand) million as of March 31, 2006. A liability of ¥225 million ($1,923 thousand) was recorded in connection with these transactions as of March 31, 2006.

The Company had loan commitment agreements amounting to ¥1,099 million ($9,393 thousand) as of March 31, 2006. The Company's policy to provide loan commitment agreements is basically the same as that of guarantee contracts. The Company occupies certain offices and other facilities under lease arrangements. The following is a schedule by years of future minimum rental payments required under non-cancelable operating leases that have initial or remaining lease terms in excess of one year as of March 31, 2006:

Years ending March 31	Yen in millions	Dollars in thousands
2007	¥1,040	$ 8,889
2008	928	7,932
2009	491	4,197
2010	442	3,778
2011	404	3,453
Later years	2,997	25,614
Total future minimum rental payments	¥6,302	$53,863

Rental expenses for the years ended March 31, 2004, 2005 and 2006 were ¥13,346 million, ¥12,862 million and ¥12,381 million ($105,821 thousand), respectively.

(17) Common Stock

During the year ended March 31, 2004, the Company issued 33,290,875 shares of common stock in connection with conversions of convertible debentures. Conversions into common stock of convertible debentures were accounted for by crediting one-half of the conversion price to the common stock account and the remainder of the price to additional paid-in capital.

The amounts of statutory capital and surplus of the Company, on a non-consolidated basis, as of March 31, 2005 and 2006, are presented as follows:

	Yen in millions		Dollars in thousands
	2005	**2006**	**2006**
Common stock	¥ 139,596	**¥ 139,596**	**$ 1,193,128**
Additional paid-in capital	93,118	**93,127**	**795,957**
Legal reserve	43,041	**46,488**	**397,333**
Retained earnings	472,582	**514,638**	**4,398,615**
Unrealized gain on securities, net of tax	768,816	**1,289,897**	**11,024,762**
Treasury stock	(64,511)	**(77,321)**	**(660,863)**
Total statutory equity	¥1,452,642	**¥2,006,425**	**$17,148,932**

The Company's statutory basis net income for the years ended March 31, 2005 and 2006 was ¥60,765 million and ¥64,842 million ($554,205 thousand), respectively.

The minimum capital requirement of the Insurance Business Law of Japan for a Japanese insurance company is ¥1,000 million ($8,547 thousand) on a statutory basis.

The Company and its domestic life insurance subsidiary are required to maintain solvency margin ratios of 200% or higher in accordance with the solvency margin regulations stipulated by the Japanese regulatory authorities. The solvency margin regulations are based on factors mainly for underwriting risks, investment risks and large catastrophe risks. The solvency margin must be supported by equity and other resources, including unrealized gains and losses on certain investments and catastrophe reserves based on the financial accounting standards of Japan. The solvency margin ratios of the Company and its domestic life insurance subsidiary at March 31, 2006 were 1,115.4% and 1,493.9%, respectively.

The amounts of statutory net income for the years ended March 31, 2004, 2005 and 2006 and shareholders' equity at March 31, 2005 and 2006 of the consolidated insurance subsidiaries were as follows:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Statutory net income :				
Property and casualty	¥ 5,367	¥ 7,637	**¥ 2,491**	**$ 21,291**
Life	17	43	**59**	**504**
Statutory shareholders' equity:				
Property and casualty		¥133,894	**¥164,502**	**$1,406,000**
Life		56,545	**47,676**	**407,487**

The aggregate market value of the investments in affiliates for which a quoted market price is available amounted to ¥2,711 million and nil at March 31, 2005 and 2006, respectively.

(18) Appropriated Retained Earnings

(a) Legal Reserve

Article 14 of the Insurance Business Law of Japan requires insurance companies to set aside an amount equal to at least 20% of all appropriations paid in cash, such as cash dividends and bonuses to directors, as legal reserve until the aggregate amount of such reserve and additional paid-in capital reaches stated capital. This reserve is not available for dividends but may be used to reduce a deficit or may be transferred to stated capital. The Company's appropriations charged to unappropriated retained earnings for the year ended March 31, 2006 were subject to the legal reserve requirement.

(b) Reserve for Price Fluctuation

The reserve for price fluctuation is required under Article 115 of the Insurance Business Law of Japan. This reserve provides for possible losses arising from price fluctuations of securities and adverse changes in foreign exchange rates. The Company may reduce this reserve by (1) the amount of net loss resulting from sales of securities or (2) the amount for which permission is granted by the Financial Services Agency of Japan, for any other purpose.

(19) Unappropriated Retained Earnings, Dividends and Net Income per Share

The amount of retained earnings available for dividends under the Japanese Commercial Code is based on the amount recorded in the Company's non-consolidated books of account as unappropriated retained earnings in accordance with the financial accounting standards of Japan and was ¥137,420 million ($1,174,530 thousand) as of March 31, 2006. The adjustments included in the accompanying consolidated financial statements to have them conform with U.S. GAAP, but not recorded in the books of account, have no effect on the determination of retained earnings available for dividends under the Japanese Commercial Code.

Cash dividends and appropriations to the legal reserve charged to unappropriated retained earnings for the years ended March 31, 2004, 2005 and 2006 represent dividends paid out during those years and the related appropriations to the legal reserve. Provision has neither been made in the accompanying consolidated financial statements for the annual dividends of ¥13.00 ($0.11) per share totaling ¥18,469 million ($157,855 thousand), subsequently proposed by the Board of Directors and, on June 28, 2006, approved by the shareholders, nor for the related appropriation to the legal reserve.

A reconciliation of the components of the basic and diluted net income per share computations is as follows:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Net income available to common shareholders	¥123,493	¥42,629	**¥124,123**	**$1,060,880**
Effect of dilutive securities:				
1.2% convertible debentures	5	—	**—**	**—**
Diluted net income	¥123,498	¥42,629	**¥124,123**	**$1,060,880**

	Number of shares in thousands		
	2004	2005	**2006**
Average common shares outstanding	1,440,548	1,442,627	**1,425,419**
Dilutive effect of:			
1.2% convertible debentures	31,816	—	**—**
Diluted common shares outstanding	1,472,364	1,442,627	**1,425,419**

	Yen			Dollars
	2004	2005	**2006**	**2006**
Earnings per share:				
Net income:				
Basic	¥85.73	¥29.55	**¥87.08**	**$0.74**
Diluted	83.88	29.55	**87.08**	**0.74**

(20) Other Comprehensive Income

Changes in accumulated other comprehensive income for the years ended March 31, 2004, 2005 and 2006 were as follows:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Foreign currency translation adjustments, net of tax:				
Balance at beginning of period	¥ (9,349)	¥ (16,452)	**¥ (16,119)**	**$(137,769)**
Current-period change	(7,103)	333	**15,514**	**132,598**
Balance at end of period	(16,452)	(16,119)	**(605)**	**(5,171)**
Unrealized gains on securities, net of tax:				
Balance at beginning of period	299,686	595,021	**619,886**	**5,298,171**
Current-period change	295,335	24,865	**500,813**	**4,280,453**
Balance at end of period	595,021	619,886	**1,120,699**	**9,578,624**
Net gains on derivative instruments, net of tax:				
Balance at beginning of period	454	219	**125**	**1,068**
Current-period change	(235)	(94)	**(102)**	**(872)**
Balance at end of period	219	125	**23**	**196**
Minimum pension liability adjustment, net of tax:				
Balance at beginning of period	(57,095)	(38,812)	**—**	**—**
Current-period change	18,283	38,812	**(791)**	**(6,760)**
Balance at end of period	(38,812)	—	**(791)**	**(6,760)**
Total accumulated other comprehensive income, net of tax:				
Balance at beginning of period	233,696	539,976	**603,892**	**5,161,470**
Current-period change	306,280	63,916	**515,434**	**4,405,419**
Balance at end of period	¥539,976	¥603,892	**¥1,119,326**	**$9,566,889**

The tax effect allocated to each component of other comprehensive income and the reclassification adjustments for the years ended March 31, 2004, 2005 and 2006 were as follows:

	Yen in millions		
	Before Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
2004:			
Foreign currency translation			
adjustments	¥ (7,103)	¥ —	¥ (7,103)
Unrealized gains on securities:			
Unrealized holding gains arising			
during period	552,921	(199,300)	353,621
Less: reclassification adjustment for			
losses realized in net income	(90,902)	32,616	(58,286)
Net unrealized gains	462,019	(166,684)	295,335
Net losses on derivative instruments	(367)	132	(235)
Minimum pension liability			
adjustment	28,567	(10,284)	18,283
Other comprehensive income	¥483,116	¥(176,836)	¥306,280
2005:			
Foreign currency translation			
adjustments	¥ 333	¥ —	¥ 333
Unrealized gains on securities:			
Unrealized holding gains arising			
during period	136,915	(49,904)	87,011
Less: reclassification adjustment for			
losses realized in net income	(96,758)	34,612	(62,146)
Net unrealized gains	40,157	(15,292)	24,865
Net losses on derivative instruments	(146)	52	(94)
Minimum pension liability			
adjustment	60,644	(21,832)	38,812
Other comprehensive income	¥100,988	¥ (37,072)	¥ 63,916
2006:			
Foreign currency translation			
adjustments	**¥ 15,514**	**¥ —**	**¥ 15,514**
Unrealized gains on securities:			
Unrealized holding gains arising			
during period	**830,789**	**(299,064)**	**531,725**
Less: reclassification adjustment for			
losses realized in net income	**(48,183)**	**17,271**	**(30,912)**
Net unrealized gains	**782,606**	**(281,793)**	**500,813**
Net losses on derivative instruments	**(160)**	**58**	**(102)**
Minimum pension liability			
adjustment	**(1,171)**	**380**	**(791)**
Other comprehensive income	**¥796,789**	**¥(281,355)**	**¥515,434**

	Dollars in thousands		
	Before Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
2006:			
Foreign currency translation			
adjustments	**$ 132,598**	**$ —**	**$ 132,598**
Unrealized gains on securities:			
Unrealized holding gains arising			
during period	**7,100,761**	**(2,556,103)**	**4,544,658**
Less: reclassification adjustment for			
losses realized in net income	**(411,821)**	**147,616**	**(264,205)**
Net unrealized gains	**6,688,940**	**(2,408,487)**	**4,280,453**
Net losses on derivative instruments	**(1,368)**	**496**	**(872)**
Minimum pension liability			
adjustment	**(10,007)**	**3,247**	**(6,760)**
Other comprehensive income	**$6,810,163**	**$(2,404,744)**	**$4,405,419**

(21) Reconciliation of Net Income to Net Cash Provided by Operating Activities

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Net income	¥123,493	¥ 42,629	**¥124,123**	**$1,060,880**
Adjustments to reconcile net income to net cash provided by operating activities:				
Valuation allowance for				
credit losses	(681)	(5,077)	**(8,119)**	**(69,393)**
Impairment losses of				
long-lived assets	6,686	16,018	**526**	**4,496**
Realized gains from sales of				
investments	(87,604)	(54,965)	**(59,109)**	**(505,205)**
Amortization of fixed maturity				
securities	8,615	6,900	**5,795**	**49,530**
Depreciation	19,815	18,899	**17,012**	**145,402**
Provision for retirement and				
severance benefits	(4,494)	(28,110)	**(4,917)**	**(42,026)**
Deferred income taxes	29,723	10,503	**20,797**	**177,752**
Proceeds from property and equipment as subrogation				
of paid claim	—	20,555	**899**	**7,684**
Decrease (increase) in assets:				
Net insurance related assets	6,235	(2,374)	**17,011**	**145,393**
Deferred policy				
acquisition costs	(9,421)	(17,225)	**(11,654)**	**(99,607)**
Accrued investment				
income	(1,095)	(1,942)	**(4,818)**	**(41,179)**
Other assets	(8,223)	848	**6,874**	**58,752**
Increase (decrease) in liabilities:				
Losses and claims	61,980	110,002	**99,079**	**846,829**
Unearned premiums	63,883	47,293	**35,643**	**304,641**
Future policy benefits	87,765	97,999	**113,925**	**973,718**
Income taxes	(4,546)	(22,233)	**17,689**	**151,188**
Other liabilities	(14,169)	664	**2,298**	**19,641**
Other, net	2,773	(3,498)	**564**	**4,820**
Net cash provided by				
operating activities	¥280,735	¥236,886	**¥373,618**	**$3,193,316**

(22) Supplementary Cash Flow Information

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Cash paid during the year for:				
Interest	¥ 96	¥ 157	**¥ 810**	**$ 6,923**
Income taxes	39,143	35,408	**14,329**	**122,470**
Noncash transaction:				
Conversion of convertible debentures	¥22,235	—	**—**	**—**

(23) Segment Information

The Company operates principally in two business segments: property and casualty insurance and life insurance. The property and casualty insurance segment offers automobile, fire, personal accident, liability and other forms of property and casualty insurance products. The Company's financial services business, financial guarantee business and derivatives business are classified within the property and casualty insurance segment. Life insurance operations are conducted by its wholly owned subsidiary, Mitsui Sumitomo Kirameki Life Insurance Co., Ltd., which offers a wide range of traditional life insurance products such as term-life, whole-life and annuity insurance, and a joint venture company, Mitsui Sumitomo MetLife Insurance Co., Ltd., which offers variable annuity plans that combine the appeal of fund management, insurance, and annuity products and fixed annuities denominated in foreign currencies.

The business segment information is based on financial information prepared on a Japan GAAP basis with certain limited presentation differences from that utilized in the Company's external Japan GAAP financial reporting. Additionally, the format and information presented in the internal management reporting are not consistent with the consolidated financial statements prepared on an U.S. GAAP basis.

In the year ended March 31, 2006, the Company has launched its strategic long-term vision Challenge 10, under which the Company endeavors to become a "bigger, stronger and better company" and aim to be one of the top-ranking players in the global insurance field. Under this strategic vision, the Company has adjusted reportable business segment information accordingly. The comparative business segment disclosure presented below for the years ended March 31, 2004 and 2005 has also been classified to conform to the presentation for the year ended March 31, 2006.

Summarized financial information with respect to the business segments as of and for the years ended March 31, 2004, 2005 and 2006 is as follows:

	Yen in millions			
	Property and Casualty Insurance	Life Insurance	Adjustments and Elimination	Consolidated
2004:				
Net premiums written	¥1,379,119	¥ —	¥ —	¥1,379,119
Net claims paid	680,272	—	—	680,272
Life insurance premiums	—	128,105	—	128,105
Life insurance claims	—	17,951	—	17,951
Commission and collection expenses	222,953	15,042	—	237,995
Operating expenses and general and administrative expenses	232,353	15,130	(1,929)	245,554
Interest and dividends received, net	61,158	8,039	(299)	68,898
Ordinary profit (loss)	177,049	(2,106)	—	174,943
Net income (loss)	79,536	(1,749)	—	77,787
Total assets	6,569,587	557,477	(102)	7,126,962

	Yen in millions			
	Property and Casualty Insurance	Life Insurance	Adjustments and Elimination	Consolidated
2005:				
Net premiums written	¥1,407,329	¥ —	¥ —	¥1,407,329
Net claims paid	811,183	—	—	811,183
Life insurance premiums	—	141,786	—	141,786
Life insurance claims	—	17,550	—	17,550
Commission and collection expenses	225,539	18,276	(36)	243,779
Operating expenses and general and administrative expenses	225,109	15,629	(2,770)	237,968
Interest and dividends received, net	59,789	9,537	(294)	69,032
Ordinary profit (loss)	88,077	(523)	23	87,577
Net income (loss)	66,774	(1,049)	—	65,725
Total assets	6,714,708	688,452	(848)	7,402,312

	Yen in millions			
	Property and Casualty Insurance	Life Insurance	Adjustments and Elimination	Consolidated
2006:				
Net premiums written	**¥1,464,108**	**¥ —**	**¥ —**	**¥1,464,108**
Net claims paid	**792,941**	**—**	**—**	**792,941**
Life insurance premiums	**—**	**162,226**	**—**	**162,226**
Life insurance claims	**—**	**20,912**	**—**	**20,912**
Commission and collection expenses	**239,798**	**17,873**	**—**	**257,671**
Operating expenses and general and administrative expenses	**233,692**	**17,209**	**(3,556)**	**247,345**
Interest and dividends received, net	**90,937**	**11,613**	**(253)**	**102,297**
Ordinary profit (loss)	**129,830**	**(2,129)**	**9**	**127,710**
Net income (loss)	**74,126**	**(2,466)**	**—**	**71,660**
Total assets	**7,800,763**	**793,107**	**(996)**	**8,592,874**

	Dollars in thousands			
	Property and Casualty Insurance	Life Insurance	Adjustments and Elimination	Consolidated
2006:				
Net premiums written	**$12,513,744**	**$ —**	**$ —**	**$12,513,744**
Net claims paid	**6,777,274**	**—**	**—**	**6,777,274**
Life insurance premiums	**—**	**1,386,547**	**—**	**1,386,547**
Life insurance claims	**—**	**178,735**	**—**	**178,735**
Commission and collection expenses	**2,049,556**	**152,761**	**—**	**2,202,317**
Operating expenses and general and administrative expenses	**1,997,368**	**147,085**	**(30,393)**	**2,114,060**
Interest and dividends received, net	**777,239**	**99,256**	**(2,162)**	**874,333**
Ordinary profit (loss)	**1,109,658**	**(18,197)**	**77**	**1,091,538**
Net income (loss)	**633,556**	**(21,077)**	**—**	**612,479**
Total assets	**$66,673,188**	**$6,778,692**	**$ (8,514)**	**$73,443,368**

Information on major lines of Property and Casualty insurance is as follows:

	Yen in millions		
	Direct Premiums Written (including Deposit premiums from policyholders)	Net Premiums Written	Net Claims Paid
2004:			
Fire and Allied Lines	¥ 289,469	¥ 187,210	¥ 60,520
Marine	76,347	64,671	28,450
Personal Accident	359,218	124,917	51,487
Voluntary Automobile	585,856	583,654	341,168
Compulsory Automobile Liability	183,855	194,019	82,147
Other	251,408	224,648	116,500
Total	¥1,746,153	¥1,379,119	¥ 680,272

	Yen in millions		
	Direct Premiums Written (including Deposit premiums from policyholders)	Net Premiums Written	Net Claims Paid
2005:			
Fire and Allied Lines	¥ 281,783	¥ 188,856	¥139,884
Marine	84,935	71,829	27,788
Personal Accident	354,489	131,901	53,232
Voluntary Automobile	586,241	584,729	354,258
Compulsory Automobile Liability	187,180	195,742	113,048
Other	254,651	234,272	122,973
Total	¥1,749,279	¥1,407,329	¥811,183

	Yen in millions		
	Direct Premiums Written (including Deposit premiums from policyholders)	Net Premiums Written	Net Claims Paid
2006:			
Fire and Allied Lines	**¥ 304,177**	**¥ 206,373**	**¥ 88,203**
Marine	**101,462**	**84,788**	**35,176**
Personal Accident	**341,536**	**143,316**	**56,049**
Voluntary Automobile	**595,745**	**590,423**	**364,208**
Compulsory Automobile Liability	**181,757**	**193,402**	**130,518**
Other	**269,308**	**245,806**	**118,787**
Total	**¥1,793,985**	**¥1,464,108**	**¥ 792,941**

	Dollars in thousands		
	Direct Premiums Written (including Deposit premiums from policyholders)	Net Premiums Written	Net Claims Paid
2006:			
Fire and Allied Lines	**$ 2,599,802**	**$ 1,763,872**	**$ 753,872**
Marine	**867,197**	**724,684**	**300,650**
Personal Accident	**2,919,111**	**1,224,923**	**479,051**
Voluntary Automobile	**5,091,838**	**5,046,350**	**3,112,889**
Compulsory Automobile Liability	**1,553,479**	**1,653,009**	**1,115,538**
Other	**2,301,778**	**2,100,906**	**1,015,274**
Total	**$15,333,205**	**$12,513,744**	**$6,777,274**

Reconciliation to U.S. GAAP

As noted above, the measurement bases of the income and expense items covered in the Company's internal management reporting system are different from those in the accompanying consolidated statements of income prepared in accordance with U.S. GAAP.

Reconciliation of the total amount of the Company's Japan GAAP net income under its internal management reporting system to net income shown on the consolidated statements of income prepared in accordance with U.S. GAAP for the years ended March 31, 2004, 2005, and 2006 is as follows:

	Yen in millions			Dollars in thousands
	2004	2005	**2006**	**2006**
Japan GAAP net income	¥ 77,787	¥65,725	**¥ 71,660**	**$ 612,479**
Adjustment:				
Catastrophic loss reserve	18,093	(40,473)	**40,064**	**342,427**
Other underwriting reserves	41,508	(1,008)	**8,076**	**69,026**
Reserve for price fluctuation	6,607	7,024	**3,075**	**26,282**
Policy acquisition cost	8,282	14,886	**10,635**	**90,897**
Revaluation of investments in securities and related investment income	11,015	5,118	**18,564**	**158,667**
Retirement and severance benefits	(11,674)	(27,614)	**579**	**4,949**
Deferred income taxes	(28,374)	15,438	**(24,972)**	**(213,436)**
Other	249	3,533	**(3,558)**	**(30,411)**
U.S. GAAP net income	¥123,493	¥42,629	**¥124,123**	**$1,060,880**

Reconciliation of the total amount of the Company's Japan GAAP total assets under its internal management reporting system to total assets shown on its consolidated balance sheets prepared in accordance with U.S. GAAP as of March 31, 2005 and 2006 is as follows:

	Yen in millions		Dollars in thousands
	2005	**2006**	**2006**
Japan GAAP total assets	¥7,402,312	**¥8,592,874**	**$73,443,368**
Adjustment:			
Deferred policy acquisition costs	375,661	**390,618**	**3,338,615**
Prepaid reinsurance premiums on a gross basis	210,137	**211,485**	**1,807,564**
Reinsurance recoverable on losses on a gross basis	234,097	**233,369**	**1,994,607**
Customers' liability under guarantees and acceptances	(10,295)	**(1,414)**	**(12,085)**
Other	5,417	**(14,640)**	**(125,129)**
U.S. GAAP total assets	¥8,217,329	**¥9,412,292**	**$80,446,940**

(24) Restatement

Certain amounts previously reported by the Company in its U.S. GAAP consolidated financial statements as of and for the years ended March 31, 2004 and 2005, included in its annual reports, have been restated in the accompanying consolidated financial statements. Management recently determined that due to an oversight in how it considered the underlying information, there were computation errors of accrued income taxes. Had this determination been made by management at the time of the preparation of the previously reported consolidated financial statements, the reported amounts would have been different. Accordingly, management has revised amounts of accrued income taxes. The previously reported and restated amounts are as follows as of and for the years ended March 31, 2004 and 2005:

	Yen in millions, except per share data			
	2004		2005	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Accrued income taxes	¥ 490,540	¥ 483,164	¥ 524,720	¥ 516,529
Retained earnings—unappropriated	1,174,185	1,181,561	1,194,078	1,202,269
Income taxes—Deferred	37,099	29,723	11,318	10,503
Net income	116,117	123,493	41,814	42,629
Net income per share (yen):				
Basic	¥ 80.61	¥ 85.73	¥ 28.98	¥ 29.55
Diluted	78.87	83.88	28.98	29.55

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Mitsui Sumitomo Insurance Company, Limited:

We have audited the accompanying consolidated balance sheets of Mitsui Sumitomo Insurance Company, Limited and subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mitsui Sumitomo Insurance Company, Limited and subsidiaries as of March 31, 2005 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

KPMG AZSA & Co.

Tokyo, Japan
August 31, 2006

FINANCIAL SECTION

GAAP in Japan (Unaudited)

Contents

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

MITSUI SUMITOMO INSURANCE CO., LTD. AND SUBSIDIARIES
MARCH 31, 2005 AND 2006

	Yen in millions	
Assets	2005	**2006**
Cash, deposits and savings	¥ 321,686	**¥ 375,874**
Call loans	36,000	**18,000**
Monetary claims bought	63,039	**71,570**
Money trusts	57,421	**53,064**
Investments in securities	5,454,198	**6,576,008**
Loans	787,345	**777,659**
Property and equipment	252,278	**257,693**
Other assets	433,282	**428,084**
Deferred tax assets	308	**6,633**
Consolidation adjustments	5,372	**38,925**
Customers' liabilities under acceptances and guarantees	10,295	**1,414**
Bad debt reserve	(18,915)	**(12,055)**
Total assets	¥7,402,311	**¥8,592,873**

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

MITSUI SUMITOMO INSURANCE CO., LTD. AND SUBSIDIARIES
MARCH 31, 2005 AND 2006

	Yen in millions	
Liabilities, Minority Interests and Shareholders' Equity	2005	**2006**
Underwriting funds:		
Outstanding claims	¥ 625,547	**¥ 726,003**
Underwriting reserve	4,676,355	**4,853,933**
Total underwriting funds	5,301,902	**5,579,937**
Bonds issued	100,000	**100,000**
Other liabilities	215,480	**279,392**
Reserve for pension and retirement benefits	84,884	**82,457**
Accrued bonuses for employees	14,046	**13,526**
Reserve for EXPO 2005 Aichi	140	**—**
Reserve for price fluctuation	20,461	**23,537**
Deferred tax liabilities	187,859	**477,915**
Liabilities under acceptances and guarantees	10,295	**1,414**
Total liabilities	5,935,070	**6,558,183**
Minority interests	5,665	**7,221**
Common stock	139,595	**139,595**
Capital surplus	93,118	**93,127**
Retained earnings	524,708	**577,028**
Unrealized gains on investments	779,842	**1,291,051**
Foreign currency translation adjustments	(11,177)	**3,988**
Less—treasury stock at cost	(64,511)	**(77,321)**
Total shareholders' equity	1,461,575	**2,027,469**
Total liabilities, minority interests and shareholders' equity	¥7,402,311	**¥8,592,873**

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

MITSUI SUMITOMO INSURANCE CO., LTD. AND SUBSIDIARIES
FOR THE YEARS ENDED MARCH 31, 2005 AND 2006

	Yen in millions	
	2005	**2006**
Ordinary income and expenses		
Ordinary income:		
Underwriting income:		
Net premiums written	¥1,407,328	**¥1,464,107**
Deposit premiums from policyholders	272,692	**249,760**
Investment income on deposit premiums from policyholders	58,549	**57,758**
Life insurance premiums	141,785	**162,225**
Other underwriting income	838	**4,592**
Total underwriting income	1,881,195	**1,938,445**
Investment income:		
Interest and dividends received	127,581	**160,055**
Investment gains on money trusts	1,209	**539**
Gains on sale of securities	61,055	**49,510**
Gains on redemption of securities	3,014	**5,257**
Gains on derivative transactions	1,903	**—**
Other investment income	791	**2,253**
Transfer of investment income on deposit premiums from policyholders	(58,549)	**(57,758)**
Total investment income	137,006	**159,857**
Other ordinary income	3,715	**8,571**
Total ordinary income	2,021,917	**2,106,874**
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	811,183	**792,941**
Loss adjustment expenses	58,707	**63,097**
Commissions and collection expenses	243,778	**257,671**
Maturity refunds to policyholders	400,319	**363,976**
Dividends to policyholders	184	**113**
Life insurance claims	17,549	**20,911**
Provision for outstanding claims	92,708	**79,825**
Provision for underwriting reserve	46,273	**131,042**
Other underwriting expenses	1,412	**1,039**
Total underwriting expenses	1,672,117	**1,710,618**
Investment expenses:		
Investment losses on money trusts	299	**646**
Losses on sale of securities	8,371	**3,859**
Losses on devaluation of securities	4,892	**3,812**
Losses on redemption of securities	330	**227**
Losses on derivative transactions	—	**2,244**
Other investment expenses	3,385	**4,692**
Total investment expenses	17,278	**15,484**
Operating expenses and general and administrative expenses	237,967	**247,345**
Other ordinary expenses:		
Interest expenses	469	**753**
Loss on bad debts	177	**75**
Amortization of deferred assets pursuant to Article 113 of the Insurance Business Law of Japan	396	**396**
Losses from equity method investments	736	**2,060**
Other ordinary expenses	5,195	**2,429**
Total other ordinary expenses	6,975	**5,716**
Total ordinary expenses	1,934,339	**1,979,164**
Ordinary profit	87,577	**127,710**
Extraordinary income and losses		
Extraordinary income:		
Gains on sale of real estate	4,338	**2,220**
Other extraordinary income	45,325	**6,404**
Total extraordinary income	49,664	**8,625**
Extraordinary losses:		
Losses on sale of real estate	2,360	**3,931**
Impairment loss on fixed assets	16,460	**909**
Provision for price fluctuation reserve	7,024	**3,075**
Other extraordinary losses	4,747	**23,491**
Total extraordinary losses	30,592	**31,407**
Income before income taxes	106,648	**104,927**
Income taxes—current	14,203	**36,023**
Income taxes—deferred	25,961	**(4,197)**
Minority interests	758	**1,441**
Net income	¥ 65,725	**¥ 71,660**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MITSUI SUMITOMO INSURANCE CO., LTD. AND SUBSIDIARIES

Basis of Presentation

1. Basis of presentation

The accompanying consolidated financial statements (Consolidated Balance Sheets and Consolidated Statements of Income) have been translated from the consolidated financial statements of Mitsui Sumitomo Insurance Company, Limited ("the Company") prepared in accordance with the provisions set forth in Enforcement Regulations of the Commercial Code and the Insurance Business Law of Japan and related rules and regulations applicable to the non-life insurance industry in general and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Principles of consolidation

(a) Number of consolidated subsidiaries: 35 companies

Major consolidated subsidiaries are as follows:

Mitsui Sumitomo Kirameki Life Insurance Company, Limited
Mitsui Sumitomo Insurance Group Holdings (U.S.A.), Inc.
Mitsui Sumitomo Insurance Company (Europe), Limited
Mitsui Sumitomo Insurance (Singapore) Pte Ltd

In the year ended March 31, 2006, Aviva Insurance Berhad and PT. Aviva Insurance have been included in consolidation as subsidiaries due to the acquisition of their shares based on an agreement to acquire the full non-life insurance business operations in Asia from UK-based Aviva plc in the previous year. Also, Mingtai Fire & Marine Insurance Co., Ltd. has been included in consolidation from the current year as a subsidiary due to the acquisition of its shares.

ASSUMO Service und Management Organisation GmbH has been included in consolidation from the current year as a subsidiary due to the acquisition of its shares by Mitsui Sumitomo Insurance Company (Europe), Limited, which is a consolidated subsidiary of the Company.

(b) Unconsolidated subsidiaries

Major unconsolidated subsidiaries are as follows:

MITSUI SUMITOMO INSURANCE Claims Adjusting Company, Limited
MITSUI SUMITOMO INSURANCE Staffing Service Company, Limited

These subsidiaries are not included in consolidation due to their immaterial effect that would not affect reasonable judgment on the consolidated financial position and results of operations, in view of the size of their total assets, ordinary income, as well as net income and retained earnings attributable to the Company.

(c) Mitsui Sumitomo MetLife Insurance Co., Ltd. is a 51%-owned affiliate and is not consolidated because its control is jointly owned with other company pursuant to the joint venture agreement.

Mitsui Sumitomo MetLife Insurance Co., Ltd. renamed from Mitsui Sumitomo CitiInsurance Life Insurance Co., Ltd. on October 1, 2005.

3. Equity method

(a) Number of affiliate companies accounted for under the equity method: Two companies

The names of the companies accounted for under the equity method are as follows:

Mitsui Sumitomo MetLife Insurance Co., Ltd.
Sumitomo Mitsui Asset Management Company, Limited

(b) Other affiliate companies, including unconsolidated subsidiaries (e.g. Mitsui Sumitomo Insurance Staffing Service Company, Limited, BPI/MS Insurance Corporation), are not accounted for under the equity method because their effect on consolidated net income and retained earnings is immaterial individually and in aggregate.

4. Fiscal year of consolidated subsidiaries

Fiscal year end of consolidated subsidiaries, representing Mitsui Sumitomo Insurance Group Holdings (U.S.A.), Inc. and 31 other companies, is December 31, which is different from that of the Company. The Company uses their financial statements as of their most current fiscal year-end for consolidation purposes because the time lag does not exceed a three-month period.

The Company makes necessary adjustments to incorporate significant transactions occurred during the intervening period that materially affect the consolidated financial statements.

5. Accounting policies

(a) Valuation policies and methods of securities are as follows:

1) Securities held to maturity are valued at amortized cost.
2) Stocks of unconsolidated subsidiaries and affiliates that are not accounted for under the equity method are valued at cost determined by the moving average method.
3) Securities earmarked for policy reserve are valued at amortized cost determined by the moving average method pursuant to Industry Audit Committee Report No. 21 "Temporary Treatment of Accounting and Auditing Concerning Securities Earmarked for Policy Reserve in Insurance Industry" (issued by The Japanese Institute of Certified Public Accountants on November 16, 2000).

   The outline of the risk management policy for securities earmarked for policy reserve which the Company established in the current year is as follows:

   In order to control risks of interest rate variability arising in assets and liabilities, the consolidated life insurance subsidiary segregates "single premium endowment insurance" block, which was launched in December 2005, as a subsegment and applies the investment policy which enables the subsidiary to maintain the durations of the securities earmarked for policy reserve and the policy reserve for the segregated block within a certain defined range.(applicable to the year ended March 31, 2006)
4) Available for sale securities for which fair value is available are valued at fair value as of March 31, 2005 and 2006. Net unrealized gains or losses are reported as a separate component of shareholders' equity, and cost of sale is calculated using the moving average method.
5) Available for sale securities for which fair value is not available are valued at cost determined by the moving average method or amortized cost.
6) Securities managed as a major component of trust assets in the money trust are valued at fair value.

   Securities held by foreign subsidiaries are mainly valued at fair value.

(b) Derivative financial instruments are valued at fair value. Foreign exchange contracts and interest rate swaps that meet certain criteria are accounted for under exceptional methods, as permitted in the related accounting standards, as if the foreign exchange rates or the interest rates under those contracts were originally applied to the underlying financial instruments.

(c) Depreciation of property and equipment held by the Company and domestic subsidiaries is computed using the declining-balance method, except for buildings (excluding fixtures) acquired on and after April 1, 1998, to which the straight-line method is applied. Depreciation of property and equipment held by foreign subsidiaries is mainly computed using the straight-line method.

(d) Accounting policies for significant reserves

1) Bad debt reserve

   As for the Company and the consolidated life insurance subsidiary, the bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision. A reserve for bad debts for loans to debtors who are legally deemed to be experiencing financial difficulties such as bankruptcy, special liquidation or whose notes are under suspension at clearing houses, and loans for debtors who are substantially deemed to be experiencing financial difficulties are provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible through guarantees. A bad debt reserve for loans to debtors who likely experience financial difficulties in the future is provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible from guarantees considering the debtor's ability to repay the entire outstanding debt.

   For loans other than those described above, a bad debt reserve is calculated at an amount of the outstanding balances multiplied by actual historical bad debt ratios.

   All loans and receivables are provided for based on the assessment under the internal asset self-assessment standard. The assessment was performed by the departments which are responsible for respective assets. The independent internal audit departments has reviewed those results.

As for other domestic consolidated subsidiaries, the bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision similar to the Company.

As for foreign consolidated subsidiaries, the bad debt reserve is established based on the assessment of collectivity of individual receivables.

2) Reserve for pension and retirement benefits

Reserve for pension and retirement benefits is established to provide for future retirement benefits based on the estimated retirement benefit obligation and plan assets as of March 31, 2005 and 2006.

Prior service costs are amortized using the straight-line method over certain periods within the estimated average remaining service years of employees.

Actuarial gains and losses are amortized from the year following the year in which those gains and losses arise using the straight-line method over certain periods within the estimated average remaining service years of employees.

In estimating retirement benefit obligation of consolidated subsidiaries, the Company uses the simplified method.

In the year ended March 31, 2005, reserve for pension and retirement benefits in the amount of ¥4,384 million was established by the Company and the consolidated life insurance subsidiary to provide for future retirement benefits (including pension) for officers and operating officers. Retirement benefits for officers and operating officers were previously expensed when paid; however, effective from the previous year, the cost for services rendered through the year ended March 31, 2005 is provided for as part of reserve for pension and retirement benefits.

This accounting change was intended for more appropriate interperiod cost allocation and a sounder financial conditions, following the decisions made at the meetings of board of directors during the second semester of the fiscal year under review. Decisions included the termination of directors' retirement benefits as of the end of fiscal 2005, and the amount of the cost of services rendered through the year ended March 31, 2005 will be recognized as the amount of benefits to be paid at the time of retirement.

The effect of this change in the amount of ¥425 million that relates to the previous year was included in loss adjustment expenses, operating expenses and general and administrative expense. Prior service cost in the amount of ¥4,489 million, including accrued pension cost for retirees, was recorded in other extraordinary losses. As a result, consolidated ordinary profit for the previous year was increased by ¥104 million and consolidated income before income taxes was decreased by ¥4,384 million compared to the amounts that would have been reported under the previous accounting method.

Pursuant to the enactment of Defined Benefit Corporate Pension Law in Japan, the Company obtained an approval from the Minister of Health, Labor and Welfare on April 1, 2004 for returning the past benefit obligation of the substitutional portion of Employees' Pension Fund plan to the government and paid the relevant amount, which is equivalent to the minimum amount required for underwriting reserve, to the government on December 21, 2004. The effect of this transfer of the benefit obligation on income for the previous year in the amount of ¥41,155 million was recorded in extraordinary income.

In the year ended March 31, 2006, reserve for pension and retirement benefits in the amount of ¥3,629 million that covers the cost for services rendered through the year ended March 31, 2005 when the retirement benefits for officers were terminated was established to provide for future retirement benefits (including pension) for officers and operating officers as a part of reserve for pension and retirement benefits, for the Company and the consolidated life insurance subsidiary.

Pursuant to the enactment of Defined Contribution Pension Law in Japan, the Company also transferred certain portion of its tax qualified defined benefit pension plan to defined contribution plan effective April 1, 2005, to which the Company applied "Accounting for Transition of Retirement Benefit Plan" (Financial Accounting Standard Implementation Guidance No.1).

The effect of this transaction was recognized in extraordinary income in the amount of ¥3,400 million as of March 31, 2005.

As for the tax qualified defined benefit pension plan, amortization period for actuarial gains and losses has been changed from 10 years to 4 years effective from the current year due to the curtailment of estimated average remaining service years of eligible employees.

As a result, ordinary profit and income before income tax for the current year were respectively decreased by ¥983 million compared to the amounts that would have been reported based on the previous amortization period.

3) Accrued bonuses
Accrued bonuses for employees are based on estimated amounts to be paid at the end of the year.

4) Reserve for Expo 2005 Aichi
Reserve for Expo 2005 Aichi provides for the future cost of 2005 World Exposition which was held from March 25, 2005, by recognizing the estimated total exhibition costs under the exhibition agreement in equal installment over the period until March 2005 (applicable to the year ended March 31, 2005).

5) Reserve for price fluctuation
Reserve for price fluctuation is recognized under Article 115 of the Insurance Business Law of Japan to provide for possible losses arising from price fluctuations of investment securities.

(e) Foreign currency assets and liabilities are translated into Japanese yen using the spot exchange rate prevailing at the year-end, and gains and losses resulting from the translation are recognized currently in earnings. Foreign currency assets and liabilities of foreign subsidiaries are translated into Japanese yen using the spot exchange rate prevailing at their respective year-ends, and income and expenses are translated into Japanese yen using the average exchange rate during the year and translation differences are included in Foreign currency translation adjustments and Minority interests.

(f) Consumption taxes are accounted for under the “Zei Nuki” (tax exclusive) method except those relating to loss adjustment expenses, operating expenses and general and administrative expenses, which are accounted for under the “Zei Komi” (tax inclusive) method. Non-deductible consumption taxes relating to assets are included in other assets and amortized in equal installments over a period of five years.

(g) Finance leases, except for those in which ownership is considered to be transferred to the lessee, are accounted for as operating leases similar to the rental of property.

(h) Profits and losses on currency swap contracts used for hedging risks of variability in cash flows of foreign currency bonds are accounted for under the deferred hedge accounting method. Certain forward exchange contracts used for hedging foreign currency risks of foreign bonds are accounted for under the fair value hedge accounting method. Interest rate swap contracts for hedging risks of variability in cash flows of loans or bonds arising from fluctuations in interest rates, are accounted for using the deferred hedge accounting method or the exceptional method when they meet certain criteria, as mentioned in (2) above.

Hedge effectiveness is assessed quarterly by comparing cumulative fluctuations of the fair value or cash flows of the hedged items and the hedging instruments during the periods from the respective start dates of the hedges to the assessment dates. When hedged items and hedging instruments are highly and clearly interrelated or when interest rate swap transactions meet the criteria for applying the exceptional method, assessment of hedge effectiveness is not performed.

In the year ended March 31, 2006, interest rate swap contracts used in the ALM (Asset and Liability Management) for the purpose of adequate control of risks of interest rate variability are accounted for as deferred hedge and their hedge effectiveness is tested in accordance with Industry Audit Committee Report No.26 “Accounting and Auditing Treatment of Application of Accounting Standard for Financial Instruments in Insurance Industry” (issued by The Japanese Institute of Certified Public Accountants on September 3, 2002). The hedge effectiveness testing is performed by assessing interest rate fluctuations that may affect pricing of the theoretical values of the hedging instrument and the hedged item.

(i) Amortization of deferred assets pursuant to Article 113 of the Insurance Business Law of Japan is calculated in conformity with related regulations and the Articles of Incorporation of the consolidated life insurance subsidiary.

(j) Effective from the fiscal year ended March 31, 2004, consolidated financial statements can apply the accounting standard for impairment of fixed assets ("Option concerning Establishment of Accounting Standard for Impairment of Fixed Assets" (issued by the Business Accounting Deliberation Council on August 9, 2002)) and "Implementation Guidance for Accounting Standard for Impairment of Fixed Assets" (Financial Accounting Standard Implementation Guidance No.6, issued on October 31, 2003) and the Company adopted these accounting pronouncements from the previous year. As a result, consolidated income before income taxes for the year ended March 31, 2005 was decreased by ¥12,055 million compared to the amount that would have been reported under the previous accounting method.

6. Assets and Liabilities of the consolidated subsidiaries are valued using the full scope fair value method.

7. Consolidation adjustments relating to Mingtai Fire & Marine Insurance Co., Ltd. and four other companies are amortized using the straight-line method over 20 years. Other insignificant amount of consolidation adjustments is charged to income as incurred in the entire amount.

Notes to Consolidated Balance Sheets

1. Accumulated depreciation of property and equipment amounted to ¥288,792 million and ¥273,606 million for the years ended March 31, 2005 and 2006, respectively. Acquisition costs of certain properties were reduced by ¥20,312 million and ¥19,703 million for the year ended March 31, 2005 and 2006, respectively, representing deferred profit on sales of other properties.

2. Costs of equity investments in unconsolidated subsidiaries and affiliates are as follows:

	Yen in millions	
	2005	**2006**
Investments in securities (Stock)	¥25,762	**¥24,048**
Investments in securities (Foreign securities)	12,999	**9,178**
Investments in securities (Other securities)	8,647	**10,155**

3. (a) Loans to financially impaired parties amounted to ¥106 million and ¥510 million as of March 31, 2005 and 2006, respectively. Overdue loans amounted to ¥14,868 million and ¥3,841 million, as of March 31, 2005 and 2006, respectively.

Loans to financially impaired parties represent those loans, excluding the portion of the loans that were written off, on which accrued interest receivable is not recognized because repayments of principal or interest were overdue for considerable periods and they are regarded uncollectible and which meet the conditions prescribed in Article 96, Section 1-3 and 1-4 of the Corporation Tax Law Enforcement Ordinance (1965 Cabinet Order No. 97). Hereafter, this last category is referred to as "Loans not accruing interest."

Overdue loans represent loans not accruing interest excluding (a) loans to financially impaired parties and (b) loans that have been granted grace for interest payments for the purpose of restructuring of, or support to debtors in financial difficulty.

(b) Loans overdue for 3 months or more amounted to ¥543 million and ¥724 million, as of March 31, 2005 and 2006, respectively.

Loans overdue for 3 months or more represent loans for which principal or interest was past due for 3 months or more after the contractual due date for repayment of principal or interest and excludes loans to financially impaired parties and overdue loans.

(c) Restructured loans amounted to ¥2,499 million and ¥4,385 million, as of March 31, 2005 and 2006, respectively.

Restructured loans are those loans which have granted favorable terms for the benefit of debtors such as interest exemption or reduction, grace on interest payments, grace on principal repayments, or forgiveness of debts for the purpose of restructuring or supporting to the debtors in financial difficulty. Loans to financially impaired parties, overdue loans and loans overdue for 3 months or more are excluded from this category.

(d) The total of loans to financially impaired parties, overdue loans, loans overdue for 3 months or more, and restructured loans amounted to ¥18,017 million and ¥9,461 million, as of March 31, 2005 and 2006, respectively.

4. Collateral primarily for security deposits for foreign operations.

	Yen in millions	
	2005	2006
Securities	¥35,539	**¥38,107**
Cash and deposits	288	**417**
Property	—	**42**

5. Investments in securities include those that were loaned under securities lending agreements in the amount of ¥54,574 million and ¥164,050 million as of March 31, 2005 and 2006.

6. Other assets included deferred assets pursuant to Article 113 of the Insurance Business Law of Japan in the amount of ¥396 million as of March 31, 2005.

7. Matters regarding retirement benefits are as follows:
(a) Details of retirement benefit obligation:

	Yen in millions	
	2005	2006
Projected retirement benefit obligation	¥267,926	**¥247,052**
Plan assets	(159,474)	**(162,774)**
Unfunded obligation	108,451	**84,278**
Unrecognized actuarial losses	(29,795)	**(7,127)**
Unrecognized prior service costs	1,843	**—**
Net	80,499	**77,150**
Prepaid pension cost	—	**1,677**
Reserve for pension and retirement benefits	¥ 80,499	**¥ 78,828**

(b) Actuarial assumptions for calculation of retirement benefit obligation etc.

	2005	2006
Attribution method of retirement benefits over service period	The benefit/ years of service method	
Discount rate	2.00 %	**2.00 %**
Expected rate of return on plan assets	3.00 %	**3.00 %**
Amortization period for prior service costs	4 years	**4 years**
Amortization period for actuarial gains and losses:		
Defined benefit pension plan and termination allowance plan	10 years	**10 years**
Tax qualified defined benefit pension plan	—	**4 years**

8. Gross deferred tax assets and liabilities and their major components are as follows:

	Yen in millions	
	2005	2006
Gross deferred tax assets	¥274,808	**¥277,983**
The valuation allowance deducted from the gross deferred tax assets	18,237	**15,144**
Deferred tax assets related to:		
Underwriting reserve	143,297	**148,552**
Reserve for pension and retirement benefits	29,453	**28,160**
Investments in securities	25,600	**25,428**
Outstanding claims	14,989	**20,573**
Land and other property	16,943	**14,313**
Software costs	16,910	**15,458**
Gross deferred tax liabilities	444,121	**734,122**
Deferred tax liabilities related to:		
Net unrealized gains on other securities	441,595	**730,788**

9. The Company provides guarantees to the transactions of a limited partnership entity.

Aggregate net present value of those transactions was ¥74,894 million and ¥73,741 million, in a negative liability position, as of March 31, 2005 and 2006, respectively. This amount was not included in Customers' liabilities under acceptances and guarantees and Liabilities under acceptances and guarantees since there is no substantial exposure.

10. Unutilized portion of commitment lines given to third parties amounted to ¥3,138 million and ¥1,099 million, as of March 31, 2005 and 2006, respectively.

11. Number of common shares issued is 1,513,184,880 shares.

12. Number of common shares for treasury held by the Company and its subsidiaries are 81,919,773 shares and 92,563,719 shares, as of March 31, 2005 and 2006, respectively.

13. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

Notes to Consolidated Statements of Income

1. Business expenses mainly consist of:

	Yen in millions 2005	2006
Commission expenses	¥247,263	**¥261,212**
Salary	117,959	**122,495**

Business expenses represent the aggregate amount of loss adjustment expenses, operating expenses and general and administrative expenses and commissions and collection expenses presented in the statement of income.

2. Consolidated net income per share for the year ended March 31, 2005 and 2006 was ¥45.51 and ¥50.27, respectively.

Consolidated net income per share is computed based on the following figures:

	Yen in millions 2005	2006
Consolidated net income	¥ 65,725	**¥71,660**
Consolidated net income not available to common shareholders	59	**—**
Consolidated net income available to common shareholders	65,666	**71,660**
	thousand shares	
Average outstanding common shares during the year	1,442,627	**1,425,418**

3. Other extraordinary income, in the year ended March 31, 2005, represents gain on transfer to the Japanese Government of the substitutional potion of Employees' Pension Fund plan liabilities in the amount of ¥41,155 million, reversal of bad debt reserve in the amount of ¥2,950 million, and reversal of reserve for loss on valuation of real estate in the amount of ¥1,220 million.

Other extraordinary income in the year ended March 31, 2006, represents gain on transfer to defined contribution pension plan in the amount of ¥3,400 million and reversal of bad debt reserve in the amount of ¥3,004 million.

4. Other extraordinary loss in the year ended March 31, 2005, represents prior service costs of the Company and the consolidated life insurance subsidiary accounted for as provision for retirement benefits for officers and operating officers, including accrued pension cost for retirees, in the amount of ¥4,489 million, and the valued at the lower of cost or market value in the amount of ¥257 million.

Other extraordinary loss, in the year ended March 31, 2006, represents extraordinary provision for catastrophe loss reserves relating to fire insurance in the amount of ¥23,491 million, as a result of the adoption of the new reserve valuation method for losses pertaining to natural disaster claims.

5. Costs for retirement benefits included in loss adjustment expenses, operating expenses and general and administrative expenses are as follows:

	Yen in millions 2005	2006
Service costs	¥11,387	**¥10,426**
Interest cost	5,913	**4,869**
Expected return on plan assets	(5,247)	**(4,234)**
Amortization of actuarial losses	3,808	**4,876**
Amortization of prior service costs	(3,687)	**(2,963)**
Net periodic pension cost	12,174	**12,973**
Contributions paid to defined contribution plan	—	**1,338**
Total	¥12,174	**¥14,312**

6. In the year ended March 31, 2005 and 2006, income tax rate were recognized for the following figures:

	2005	2006
Normal income tax rate	36.1%	**36.1%**
The effective tax rate after application of deferred tax accounting	37.7%	**30.3%**
Principal adjustment factors:		
The difference arises mainly from dividends received	(3.5%)	**(5.3%)**
Increase/(Decrease) in valuation allowances	5.0%	**(2.9%)**
Entertainment and other expenses permanently disallowed for tax purposes	1.1%	**1.1%**

7. In the year ended March 31, 2005 and 2006, impairment losses were recognized for the following assets:

2005: Yen in millions

Use	Asset category	Description of assets	Impairment losses	
Rental properties	Land and buildings	7 properties, including building for rent in Saitama Prefecture	Land	¥ 2,123
			Buildings	2,825
			Others	347
			Total	¥ 5,296
Idle real estate and real estate for sale	Land and buildings	26 properties, including building for rent in Saitama Prefecture	Land	¥ 3,942
			Buildings	6,962
			Others	260
			Total	¥11,164

2006: Yen in millions

Use	Asset category	Description of assets	Impairment losses	
Rental properties	Land and buildings	Buildings for rent in Wakayama Prefecture	Land	¥150
			Buildings	241
			Total	¥392
Idle real estate and real estate for sale	Land and buildings	5 properties, including buildings for rent in Ishikawa Prefecture	Land	¥204
			Buildings	312
			Total	¥517

Properties used for insurance operations are grouped as a single asset group for the entire insurance operations. Rental properties, idle real estate and real estate for sale constitute asset groups by their own. Carrying amounts of the above mentioned assets were reduced to their realizable values in view of falling property values or their plan for sale and the resulting decreases in the carrying amounts were recorded as an impairment loss in the aggregate amounts of ¥16,460 million and ¥909 million in the extraordinary losses, in the year ended March 31, 2005 and 2006, respectively.

The realizable values of the assets concerned are determined at the higher of the net sale values or the potential values in continued use. The net sale values are computed based on the appraisal values by independent appraisers and the potential values in continued use are computed by discounting the future cash flows at the discount rate of 6.2% and 6.5%, through the year ended March 31, 2005 and 2006, respectively.

8. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

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(AS OF JULY 31, 2006)

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★ MSI Overseas Offices
● Overseas Subsidiaries and Affiliates
△ Branches or Offices of Overseas Subsidiaries and Affiliates
■ Underwriting Agents for MSI Head Office

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Level 8, 15 William Street, Melbourne,
Victoria 3000, Australia
Tel: 61-3-9245-8188
Fax: 61-3-9614-2248

New Zealand

★ New Zealand Office
Vero Center, 48 Shortland Street,
Auckland, New Zealand
Tel: 64-9-357-2394
Fax: 64-9-363-2328

Papua New Guinea

★ Papua New Guinea Office
Level 3, Pacific Place, Musgrave Street,
Port Moresby, Papua New Guinea
Tel: 675-321-1600
Fax: 675-321-1658

THE AMERICAS

U.S.A

● MSIG Holdings (Americas), Inc.
Corporation Trust Center,
1209 Orange Street, Wilmington,
Newcastle County, Delaware, U.S.A.
Tel: 1-908-604-2900
Fax: 1-908-604-2991

● Mitsui Sumitomo Insurance Company of America
560 Lexington Avenue, 20th Floor,
New York, NY 10022-6828, U.S.A.
Tel: 1-212-446-3600
Fax: 1-212-319-7001

● Mitsui Sumitomo Insurance USA Inc.
560 Lexington Avenue, 20th Floor,
New York, NY 10022-6828, U.S.A.
Tel: 1-212-446-3600
Fax: 1-212-319-7001

● Mitsui Sumitomo Marine Management (U.S.A.), Inc.
15 Independence Boulevard,
P.O. Box 4602, Warren,
NJ 07059, U.S.A.
Tel: 1-908-604-2900
Fax: 1-908-604-2991

△ New York Office
560 Lexington Avenue, 20th Floor,
New York, NY 10022-6828, U.S.A.
Tel: 1-212-446-3600
Fax: 1-212-319-7001

△ Cincinnati Office
312 Elm Street, Suite 1250, Cincinnati,
OH 45202, U.S.A.
Tel: 1-513-719-8524
Fax: 1-513-241-4071

△ Atlanta Office
14 Piedmont Center, Suite 415,
3535 Piedmont Road, Atlanta,
GA 30305, U.S.A.
Tel: 1-404-442-9407
Fax: 1-404-442-9410

△ San Francisco Office
50 California Street, Suite 680,
San Francisco, CA 94111, U.S.A.
Tel: 1-415-433-4270
Fax: 1-415-433-4292

△ Los Angeles Office
10 Universal City Plaza, Suite 1700,
Universal City, CA 91608, U.S.A.
Tel: 1-818-509-7150
Fax: 1-818-752-9329

△ Chicago Office
1901 North Roselle Road,
Suite 580 Schaumburg, IL 60195, U.S.A.
Tel: 1-847-490-8240
Fax: 1-847-490-8238

△ Detroit Office
3000 Town Center, Suite 835,
Southfield, MI 48075, U.S.A.
Tel: 1-248-355-2080
Fax: 1-248-355-9113

● MSI Risk Management Services, Inc.
312 Elm Street, Suite 1250,
Cincinnati, OH 45202, U.S.A.
Tel: 1-513-729-8523
Fax: 1-513-241-4071

● Seven Hills Insurance Agency, Inc.
312 Elm Street, Suite 1250,
Cincinnati, OH 45202, U.S.A.
Tel: 1-800-232-2200
Fax: 1-513-241-4071

● Seven Hills Insurance Agency, L.L.C.
312 Elm Street, Suite 1250,
Cincinnati, OH 45202, U.S.A.
Tel: 1-800-232-2200
Fax: 1-513-241-4071

● Seven Seas Insurance Agency, Inc.
312 Elm Street, Suite 1250,
Cincinnati, OH 45202, U.S.A.
Tel: 1-800-232-2200
Fax: 1-513-241-4071

● MSI Claims (USA), Inc.
560 Lexington Avenue, 20th Floor,
New York, NY 10022-6828, U.S.A.
Tel: 1-212-446-3640
Fax: 1-212-319-7071

● MSI Property (U.S.A.), Inc.
15 Independence Boulevard,
P.O. Box 4602, Warren,
NJ 07059, U.S.A.
Tel: 1-908-647-8917
Fax: 1-908-604-2992

Guam (U.S.A.)

■ Cassidy's Associated Insurers Inc.
376 W. O'Brien Drive, Agana,
Guam 96910
Tel: 1-671-472-8834
Fax: 1-671-477-3127

■ Aon Insurance Micronesia (Guam)
718 North Marine Drive, Suite 303, East
West Business Center, Tumon,
Guam 96913
Tel: 1-671-646-3681
Fax: 1-671-649-9358

Northern Marianas (U.S.A.)

■ Associated Insurance Underwriters
of the Pacific Inc.
Beach Road, Garapan,
AIUP P.O. Box, Saipan,
MP 96950, U.S.A.
Tel: 1-670-234-7222/6865/3152
Fax: 1-670-234-5367

■ Aon Insurance Micronesia (Saipan)
Ground Floor, Lim's Office Bldg.,
Beach Road, San Jose, Saipan,
MP 96950, U.S.A.
Tel: 1-670-234-2811
Fax: 1-670-234-5462

Canada

★ Toronto Representative Office
c/o Chubb Insurance of Canada
One Financial Place, 14th Floor,
1 Adelaide St. East, Toronto,
Ontario M5C 2V9, Canada
Tel: 1-416-359-3239
Fax: 1-416-863-9488

■ Chubb Insurance Company of Canada
One Financial Place, 1 Adelaide St.
East, Toronto, Ontario M5C 2V9, Canada
Tel: 1-416-863-0550
Fax: 1-416-863-6945

Bermuda

● MS Frontier Reinsurance Limited
Lobby Floor, Victoria Hall,
11 Victoria Street,
Hamilton, HM11, Bermuda
Tel: 1-441-295-5795
Fax: 1-441-295-8384

● SPAC Insurance (Bermuda), Ltd.
Lobby Floor, Victoria Hall, 11 Victoria
Street, Hamilton, HM11, Bermuda
Tel: 1-441-295-5795
Fax: 1-441-295-8384

● Interisk Global Management
(Bermuda) Limited
Skandia International House,
16 Church Street, Hamilton,
HMHX, Bermuda

Mexico

★ Mexico Representative Office
Blvd. Manuel Avila Camacho No. 24,
Piso 9 Col. Lomas de Chapultepec,
C.P. 11000, Mexico, D.F.
Tel: 52-55-5202-3613/4632
Fax: 52-55-5520-5524

Panama

★ Panama Representative Office
Calle 50, Plaza Credicorp Bank Panama,
Piso 7, Oficina 701, Panama,
Republic of Panama
(P.O. Box 0830-00873, Zona 9,
San Francisco, Panama City,
Republic of Panama)
Tel: 507-210-0133/0147
Fax: 507-210-0122

Brazil

● MSI Do Brasil Ltda.
Alameda, Santos 415, cjs.11, Cerqueira
Cesar, CEP01419-000, Sâo Paulo, SP, Brazil
Tel: 55-11-3177-5800
Fax: 55-11-3289-6997

● Mitsui Sumitomo Seguros S/A.
Alameda, Santos 415, cjs.11, Cerqueira
Cesar, CEP01419-000, Sâo Paulo, SP, Brazil
Tel: 55-11-3177-5800
Fax: 55-11-3289-6997

★ Sâo Paulo Representative Office
Alameda, Santos 415, cjs.11,
Cerqueira Cesar, CEP01419-000,
Sâo Paulo, SP, Brazil
Tel: 55-11-3177-5800
Fax: 55-11-3289-6997

Colombia

★ Bogotá Representative Office
Calle 98, No. 9-03 Oficina 601,
Santafe de Bogotá, Colombia
Tel: 57-1-610-4287/611-2605
Fax: 57-1-218-2358

Peru

★ Lima Representative Office
Calle Ernesto Diez Canseco 442 Oficina
202, Miraflores, Lima, Peru
Tel: 51-1-447-3313/3053
Fax: 51-1-447-3280

Argentina

★ Buenos Aires Representative Office
Reconquista 513, 4 Piso "A" (1003),
Ciudad Autonoma de Buenos Aires,
Argentine Republic
Tel: 54-11-5217-9308
Fax: 54-11-5217-9309

EUROPE AND MIDDLE EAST

United Kingdom

● Mitsui Sumitomo Insurance Company
(Europe), Limited
6th Floor, New London House,
6 London Street, London EC3R 7LP, U.K.
Tel: 44-20-7816-0321
Fax: 44-20-7816-0220

● MSI Claims (Europe) Ltd
6th Floor, New London House,
6 London Street, London EC3R 7LP, U.K.
Tel: 44-20-7816-0321
Fax: 44-20-7816-0220

● MSI European Services Ltd
6th Floor, New London House,
6 London Street, London EC3R 7LP, U.K.
Tel: 44-20-7816-0321
Fax: 44-20-7816-0220

● Mitsui Sumitomo Insurance (London Management) Ltd
4th Floor, 71 Fenchurch Street, London EC3M 4BS, U.K.
Tel: 44-20-7977-8321
Fax: 44-20-7977-8300

● MSI Corporate Capital Limited
4th Floor, 71 Fenchurch Street, London EC3M 4BS, U.K.
Tel: 44-20-7977-8321
Fax: 44-20-7977-8300

● Mitsui Sumitomo Insurance (London) Limited
4th Floor, 71 Fenchurch Street, London EC3M 4BS, U.K.
Tel: 44-20-7522-0003
Fax: 44-20-7702-0923

☆ UK Branch
4th Floor, 71 Fenchurch Street, London EC3M 4BS, U.K.
Tel: 44-20-7702-6286~88
Fax: 44-20-7977-8300

★ London Representative Office
6th Floor, New London House, 6 London Street, London EC3R 7LP, U.K.
Tel: 44-20-7816-0321
Fax: 44-20-7816-0220

Ireland

● Mitsui Sumitomo Reinsurance Limited
4 Exchange Place, Custom House Docks, I.F.S.C., Dublin 1, Ireland
Tel: 353-1-612-6120
Fax: 353-1-612-6121

Germany

● Mitsui Sumitomo Insurance Company (Europe), Limited
German Branch
Georg-Glock-Str. 8, 40474 Düsseldorf, Germany
Tel: 49-211-493258-00
Fax: 49-211-493258-100

● Assumo Service und Management Organisation GmbH
Georg-Glock-Str. 8, 40474 Düsseldorf, Germany
Tel: 49-211-493258-00
Fax: 49-211-493258-100

The Netherlands

● Mitsui Sumitomo Insurance Company (Europe), Limited
The Netherlands Branch
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Fax: 31-20-664-3216

France

● Mitsui Sumitomo Insurance Company (Europe), Limited
France Branch
47 Rue de Ponthieu, 75008 Paris, France
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Fax: 33-1-5836-0790

Belgium

● Mitsui Sumitomo Insurance Company (Europe), Limited
Belgium Branch
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Fax: 32-2-646-1129

Spain

● Mitsui Sumitomo Insurance Company (Europe), Limited
Spain Branch
Edificio Mapfre Luchana, Francisco de Rojas 12, Madrid 28010, Spain
Tel: 34-91-447-1600
Fax: 34-91-593-1764

Italy

● Mitsui Sumitomo Insurance Company (Europe), Limited
Italy Branch
Foro Buonaparte, 63 20121 Milan, Italy
Tel: 39-02-8791431
Fax: 39-02-8791431

Austria

● Mitsui Sumitomo Insurance Company (Europe), Limited
Austria Branch
Standpark 1, Sky Offices OG13 TOP 05 A-1030, Vienna, Austria
Tel: 43-1-879-5057
Fax: 43-1-879-5057-14

Czech Republic

★ Prague Representative Office

● Mitsui Sumitomo Insurance Company (Europe), Limited
Czech Branch
IBC Building 3F, IBC-Pobrezni 3, 18600 Prague 8, Czech Republic
Tel: 420-2-2483-5400
Fax: 420-2-2232-2530

Russia

★ Moscow Representative Office
Smolenskaya Square 3, Moscow, Russia
Tel: 7-495-933-1015

★ St. Petersburg Representative Office
25 Nevsky Prospect, St. Petersburg, Russia
Tel: 7-812-346-7741

Saudi Arabia

★ Al Khobar Representative Office
c/o Arab Commercial Enterprises Ltd., P.O. Box 358, Al-Khobar 31952, Saudi Arabia
Tel: 966-3-882-9266/9267
Fax: 966-3-882-9266/9267

■ Arab Commercial Enterprises (Group of Companies)
Al-Sudairy Building, Sitteen Street (Near Gulf Bridge), P.O. Box 667, Riyadh-11421, Saudi Arabia
Tel: 966-1-477-4070
Fax: 966-1-477-2377

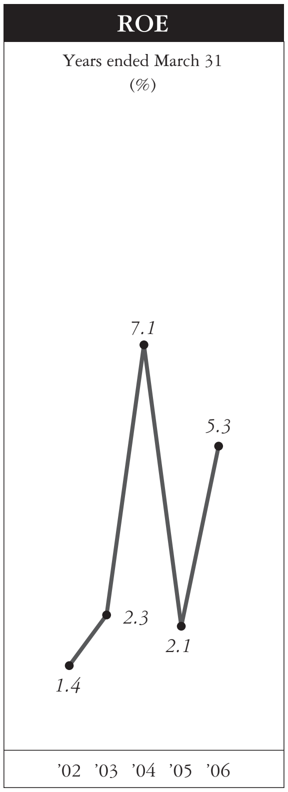
United Arab Emirates

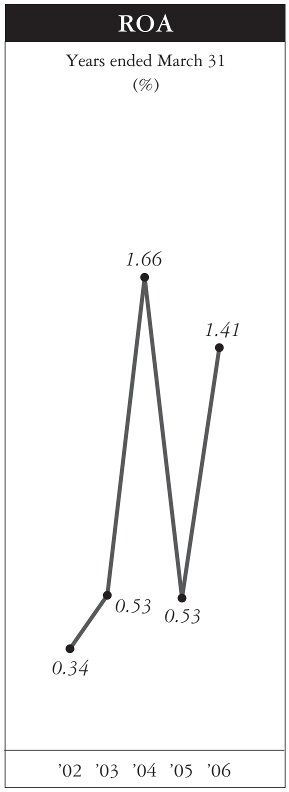
★ Dubai Representative Office
Spectrum Building 109, P.O. Box 25190, Dubai, UAE
Tel: 971-4-336-5335
Fax: 971-4-336-6955

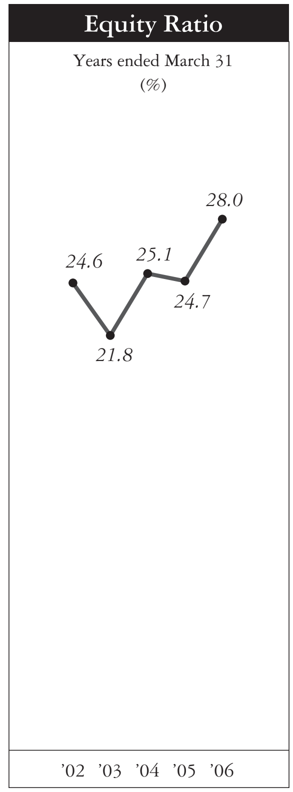
★ Abu Dhabi Representative Office
c/o Abu Dhabi National Insurance Co., P.O. Box 43040, Abu Dhabi, UAE
Tel: 971-2-627-4834
Fax: 971-2-627-5115

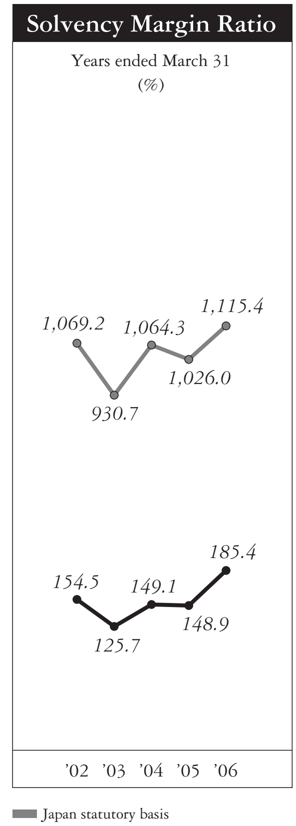
■ Arab Commercial Enterprises Ltd.
Office No. 202, 2nd Floor, Al Zubara Tower, Opposite Municipality Building, Al Salam Street, P.O. Box 585, Abu Dhabi, UAE
Tel: 971-2-645-8060/7070
Fax: 971-2-645-8050

INVESTOR INFORMATION









Notes: 1. ROE = net income/average shareholders' equity
2. ROA = net income/average total assets
3. Equity ratio = total shareholders' equity/total assets
4. Solvency margin ratio = total shareholders' equity/net premiums earned
5. Japan statutory basis solvency margin ratio = solvency margin total amount/(total risk amount x 0.5)
These values are calculated according to regulations set forth in the Ministry of Finance of Japan's Notice No. 50, issued in 1996, and Articles 86 and 87 of the Enforcement Regulations of the Insurance Business Law of Japan.
6. The consolidated financial statements prior to the merger have been restated as if the companies had been combined for all periods presented.
7. ROE for 2004, ROA for 2004 and 2005 and the Equity Ratio for 2004 and 2005 have been restated. See Note (24) of notes to consolidated financial statements on page 69.

CORPORATE DATA

(AS OF JULY 31, 2006, EXCEPT WHERE NOTED)

Mitsui Sumitomo Insurance Company, Limited Head Office

27-2, Shinkawa 2-chome,
Chuo-ku, Tokyo 104-8252, Japan
Tel: 81-3-3297-1111

Date Established

October 21, 1918

Network

Domestic Offices: 729
Domestic Agents: 59,126 (As of March 31, 2006)
Overseas Branches and Offices: 190

Number of Employees

13,458 (As of March 31, 2006)

Stock Exchange Listings

The Company's common stock is listed on the First Section of the Tokyo Stock Exchange and two other Japanese stock exchanges.

Transfer Agent

The Sumitomo Trust & Banking Co., Ltd.
5-33, Kitahama 4-chome, Chuo-ku,
Osaka 540-8639, Japan

Ordinary General Meeting of Shareholders

The Annual Meeting of Shareholders is held within the four-month period following April 1 in Tokyo, Japan.

Number of Shares of Common Stock

Authorized:	3,000,000,000
Issued:	1,513,184,880

Paid-in Capital

¥139,595 million

Auditor

KPMG AZSA & Co.

Investor Relations

Investor Relations Department
Mitsui Sumitomo Insurance Co., Ltd.
27-2, Shinkawa 2-chome,
Chuo-ku, Tokyo 104-8252, Japan
Tel: 81-3-3297-6742
Fax: 81-3-3297-6888

Mitsui Sumitomo Insurance Online

Key financial results and information about Mitsui Sumitomo Insurance can be found on Mitsui Sumitomo Insurance's Home Page at: http://www.ms-ins.com

Mitsui Sumitomo Insurance Company, Limited

Head Office:
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