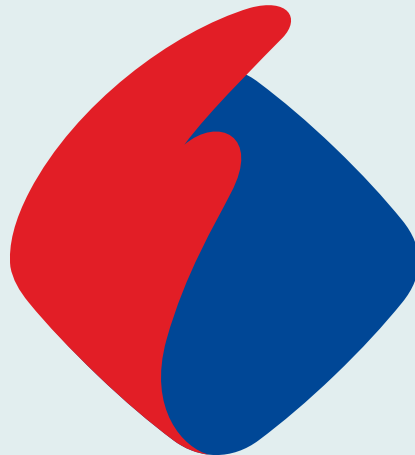


*Riding the Wave
to Success*



Mitsui Sumitomo Insurance

Annual Report 2003

Formed through a merger in October 2001, Mitsui Sumitomo Insurance Co., Ltd. (MSI), is one of the leading companies in Japan's non-life insurance industry. It has sustained steady growth by providing top-quality products and services to both individual and corporate customers.

Regulatory relaxation measures in Japan have lowered the barriers separating different sectors of the insurance industry and other financial industries. This has created diverse new relationships among companies in these industries and spurred the emergence of new business restructuring programs, corporate alliances, and competitors. Amid these conditions, the MSI Group is responding to customer needs in five business fields—non-life insurance, life insurance, overseas business, financial services, and risk-related business—and its ability to propose and supply optimal risk solutions has underpinned its strong performance.

Having completed an initial medium-term strategic business plan, MS WAVE, MSI began a new two-year plan, MS WAVE II, in April 2003. All MSI Group employees are working concertedly to effectively implement MS WAVE II, which is designed to leverage the full range of Group capabilities to progressively boost the Group's growth rate and profitability. While the economic environment remains challenging, the MSI Group has gathered considerable growth momentum and is striving to further accelerate its management activities and expand its profit base.

As is articulated in the MSI Group's Mission Statement, the Group attaches great importance to maintaining solid, trust-based relationships with its customers, shareholders, marketing agents, and other stakeholders as well as society at large. The Group is seeking to consolidate that trust through relentless efforts to realize continuous corporate growth and a sustained increase in corporate value.

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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, or should be considered as, forward-looking statements. These forward-looking statements are based on the Company's assumptions and opinions in the 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 the tax rates.

To Our Shareholders

**Takeo Inokuchi**

*Chairman and
Chief Executive Officer (left)*

Hiroyuki Uemura

*President and
Chief Executive Officer (right)*

On Track for Sustained Growth despite Challenging Environment

We are pleased to present our shareholders with the annual report of Mitsui Sumitomo Insurance Co., Ltd. (MSI), for fiscal 2002, ended March 31, 2003. As MSI was formed through a merger in October 2001, fiscal 2002 is our first full fiscal year, and it also marked the final year of “MS WAVE,” our first medium-term strategic business plan.

Our operating environment in fiscal 2002 remained harsh. In Japan, severe employment and income conditions helped keep personal consumption and housing investment weak, and the overall economy continued to be sluggish. These conditions—along with such factors as declines in interest rates and stock prices and a rise in international tensions—presented MSI with demanding challenges. In particular, the substantial fall in stock prices caused the Company to record a sizable devaluation loss. The impact of such a devaluation loss on stocks resulted in a number of

our competitors in Japan recording net losses on a Japan GAAP basis—in some cases for the second year in a row.

Amid these circumstances, MSI’s officers and employees made concerted efforts in line with the MSI Group’s Mission Statement to make full use of the power of the brands inherited from its predecessors—Mitsui Marine and Fire Insurance Co., Ltd., and the Sumitomo Marine & Fire Insurance Co., Ltd.—and to realize all the merged Company’s potential merits of scale. As a result, we were able to increase our revenue and net income despite the difficult environment. The current situation confirms that the decision made three years ago to merge Mitsui Marine and Sumitomo Marine was truly a good one. The merger has been a success story, and we are increasingly confident that MSI is on track for sustained growth.

Fiscal 2002 Achievements

In fiscal 2002, total revenue amounted to ¥1,490.2 billion and net income totaled ¥38.3 billion. In brief, it was a

year in which the insurance underwriting business continued to be strong, but investment operations were severely impacted by declines in interest rates and stock prices.

In our core non-life insurance operations, customers in Japan highly rated such products as our newly launched Accident and Medical Insurance policies for individuals (a product field within the Third Sector of insurance), new types of Automobile Insurance with broadened coverage, and Homeowners' Fire Insurance products, and sales of these products were strong. OTC sales of insurance at banks were permitted for the first time in fiscal 2001, and net sales via this marketing route grew steadily in fiscal 2002. Overseas non-life insurance subsidiaries benefited from improving market conditions that supported a general upward trend in insurance premium levels and greatly boosted the subsidiaries' premium income. Those subsidiaries therefore contributed to the rise in the MSI Group's total revenue. As a result, MSI achieved a 5.6% increase in revenue from net premiums written—a dynamic performance commensurate with the Company's position as an industry leader. Also contributing to the revenue increase were new products that accurately meet customer needs, IT investments and other measures to strengthen marketing channels, and the proactive expansion of overseas operations. In addition, we were able to improve the Company's combined ratio. Although the improvement partly reflected our good fortune in having had few large-scale natural disasters during the past two years, it also stems from our relentless efforts for drastic cost reduction. The benefits of the merger are particularly clear with regard to economies of scale. As staffing reductions have enabled the lowering of personnel expenses and the unification of facility networks has led to lower rental and distribution expenses, we have been able to cut costs more rapidly than planned.

In the life insurance sector, which is another pillar of the MSI Group, we had projected that the amount of new business acquired by Mitsui Sumitomo Kirameki Life Insurance Co., Ltd., our life insurance subsidiary, would be approximately ¥1 trillion. We are pleased to have been significantly “wrong” in our projection, as we achieved a 30.4% year-on-year surge in the amount of new business, to ¥1.12 trillion. The number of life insurance policies in force grew 11.0%, to 694 thousand, and premium income amounted to ¥147.8 billion, up 7.6%. Thus, our performance in the life insurance business was even stronger than that in non-life insurance, augmenting its importance to the Group. A major contribution to the strong performance in the life insurance business was made by newly introduced Whole Life Insurance products with market-sensitive interest rates.

In the fiscal period under review, the environment for investment activities deteriorated even more than anticipated. We did not expect the Nikkei Average to fall 28% during the period and the record-low level of interest rates to decline still further. Decreases in interest and dividend income led to a 6.0% drop in net investment income, and the fall in stock prices was the principal cause of a 15.5% decrease in shareholders' equity. However, that we were able to overcome such challenges of unforeseen severity and still increase our profitability reflects the resilient corporate power created through the merger.

Looking Back at Fiscal 2002

Products and Services—In both retail and commercial business fields, MSI provided products and services tailored to meet customers' risk solution needs. Deriving significant competitive advantages from its superior product development capabilities and risk solution know-how, the Company has been well positioned to offer new products and services that have won support from a wide range of customers.

Financial Highlights

Mitsui Sumitomo Insurance Co., Ltd. and subsidiaries
For the years ended March 31, 2001, 2002 and 2003

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Net premiums written	¥1,195,450	¥1,232,000	¥1,300,681	\$10,839,008
Net premiums earned.....	1,154,425	1,182,675	1,228,000	10,233,333
Premium income for life insurance contracts.....	116,369	137,324	147,761	1,231,342
Net income (loss) from underwriting	(36,518)	5,355	17,484	145,700
Investment income, net of investment expenses	137,310	124,029	116,603	971,692
Net income	37,983	25,981	38,312	319,267
Net income per share (in yen and U.S. dollars)				
—basic.....	¥25.41	¥17.58	¥26.29	\$0.22
—diluted	23.71	16.53	24.93	0.21
Total assets.....	¥7,717,668	¥7,416,455	¥7,076,642	\$58,972,017
Total shareholders' equity.....	1,996,517	1,827,169	1,543,053	12,858,775
Combined loss and expense ratio* (%).....	102.1%	97.8%	96.4%	
ROE (%).....	1.8%	1.4%	2.3%	

Note: U.S. dollar amounts in this annual report have been translated from yen, for convenience only, at the rate of ¥120=U.S.\$1. See Note 1 (a) of the notes to consolidated financial statements, page 38.

* The combined loss and expense ratios relate to property and casualty insurance.

** Amounts in the table have been restated from amounts previously reported and as if the pre-merger companies had been for 2001. See Note 1 (a) of the notes to the consolidated financial statements, page 38.

Marketing Systems—MSI has concurrently worked to strengthen its domestic marketing systems and increase the efficiency of these systems in ways that facilitate cost reductions. To increase the scale and efficiency of marketing bases, the Company has proceeded with additional measures to integrate the networks inherited from its predecessor companies. To create numerous marketing agents with even greater appeal to customers and superior resilience in the face of competition, we have made efforts aimed at increasing the number of large-scale agents and supporting and guiding agents to increase the effectiveness of their operations. We have also proceeded simultaneously with measures to increase customer satisfaction and improve loss ratio. To establish the top brand regarding the quality of claims settlement, we strengthened both our claims-handling organizational structure and our claims-handling computer systems. The introduction of sophisticated claims-handling computer systems has enabled the expedited payment of claims payable while facilitating the

sharing of claims adjustment know-how among claims-handling staff.

Overseas Operations—In Asian markets outside Japan considered to have considerable growth potential, MSI is further strengthening its marketing systems. During fiscal 2002, the Company established a representative office in the Chinese city of Suzhou and became the first Japanese non-life insurance company to begin operating a branch in the Republic of Korea. We also established a presence in the Indian market by creating a joint venture with a local conglomerate. Business in Asia offers MSI relatively stable and high levels of profitability compared with other overseas markets, and we are confident that the Group's activities in these markets will soon contribute to the Group's growth and profitability. To expand our overseas reinsurance operations, we increased the capital of two reinsurance subsidiaries in Bermuda and Ireland during fiscal 2002.

IT Strategy—Moves to fully realize the potential benefits of the merger have largely reduced IT-related costs, although we have also made strategic investments in IT to enhance operational efficiency and marketing power. MSI has expanded the computer network that links the Company with agents and upgraded the e-mail system and other network functions. As a result, 40,000 agents that account for 85% of MSI's domestic revenue are now directly linked to the Company's network, which allows them to directly enter contract data into the Company's database and share data with the Company in a manner that promotes the growing use of sophisticated customer relationship management (CRM) methods for increasing marketing efficiency. To further boost customer satisfaction and operating efficiency and cut costs, we have begun fundamental reforms to the entire range of operational processes through such initiatives as simplified contract approval and premium payment procedures.

Investments—MSI has established a record of consistently sound asset-liability management (ALM) operations and investment returns by diversifying its investments and augmenting its capabilities for handling loans to individuals. To reduce market risk and increase investment efficiency, the Company has continued to sell its equity holdings. A portion of the proceeds from the sales has been used to bolster the capital of our overseas reinsurance subsidiaries, and another portion was used to repurchase seven million shares of our stock in December 2002 as a means of increasing the return on shareholders' investments.

Corporate Alliances—MSI is making steady progress with corporate alliance arrangements with companies from other industries. The Company cooperated with U.S.-based Citigroup to establish Mitsui Sumitomo Citilife Insurance Co., Ltd. (MSICiti), which began marketing

variable annuity products in October 2002 and was able to become one of the top ten Japanese companies in its field after only a half year of operation. We are confident that the new joint venture will rapidly become a major player in the Japanese market for such insurance plans. Furthermore, we have reached an agreement to consolidate within MSI the business of Mitsui Seimei General Insurance Co., Ltd. (MSGI), a subsidiary of Mitsui Mutual Life Insurance Company (Mitsui Life), and we have been smoothly arranging the transfer of MSGI's insurance contracts to MSI since November 2002. This consolidation process will add approximately ¥12 billion to MSI's net insurance premiums.

Using such strategies, MSI is proactively implementing measures that will increase its growth and profitability.

Start of MS WAVE II Medium-Term Strategic Business Plan

Having completed the MS WAVE medium-term strategic business plan, which provided for the successful execution of the merger, MSI in April 2003 began MS WAVE II, a two-year plan aimed at enabling the Company to realize the goal of becoming "No.1 in total corporate group power." The MSI Group has already positioned itself for steady growth, and the new plan is designed to further accelerate the Group's growth momentum.

By emphasizing consolidated Group management strategies, MSI is seeking to reduce its dependence on domestic non-life insurance business and thereby diversify its profit sources. Having defined our business field as the "risk solution business," we are developing our operations in five business fields: non-life insurance, life insurance, overseas business, financial services, and risk-related business. We are seeking to disperse our business and geopolitical risks and accelerate our profit growth to achieve sustained corporate development.

Focusing on Shareholder Value

Through decisive balance sheet management measures, MSI is fundamentally reorganizing its asset portfolio and increasing the efficiency of its capital utilization. In line with the MSI Group's Mission Statement, increasing shareholder value is one of our top management focuses, and we intend to continually be an industry leader in this regard. While maintaining sufficient capital to support proactive business development and solid creditworthiness, we are making sustained efforts to increase our capital utilization efficiency. Although it is generally said that there is a trade-off between capital adequacy and capital utilization efficiency, we believe that maintaining a balanced emphasis on both objectives while increasing the latter is a key means to achieving sustained improvement in corporate performance. This is our mission.

MSI is accelerating its sales of equity holdings and underutilized real estate assets, thereby reducing its market risk. The proceeds from these sales, along with cash flow from the Company's operations, are being put to good use. We have three main applications for these funds. First, we are making portfolio investments in fields that will further facilitate a rise in investment returns. Second, we are making new or additional investments in fields that will facilitate a rise in Group profitability, our strategy calling for investment in sectors with the potential for sustained growth in scale and profitability, such as life insurance and overseas businesses. The third principal use of funds is the streamlining of our capital structure through share buy-backs. In fiscal 2003, we have been authorized to use up to ¥26.0 billion to repurchase up to 40 million shares.

The Company will relentlessly sustain its efforts to improve shareholder value and achieve optimal capital efficiency. As the MSI Group's Mission Statement expresses: we commit ourselves to "continuously improving our business, thereby meeting our shareholders' expectations and earning their trust."

August 2003



Takeo Inokuchi,
Chairman and Chief Executive Officer



Hiroyuki Uemura,
President and Chief Executive Officer

Mission Statement

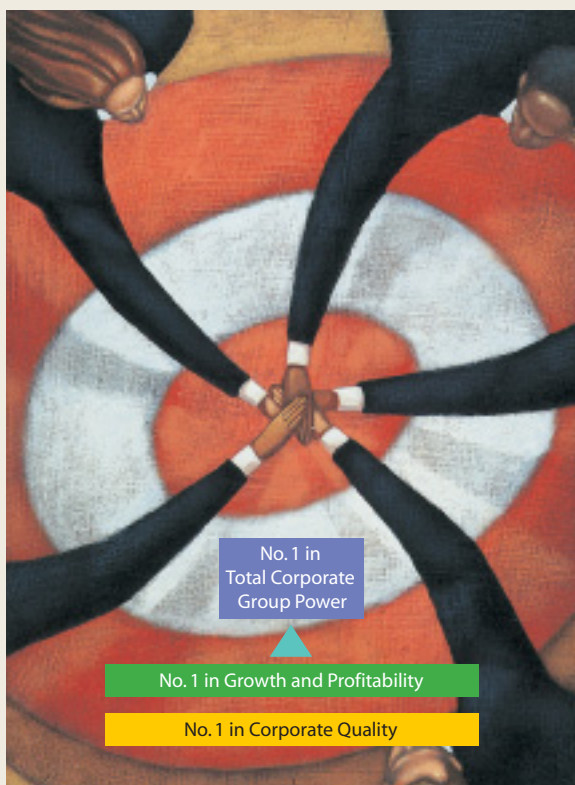
Through our insurance and financial services businesses, we commit ourselves to the following.

- Bringing security and safety to people and businesses around the world, and making a lasting contribution to the enrichment of society
- Providing the finest products and services, and realizing customer satisfaction
- Continuously improving our business, thereby meeting our shareholders' expectations and earning their trust

The Second Wave

MS WAVE II

The Second Phase of the Basic Integration Plan Aims to Make Mitsui Sumitomo Insurance “No.1 in Total Corporate Group Power”



April 2001

March 2005



Merger on October 1, 2001

MS WAVE has been successfully completed and the Company has begun energetically implementing MS WAVE II.

During fiscal 2001 and 2002, Mitsui Sumitomo Insurance (MSI) proceeded steadily with the implementation of its MS WAVE medium-term strategic business plan—which was initiated prior to the merger of its predecessor companies—thereby successfully executing the merger and approximately attaining the original strategic targets. In fiscal 2003, MSI began the second phase of its basic integration plan, MS WAVE II, a two-year plan aimed at enabling the Company to realize its goal of becoming “No.1 in total corporate group power.”

Aiming to Be No. 1 in Growth, Profitability, and Corporate Quality

Building on the results of the MS WAVE medium-term strategic business plan that was responsible for the successful merger of MSI’s predecessor companies, the MS WAVE II plan is designed to promote concerted efforts by all MSI Group employees during fiscal 2003 and 2004 to make MSI the top group in the Japanese insurance industry in terms of total corporate group power. Specifically, the plan aims to first make the Group the leader in growth and profitability. These industry-leading capabilities are expected to create a solid corporate base and strong performance that will naturally position us as the leader in terms of total corporate group power.

Although Japan’s non-life insurance industry continues to depend largely on domestic non-life insurance operations, MSI believes that realizing the goal of becoming “No.1 in total corporate group power” will require an expeditious diversification of revenue sources. Accordingly, the Company plans to dynamically develop its operations in five principal business fields: non-life insurance, life insurance, overseas business, financial services, and risk-related business. We anticipate that developing these operations successfully and

coordinating them effectively through consolidated Group management will enable the MSI Group to realize sustainable growth in corporate operations as well as corporate and shareholder value.

To realize the goal of being “No. 1 in growth and profitability,” MSI has set five specific performance targets and begun striving to attain those targets. Moreover, to make clear the amount of progress made in individual business fields, MSI has set targets for each field in addition to its consolidated targets. To realize the goal of being “No. 1 in corporate quality,” MSI is strengthening its systems and capabilities so that it can comprehensively enhance its corporate quality as perceived from the perspectives of customers, shareholders, society, and employees.



MSI is emphasizing the use of consolidated management systems that coordinate its operations in diverse fields.

Five Performance Targets for Being No. 1 in Growth and Profitability

Growth Goals

- (1) No. 1 in increasing ratio of net premiums written from domestic non-life insurance
- (2) No. 2 in consolidated net premiums written from non-life insurance underwriting, including those from overseas
- (3) No. 2 in the amount of life insurance in force among subsidiaries of non-life insurers

Profitability Goals

- (4) No. 1 position for combined ratio (loss ratio plus expense ratio)
- (5) No. 1 in the rate of investment return

Strategies for Growth

No. 1 in increasing ratio of net premiums written from domestic non-life insurance

MSI will step up its marketing activities tailored to the needs of individual market segments—such as the personal, small and medium-sized company, and group segments—with the objective of boosting its net premiums written, market share, and number of clients in each segment. However, we will give particular strategic emphasis to the investment of management resources in retail business.

Regarding products, MSI will augment its core MVP* product lines and launch additional Third Sector insurance products. The Company will reinforce its retail marketing channels through the introduction of the *Agent MS1*** information network that facilitates close liaison with agents. The *Agent MS1* system already encompasses approximately 40,000 agents that account for roughly 85% of MSI’s domestic revenue. We are also endeavoring to upgrade the quality of claims-handling services and create a service-oriented brand image in the non-life insurance market through such measures as the establishment of four new claims departments in the Kanto region, which increased the total number of such departments nationwide to 20 as of April 2003, along with the posting of approximately 100 additional claims-handling service staff.

* MVP product lines comprise three mainstay types of insurance products, with M standing for *MOST* Automobile Insurance, V for *VIV* Individual Accident and Medical Insurance, and P for *Home Pikaichi* Homeowner Fire Insurance.

** *Agent MS1* earned MSI the overall top ranking in a study by the Management Science Institute of the IT management capabilities of 413 listed companies.

Plans also call for augmenting marketing cooperation with Mitsui Mutual Life Insurance Company and Sumitomo Life Insurance Company and further promoting sales via banks of credit long-term fire insurance products.

No. 2 in consolidated net premiums written from non-life insurance underwriting, including those from overseas

Besides achieving growth in Japan, MSI is aiming to greatly expand its overseas operations and thereby boost its industry ranking in net premiums written from non-life insurance to 2nd position.

In Asian markets outside Japan, where MSI is the top Japanese non-life insurance company in terms of premiums volume and office network coverage, the Company is emphasizing the investment of resources for such strategic objectives as further strengthening of its capabilities in China and proactively undertaking operations at newly established sales bases in India and the Republic of Korea. We already have a strong presence throughout Asia, being ranked 8th in Malaysia, 5th in Singapore, 2nd in the Philippines, and 6th in Indonesia in terms of gross premiums written.

Regarding reinsurance business, MSI is seeking to increase net premiums written and maintain an optimal balance between the MSI Group's total retained and reinsured liabilities. We are concurrently striving to further increase the profitability of our overseas reinsurance subsidiaries—MS Frontier Reinsurance Ltd., based in Hamilton, Bermuda, and Mitsui



MSI's current strategy for dynamic corporate growth emphasizes the proactive expansion of business in various Asian countries.

Sumitomo Reinsurance Ltd., based in Dublin, Ireland—which have sustained the posting of strong performances.

No. 2 in the amount of life insurance in force among subsidiaries of non-life insurers

To attain the 2nd position in terms of the amount of life insurance in force among subsidiaries of non-life insurers, MSI is promoting *Shunyu Hoshu* Income Protection policies and *MS Shushin* Whole Life Insurance policies as its core products in the retail market. Plans call for greatly augmenting the Group's marketing power through such additional measures as the pilot testing of a direct control system* by subsidiary Mitsui Sumitomo Kirameki Life Insurance Co., Ltd. (MS Kirameki), and the parent company's moves to increase the number of its staff with specialized expertise in life insurance operations.

Having successfully launched its variable annuity business, Mitsui Sumitomo CitiInsurance Life Insurance Co., Ltd. (MSICiti), will further intensify its marketing program via 36 commissioned financial institutions, including banks and securities companies.

* Although parent company staff have previously instructed and trained affiliated life insurance agents, the direct control system calls for staff of MS Kirameki offices to handle this task.

Strategies for Profitability

No. 1 position for combined ratio

MSI is seeking to become the top company in terms of combined ratio by increasing operational efficiency, establishing strong capabilities for low-cost operations, boosting productivity, and taking thorough measures to improve the loss ratio.

In particular, with the objective of enhancing customer satisfaction, MSI is fundamentally reevaluating its processes for handling the flow of business transactions from customers through agents to the Company. Process revisions

are expected to help increase customer satisfaction while also speeding up operations and reducing costs. By employing our *WITH* automobile claims-handling system, we are striving to accelerate and increase the accuracy of our claims settlements.

No. 1 in the rate of investment return

Having been the top company in terms of the investment return rate for eight straight years*, MSI is endeavoring to upgrade its investment skills and further extend its investment record.

* Ranking for years prior to the merger is based on figures for the predecessor companies.

Strategies for Upgrading Corporate Quality

MSI is intent on strengthening its systems and capabilities so that it can offer the highest possible corporate quality as perceived by customers, shareholders, society, and employees.

Placing particular emphasis on being the leading company in terms of customer satisfaction, MSI is striving to comprehensively respond to customers' desires for top-quality services with an eye to ensuring that it fosters extremely high levels of confidence and trust. Concrete measures in this regard include efforts to eradicate customer dissatisfaction by making the most of customer satisfaction and complaint response systems coupled with the bolstering of efforts to share improvement proposals among all Group units with a view to augmenting capabilities for responding to customer needs.

To strengthen its structure and capabilities, MSI is proceeding with the sale of a portion of its equity holdings to reduce its risk exposure, repurchasing its own shares to streamline its capital structure, and investing its surplus capital in highly profitable businesses with the aim of elevating its consolidated return on equity (ROE).

Increasing the rigor of its corporate governance systems is an important Group management objective. Besides aiming to build management systems that are highly transparent and incorporate effective control functions, MSI is working to maintain a highly ethical corporate culture and ensure consistent compliance with all relevant laws and regulations.

Recognizing its responsibilities to society, MSI is proactively implementing diverse initiatives. The Company has established the Internal Audit Department to perform internal auditing checks of the legal compliance and rationality of all operational implementation activities in each business field, and internal auditing results are reported to the Board of Directors on a quarterly basis to provide a supervisory control mechanism. We have also moved to set up such additional control units as the Risk Management Committee, which comprehensively evaluates and manages risks throughout the Company, and the Compliance Committee, which is taking concrete measures to strengthen systems for ensuring excellent compliance.

MSI intends to continue doing what is required to build highly effective internal control and administration systems.



MSI is implementing various strategies for upgrading corporate quality.

Corporate Governance

When the Mitsui Sumitomo Insurance (MSI) Group was formed, the Company clearly expressed its mission in the statement, "Through our insurance and financial services businesses, we commit ourselves to continuously improving our business, thereby meeting our shareholders' expectations and earning their trust." The whole MSI Group seeks to benefit customers as well as society at large by aptly balancing the interests of shareholders, customers, and society.

- To increase the dynamism of its Board of Directors and create a powerful execution system, MSI has been implementing the following management structure reform measures.
 - The total number of directors was cut from 18 at the time of the merger to 14 in June 2003 to facilitate more effective discussion and quicker decision making
 - An executive officer system was introduced to accelerate the execution of business policies and strategies established by the Board of Directors
 - The Nominating Committee and the Remuneration Committee were established as internal organizations within the Board of Directors as a fundamental means of ensuring that management supervision is efficiently carried out through highly transparent processes
- The Company is considering the introduction of a stock option program as part of efforts to link executive compensation and financial performance more closely and thus boost corporate value.

- While taking the following measures, to ensure that it maintains the required level of capital, MSI is working to optimize its capital structure and allocation in a manner that boosts ROE and thereby increases corporate value.
 - Calculating consolidated overall risk exposure, determining the amount of capital required in light of that exposure, and effectively investing available capital
 - Improving the asset portfolio through the reduction of equities, deposits, and real estate with low returns relative to risk
 - Considering the ratio of return to risk in each business field and rebuilding the business portfolio into a form that can be expected to enhance the stability of profits
 - As an additional means of implementing capital-related policies, continuing to buy back shares to increase the per-share value of remaining outstanding shares and augment the shareholding values of existing shareholders
- The Company is working to enhance investor relations activities to ensure the timely and fair disclosure of information in response to the globalization of the Japanese financial market. It has established the Disclosure Committee as a means of monitoring the appropriateness of information disclosure and improving the effectiveness of internal control systems related to financial reporting.

Corporate Social Responsibility

Basic Policy on Corporate Social Responsibility

The MS WAVE II medium-term strategic business plan calls for Mitsui Sumitomo Insurance (MSI) to implement various strategic programs for proactively contributing to society. Instead of merely responding to societal requirements and demand, the Company has clearly positioned autonomous corporate social responsibility (CSR) initiatives as an integral part of its management strategy for realizing sustainable development and ultimately raising corporate value.

We view our spending on CSR programs as crucial strategic investments that will play a key role in helping realize not only the MS WAVE II goal of making MSI the top group in the Japanese insurance industry in terms of total corporate group power, but also our mission of making a lasting contribution to the enrichment of society and continuously improving our business.

Environmental and Philanthropic Activities

Addressing Environment Issues

MSI has made promoting environmental activity an important management objective, and the Company has established specialized units to strengthen its related capabilities. We introduced the MSI Group Environmental Policy in October 2001, at the same time as the merger was executed, and all of our offices are pursuing environmental activities in accordance with this policy.

ISO 14001 Certification

In November 2002, MSI and four Group companies* obtained ISO 14001 certification—an international standard for environmental management systems—for all domestic offices. We were the first company in Japan’s life and non-life insurance industries to obtain this certification for all its domestic offices. In the future, MSI will sustain its efforts to upgrade environmental management systems, further enhance all employees’ awareness of environmental issues, and step up such environmentally beneficial activities as those that promote resource and energy conservation.

*These were Mitsui Sumitomo Kirameki Life Insurance Co., Ltd.; InterRisk Research Institute & Consulting, Inc.; MSK Information Service Co., Ltd.; and MSK System Development Co., Ltd.

Environmental and Social Activities Report

In February 2003, MSI issued the *Environmental and Social Activities Report 2002—2003*. In addition to descriptions of environmental activities and environmental performance, the report provides an overview of employees’ volunteer activities and other philanthropic efforts.

MSI’s Overall Conception of CSR

Enriching Society through Corporate Activities

By contributing through its business activities to the enrichment of society, MSI strives to simultaneously increase the excellence of its corporate citizenship and the level of its profitability.

- Promoting the development of risk solutions business
- Providing excellent products and services, etc.

Environmental Protection and Societal Contribution Activities

By contributing to society through activities not directly related to its business operations, MSI is strategically forging strong bonds of trust with society at large while also increasing the value of its brands and helping achieve such worthy objectives as the reduction of resource consumption.

- Working to protect the environment
- Supporting volunteer activities, etc.

Promoting Recognition of MSI’s Corporate Culture and Internal Systems

By clearly making public and executing sound policies regarding business ethics and corporate responsibilities to society, MSI is earning recognition and trust from society and strengthening its corporate culture.

- Strengthening compliance, risk management, and crisis management systems
- Upgrading employees’ consciousness of ethics issues and increasing the ethical rigor of employee behavior, etc.



Environmental and Social Activities Report 2002—2003



ISO 14001 certificate of registration

Societal Contribution Initiatives

MSI's guidelines for employee activities articulate the Company's objective of "acting as an excellent corporate citizen in proactively promoting societal contribution activities." Accordingly, the Company and its employees work concertedly to contribute to society through such diverse programs as a volunteer leave program for volunteer activities; a project team that focuses on measures to create a supportive work environment for handicapped employees; the nationwide organization of blood donation and bone marrow donor registration drives as well as activities designed to contribute to regional communities; support provided by the Mitsui Sumitomo Insurance Welfare Foundation for activities that promote traffic safety and the welfare of the elderly; support provided by the Mitsui Sumitomo Insurance Culture Foundation for cultural activities in regional communities; and operation of Shirakawa Hall, a specialized venue for classical music performances. In addition, MSI's Smile Heart Club societal contribution organization creates various charity events, contributes to such nonprofit organizations throughout Japan as welfare facilities and environmental protection groups, and supports children in conflict-stricken regions of the world with the proceeds from charity greeting-card sales.

Smile Heart Club



Since 1992, the Smile Heart Club has cooperated with nonprofit organizations in creating and marketing greeting cards that feature drawings by children from all over the world. Proceeds from the sale of these cards are used to support children in regions of the world suffering from armed conflict and natural disasters.

In cooperation with nonprofit organizations, 500 volunteers from within and outside the Group knitted sweaters and sent them to children suffering hardship in such locations as Kosovo and Mongolia.



Providing Environment-Friendly Products and Services

MSI develops a wide range of products and services designed to diminish environmental risks associated with business and households. The Company has created such environmental risk-related products as Environment Impairment Liability Insurance and Representation & Warranties Expense Insurance for the cleanup of polluted land, and it has strengthened its discounted premium rate system for low-emission vehicles. Our Environmental Automobile Inspection Program helps automobile repair shops minimize exhaust emissions, and we market such socially responsible investment (SRI) products as *Eco-Balance: Umi to Sora* (Sea and Sky), an investment trust focused on companies with good environmental protection records.

Strengthening Internal Systems

To ensure that all its operations are characterized by exemplary levels of business ethics and conscientiousness, MSI has proceeded with the establishment and strengthening of various internal administration systems. For example, the Company has strengthened its risk management capabilities by building advanced systems for quantifying and managing risks, realized a highly ethical corporate culture by maintaining a rigorous compliance system, and otherwise continually worked to foster employees' awareness of and compliance with high ethical standards. In fiscal 2002, we further intensified our compliance promotion drive by reevaluating each rule related to operational administration and increasing the number of compliance officers. We are relentlessly raising our goals and undertaking new initiatives to realize still-higher levels of corporate excellence in line with our position as a leading company within Japan's insurance industry.

Establishment of CSR Committee

As described previously, the MS WAVE II medium-term strategic business plan calls for MSI to proactively contribute to society through the sustained implementation of various CSR initiatives. In August 2003, the Company has established a CSR Committee chaired by President and CEO Hiroyuki Uemura, thereby laying the basis for applying new concepts and ensuring additional progress in CSR activities throughout the MSI Group.

Risk Management

Our View on Risk Management

Mitsui Sumitomo Insurance (MSI) strives to respond appropriately to its increasingly complex and diverse operating environment. Our goal is to achieve a balance between maintaining soundness and improving capital efficiency and profitability in our operations. We regard risk management as a high-priority issue and endeavor to recognize and assess risks accurately and practice pertinent risk management.

Risk Management Framework

MSI has divided the risks it faces into five major risk categories—insurance underwriting risks, risks associated with investments, liquidity risks, administrative risks, and system risks—and each department monitors and manages these risks. The Company's risk exposure is reported periodically or as needed to management and the Board of Directors and such information is dealt with pertinently.

We established the Risk Management Committee and the ALM Committee to promote comprehensive risk management across the board. The Risk Management Committee, which is composed of senior executives, plans risk management strategies, monitors risk exposure, verifies that there is adequate capital to cover risks, and reports its findings and makes recommendations to the Board of Directors.

The ALM Committee is composed of management from several departments, including the Investment Planning Department and the Product Development Department. The ALM Committee's responsibilities include analyzing market risk related to investments and monitoring the level of committed interest rates on savings-type insurance products. An important committee task is to monitor the profitability of savings-type insurance products based on the current market environment and incorporate this information in our sales policies.

Quantitative Risk Management

Quantitative risk management involves the measurement of such risks as insurance underwriting risk and risks associated with investments using Value-at-Risk calculations to ensure that the Company's risk exposure is not excessive relative to its capital base and that risk taking is done efficiently to work toward providing reassurance to clients and meeting shareholders' expectations.

At MSI, we are working to upgrade our quantitative risk management, as it is the fundamental resource upon which management policy is determined and management resources are distributed.

The MSI Group at a Glance—No.1 in Total Corporate Group Power

Business Field	Company	Strategies
<p>Non-Life Insurance</p>	<p>Mitsui Sumitomo Insurance Co., Ltd.</p>	<ul style="list-style-type: none"> ● Strong capabilities for new product development and marketing through 80,928 agents, collaboration with life insurance companies, OTC sales via banks, and a rich assortment of Third Sector insurance products ● Strong claims-handling capabilities offered through a nationwide network of 256 claims-handling offices ● Extensive overseas network ● Strong reinsurance know-how and capacity ● Strong investment capabilities, being the top Japanese non-life insurance company in terms of rate of investment return
<p>Life Insurance</p>	<p>Mitsui Sumitomo Kirameki Life Insurance Co., Ltd.</p> <p>Mitsui Sumitomo CitiInsurance Life Insurance Co., Ltd.</p>	<ul style="list-style-type: none"> ● Marketing of protection-oriented products ● Term products, Whole Life Insurance products, and other products that make a large contribution to profitability ● Marketing primarily to existing MSI clients ● Variable annuities business ● Marketing through such partners as banks, trust banks, <i>shinkin</i> banks, and securities companies ● Marketing to high-net-worth individuals and other retail market segments
<p>Overseas Business</p>	<p>Overseas network of 56 bases in 36 countries and regions</p> <p>MS Frontier Reinsurance Ltd.</p> <p>Mitsui Sumitomo Reinsurance Ltd.</p>	<ul style="list-style-type: none"> ● Boasting the top overseas network of any company in the Japanese insurance industry, covering the three principal regions of Asia, Europe, and North America and with noteworthy recent augmentation in Asia ● Leveraging strengthened capabilities for reinsurance business created by increasing the capital of MS Frontier Reinsurance and Mitsui Sumitomo Reinsurance
<p>Financial Services</p>	<p>Financial Services Division</p> <p>Sumitomo Mitsui Asset Management Co., Ltd.</p> <p>MITSUI SUMITOMO INSURANCE Venture Capital Co., Ltd.</p>	<ul style="list-style-type: none"> ● Focusing on core financial service fields: financial guaranty, alternative risk transfer (ART), marketing investment trusts, and defined-contribution pensions ● As one of the largest asset management companies in Japan, handling pension funds, investment trusts, and assets of insurance companies ● Emphasizing hands-on investments in start-up and mezzanine companies
<p>Risk-Related Business</p>	<p>InterRisk Research Institute & Consulting, Inc.</p> <p>MITSUI SUMITOMO INSURANCE Care Network Co., Ltd.</p> <p>American Appraisal Japan Co., Ltd.</p>	<ul style="list-style-type: none"> ● As one of the largest risk management consulting companies in Japan, proposing risk solutions to corporate clients ● Providing support for long-term care, engaging in the home-visit care business, operating nursing homes specializing in the provision of fee-based long-term care services, etc. ● Providing global standard asset appraisal services covering real estate and movables as well as such intangible assets as brands and patents

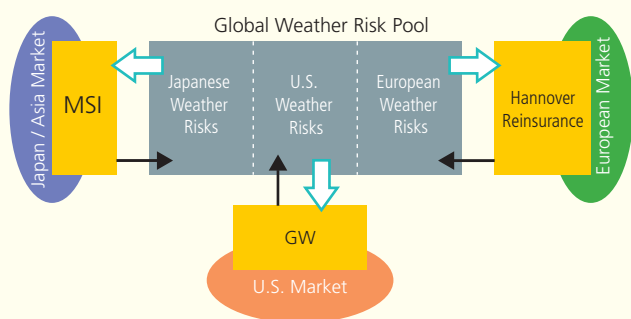
What's New?

Mitsui Seimei General Insurance Business to Be Transferred to Mitsui Sumitomo Insurance

AIMING to further strengthen the Mitsui Sumitomo Insurance (MSI) Group's non-life insurance operations and augment its business scale and profitability, MSI reached an agreement with Mitsui Mutual Life Insurance Company (Mitsui Life) in June 2002 that Mitsui Seimei General Insurance Co., Ltd. (MSGI), a Mitsui Life subsidiary, would transfer its whole business to MSI. From November 2002, clients with soon-to-expire MSGI policies have been advised to renew their coverage by switching to MSI policies. Proactive advisory activities have effectively familiarized MSGI clients with the virtues of MSI products and services and promoted the smooth arrangement of MSI policy contracts. Preparations are also under way to transfer all MSGI's policies remaining in November 2003 to MSI.

Global Business Alliance to Strengthen Weather Derivatives Business

IN April 2003, MSI formed a strategic alliance involving the collaborative global development of weather derivatives business with GuaranteedWeather Holding Ltd. (GW), which is headquartered in Bermuda but manages its operations from bases in the United States. The alliance calls for weather risks underwritten by MSI in Asian markets, GW in American markets, and Hannover Reinsurance Company in European markets to be amalgamated as a globally diversified portfolio administered by GW. Each partner will receive a share of the overall profit generated by the



global portfolio.

As a result, MSI will work to promote the progressive global dispersion of its weather-related risk business, and the Company expects to be able to increase the profitability of its weather risk business and further increase its capacity for underwriting weather risks. MSI has now positioned itself to offer its customers a wide range of weather risk management derivative products that meet their diverse risk-hedging needs at relatively low and stable prices.

Global Reinsurance Operations—Strengthening Subsidiaries' Capital and Launching New Business Expansion Plans

WHILE the reinsurance industry has recently faced various challenges—including severely soft market conditions since the mid-1990s, large-scale, natural catastrophe losses in 1999, and the September 11 terrorist attacks in 2001—conditions in the reinsurance market are now showing clear signs of firming.

In view of the sharp upturn in the market, MSI has begun strengthening its capabilities for taking advantage of various reinsurance business opportunities in a flexible and timely manner. Our core objective is to consolidate reinsurance strategies for domestic and international risks as well as for outward and inward reinsurance while maximizing the contribution to the MSI Group's earnings and capital efficiency.

Two subsidiaries are playing a vital role in helping achieve this objective.

- Bermuda-based MS Frontier Reinsurance Ltd. increased its capital base to U.S.\$100 million in April 2002 and obtained a AA- financial strength rating from Standard & Poor's. By organizing prudent underwriting activities based on catastrophe-modeling assessments, the subsidiary writes overseas property catastrophe reinsurance and executes various swap deals to help optimize the geographic risk dispersal of the MSI Group's catastrophe risk portfolio, which is excessively concentrated in Japan.
- Ireland-based Mitsui Sumitomo Reinsurance Ltd., which

at's New?

has also received a AA- rating from Standard & Poor's, is principally focusing on the writing of noncatastrophe property and casualty reinsurance in Asia and Europe. In April 2002, MSI increased Mitsui Sumitomo Reinsurance's capital to €40 million to enable the subsidiary to considerably expand its operations.

Besides obtaining external reinsurance for its domestic risks, MSI selectively assumes overseas risks to increase its earnings and to optimize the structure of its overall risk portfolio to maximize capital employment efficiency.

Joint Venture to Operate in India's Non-Life Insurance Market

On April 14, 2003, MSI and the India-based Murugappa Group arranged an MSI investment in a Murugappa Group member—Cholamandalam General Insurance Company Limited—that converted that company into a joint venture renamed Cholamandalam MS General Insurance Company Limited (Cholamandalam MS). Current Indian laws and regulations limit foreign shareholdings in local companies to 26%, which is the level of MSI's shareholding in Cholamandalam MS, which is based in Chennai and has 140 employees. However, MSI has nominated half the directors of the joint venture, which is being managed cooperatively by its parent companies.

The Indian market has huge growth potential second only to the Chinese market, and India's non-life insurance market is projected to sustain annual growth at a 10%

rate. MSI has seconded four employees—one of which is serving as executive vice president—to Cholamandalam MS, and is also supplying insurance products and other financial technologies. Cholamandalam MS is seeking to convince Japanese-affiliated companies to switch over to its products from the products of other insurance companies, and it is working to acquire contracts not only with Japan-affiliated companies but also with Republic of Korea-affiliated companies and other multinational joint ventures in India.

Representative Office Established in Suzhou

On April 1, 2003, MSI opened a representative office in Suzhou, Jiangsu Province, China, after having obtained permission from the China Insurance Regulatory Commission.

Since establishing its Shanghai Branch in May 2001, MSI has steadily expanded its operations in China. Noting the rapid economic development in Jiangsu Province as a hinterland of Shanghai and the accelerating rise in Japan-affiliated companies in the region, MSI decided that a representative office in Suzhou would make an important contribution to providing clients in Jiangsu Province with improved services. This office is the Company's seventh representative office in China. Working primarily through our Shanghai Branch, we are providing clients that are developing business operations in China with strong support for devising optimal risk management solutions.



MSI and the Murugappa Group agree to create a joint venture.



The building housing the Suzhou Office

Review of Operations

insurance business

Hull Insurance

Mitsui Sumitomo Insurance (MSI) provides a full range of Hull Insurance products for the shipping and shipbuilding industries. These include coverage against physical damage to ships, collision liability, loss of profit, and damage due to war risk. For shipbuilders, we offer policies that cover damage to vessels under construction or repair. Additional products include insurance against losses incurred during marine-based civil engineering work, oil field development, and plant construction. The Company utilizes its unparalleled sales force and product development capabilities to provide services that match client needs, in turn winning the unwavering trust and praise of clients.

In fiscal 2002, net premiums written decreased 2.6%, to ¥12.8 billion, owing mainly to the impact of the appreciation of the yen as well as the gradual normalization of insurance premium rates following a rate surge in the wake of the September 11 terrorist attacks in the United States.

Cargo and Transit Insurance

MSI primarily offers customized Cargo and Transit Insurance products that provide protection against accidental losses or damage to

cargoes during shipment both domestically and overseas by vessel, aircraft, or land conveyance.

The Company has an extensive sales and claims-handling network throughout Japan and overseas and maintains a leading position in the industry and the world market.

In fiscal 2002, net premiums written grew 7.9%, to ¥57.3 billion, reflecting such factors as recovery of Japanese exports.

Fire and Allied Lines Insurance

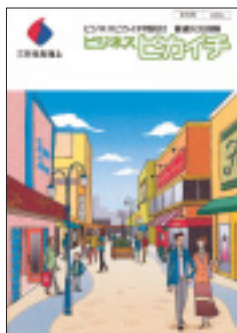
In fiscal 2002, MSI proactively marketed innovative and unique high-unit-value products in each market. The Company emphasized sales promotion measures for *Home Pikaichi*, the highest class Fire Insurance for homeowners, and *Business Guard*, Fire Insurance with full coverage for all risks for small and medium-sized companies, and it introduced *Property Master*, comprehensive insurance for property damage and business interruption in April 2002. Thus, despite the adverse effects of the weakness of private-sector capital investment and a decline in new housing starts, net premiums written for Fire Insurance increased 2.3%, to ¥170.3 billion.

Regarding fiscal 2003, in June 2003, MSI launched two products—*Business Pikaichi*, a Fire Insurance product with full coverage for small and medium-sized companies that is a successor product to *Business Guard*, and *Kazai FIT* Fire Insurance for household goods. Having bolstered our lines of products that meet the needs of the household and company market segments, we are leveraging the virtues of the upgraded product lineup as we proactively promote their sale.



Home Pikaichi

MSI has offered the popular *Home Pikaichi*, the highest class Fire Insurance for homeowners since 2001.



Business Pikaichi

The recently introduced *Business Pikaichi* is a Fire Insurance product providing full coverage to small and medium-sized companies.

Personal Accident Insurance

Among products related to the Third Sector of insurance that MSI has developed are *VIV* Individual Accident and Medical Insurance and *VIV Flora* Individual Accident and Medical Insurance for women, which were launched in April and June 2002, respectively. We have also striven to meet diverse customer needs by strengthening our line of Individual Accident and Medical Insurance products, such as savings-type *VIV*, which offers a refund at policy maturity and has been marketed since September 2002.

Another noteworthy product launched in September 2002 is *Super J Plan* Personal Accident Insurance for companies. *Super J Plan* features a simple enrollment process, and its sales have increased steadily.

However, because revenue from savings-type products decreased amid the low-interest-rate environment, net premiums written for all Personal Accident Insurance products declined 1.2%, to ¥123.9 billion.

To meet the rising requirements associated with the increasing proportion of seniors in Japanese society, in fiscal 2003, MSI launched *V-CARE* Long-Term Care Insurance, which has been highly appreciated by customers. We intend to continue working hard to develop and supply top-quality Personal Accident Insurance products and services.

Voluntary Automobile Insurance

In October 2002, MSI commemorated the first anniversary of its establishment and took steps to further upgrade its voluntary automobile insurance product line with emphasis on the



VIV
MSI has marketed its flagship *VIV* Individual Accident and Medical Insurance policies since fiscal 2002.



V-Care
V-Care Long-Term Care Insurance helps support insured individuals as well as family members providing long-term nursing care.



MOST
MOST for Families is Japan's first Automobile Insurance product to cover injuries from accidents that occur in the course of everyday life.

fundamental concept of *MOST* Voluntary Automobile Insurance—providing customers with top-quality coverage and the ability to choose among different types of coverage in line with individual needs. For example, coverage under *MOST for Families* products was expanded to include injuries from accidents that occur in the course of everyday life. Among products newly introduced during fiscal 2002 are *Special Clause for Owner Expense Coverage*, which covers expenses such as those associated with the purchase of replacement vehicles following accidents and with measures for preventing the recurrence of vehicle theft.

To more precisely meet the needs of corporate customers, MSI expanded its *MOST for Businesses* product line to include the *Nonfleet Multi-Vehicle Package Policy*, which is designed for companies that operate only a small number of vehicles but desire unified package coverage for them so that they can manage the contracts more efficiently and also enjoy premium discounts.

In fiscal 2002, MSI undertook proactive marketing programs focused mainly on *MOST* and also worked to reduce its loss ratio through such measures as strengthening its risk management services. An additional factor affecting performance was the maturation during fiscal 2002 of a large number of *Modo-Rich* policies. *Modo-Rich* is a unique MSI Automobile Insurance product that offers special provisions for premium adjustments and refunds at maturity, and the maturity of a large number of *Modo-Rich* policies led to a considerable increase in the Company's refund expenses. As a result, net premiums written decreased 4.5%, to ¥575.9 billion.

Compulsory Automobile Liability Insurance

In Japan, the Automobile Liability Security Law requires all automobile owners to have Compulsory Automobile Liability Insurance that indemnifies—up to a prescribed amount—against the death or injury of other persons as a result of an automobile accident.

In April 2002 major changes were made to Japan's Compulsory Automobile Liability Insurance system, including the elimination of the government reinsurance program as well as moves to enable insurance companies to handle the reinsurance role previously played by the government. As a result of these changes, net premiums written surged 82.3%, to ¥165.0 billion.

Other Property and Casualty Insurance

MSI has been vigorously introducing new insurance products that meet market needs and cover new types of risks while responding to the deregulation of insurance for commercial businesses.

In fiscal 2002, MSI emphasized marketing promotion campaigns for principal new products introduced in each market segment since its establishment. In addition, in November 2002, the Company launched two new products—*Kigyo Sogo Baisyo Sekinin Hoken*, Commercial General Liability Policy for businesses, which covers most of the liability risks associated with the domestic operations of small and medium-sized companies, and *EL*, new Employers' Liability Insurance, which covers corporate liability related to unexpected labor accidents—and worked to expand sales of these products. Net premiums written for other property and casualty insurance products increased 8.3%, to ¥195.5 billion. This

resulted from Aviation Insurance premium hikes following the September 11 terrorist attacks in the United States as well as the business expansion of our own Lloyds syndicates' underwriting Liability Insurance and other types of insurance.

Life Insurance

Taking full advantage of the benefits of the October 2001 merger, Mitsui Sumitomo Kirameki Life Insurance greatly increased its new business in fiscal 2002 while progressing with various efficiency-raising measures. As a result, the wholly owned subsidiary provided a powerful forward momentum to the MSI Group's life insurance business. During fiscal 2002, the Group's new business in Individual Insurance and Individual Annuity Insurance surged 30.4%, to ¥1,122.4 billion, and the total amount of insurance in force surpassed the ¥5 trillion mark, reaching ¥5,037.0 billion. As a result, premium income for life insurance rose 7.6%, to ¥147.8 billion. These achievements reflected the intensification of training programs for insurance agents, the emphasis placed on fostering the development of agents with vigorous consulting sales capabilities, and the implementation of strategic marketing promotion programs for income policies and other protection-oriented products.

Other noteworthy developments during fiscal 2002 included the February 2003 start of *MS Shushin* market interest sensitive Whole Life Insurance and *MS Shushin α* lapse-supported market interest sensitive Whole Life Insurance, with lower surrender cash value. These new products incorporate provisions that enable clients who enroll during the current low interest rate environment to enjoy nearly as much



MS Shushin

MS Shushin Whole Life Insurance products with market-sensitive interest rates will provide increasing insurance benefits when interest rates rise.

increasing insurance benefits as interest rates rise in the future. We are positioning them along with income policies as core strategic products expected to show significant rises in sales during fiscal 2003 and beyond. We also began OTC sales via approximately 150 banking institutions in October 2002. We anticipate that all our various initiatives including this new marketing channel will enable additional growth in insurance sales.

The MSI Group's life insurance business has expanded into an additional field. To respond to customers' increasingly diverse needs for financial products, the Company cooperated with U.S.-based Citigroup to establish Mitsui Sumitomo CitilInsurance Life Insurance Co., Ltd. (MSICiti), which began operating in October 2002. The new joint venture is specializing in the underwriting of variable annuity schemes and is currently marketing nine types of products through 36 cooperating securities companies, commercial banks, trust banks, and *shinkin* banks throughout Japan. Variable annuity products are a highly attractive new type of product that combine the appeal of fund management, insurance, and annuity products. As changes in Japanese lifestyles and in the investment environment are creating growing needs for annuity products that enable customers to enjoy investment returns while carrying risks on their own, MSICiti's operations have gotten off to a strong start. In the ten months through July 2003, the new joint venture arranged 15,000 contracts and recorded ¥110.0 billion in sales.



MSICiti
MSICiti provides variable annuity plans that combine the appeal of fund management, insurance, and annuity products.

international operations

Drawing on many years of international insurance business experience, MSI has focused on enhancing its worldwide operations to ensure the continued provision of effective advice as well as products and services optimally suited to client needs on a global basis. In October 2002, the Company became the first Japanese non-life insurance company to begin directly underwriting and selling non-life insurance products in the Republic of Korea. Regarding China, in April 2003, we opened a representative office in Suzhou, Jiangsu Province. Principally through our Shanghai Branch, which was established in May 2001, we are providing clients that are developing business operations in China with support for devising optimal risk management solutions. In April 2003, MSI and an Indian conglomerate established Cholamandalam MS General Insurance Company Limited. The Indian market offers enormous growth potential second only to the Chinese market, and the new India-based joint venture is leveraging various financial technologies obtained from MSI as it sells non-life insurance products and upgrades its service and support for customers in Japan and the Republic of Korea.

The Group's open market operation in London, Mitsui Sumitomo Insurance (London Management) Limited, has continued to grow steadily since its foundation in April 2000. It has become well known at Lloyd's and in the London market.

The merger has enabled the integration of overlapping branches, the promotion of effective management at overseas branches, and the further enhancement of our overseas network. As of July 31, 2003, our overseas network comprised 56 bases in 36 countries and regions. In addition, to promote the expansion of reinsurance business, we considerably increased the capital of our two overseas reinsurance subsidiaries.

investment activities

MSI regards security and liquidity as important aspects of investment activities to cover claims and maturity refunds and makes diversified investments to secure stable income. In fiscal 2002, while investing mainly in domestic bonds, we worked to improve the profitability of our investment portfolio by diversifying investment techniques and strengthening efforts to increase loans to individuals. We quantify and periodically monitor risks associated with investments and are striving to further increase the sophistication of our methods for accurately measuring, evaluating, and managing such risks. To maintain solid financial stability, the Company has taken such measures as decreasing its equity holdings to reduce market risk, implementing comprehensive credit exposure management across the various types of investment assets to avoid credit risk concentration, and strengthening comprehensive ALM to effectively control interest rate risk.

financial services

To meet our clients' increasingly diverse needs, including financing needs, MSI continued to provide them with services and solutions through asset securitization programs utilizing advanced financial techniques. The operations of a joint venture between MSI and MBIA Insurance Corporation, which is the largest financial guaranty insurance company in the world, also expanded significantly during the year under review and contributed to profit growth.

In alternative risk transfer (ART) operations, MSI strengthened its weather derivatives business by forming a global alliance with a leading company in the U.S. market and developed such new derivative and swap products as drift ice weather derivatives focused on wind directions and forex swaps on customs duties.



Since the 2001 launch of Japanese defined contribution pension systems, MSI has offered diverse principal protection products and high-quality investment trust products.



MSI has strengthened its weather derivatives business by arranging a global business alliance with a leading company in the U.S. market.

Upon the launch of defined contribution pension systems in Japan in October 2001, MSI became a product-providing institution. The Company offers savings-type Personal Accident Insurance for use as defined contribution pension plans as well as selecting and providing other high-quality domestic and overseas investment trust products. In particular, we have a strong record in arranging for many companies to adopt the above savings-type Personal Accident Insurance products.

Turning to investment trust sales, MSI has been marketing the products of Sumitomo Mitsui Asset Management Co., Ltd., as well as products of numerous other fund management companies in Japan and overseas. We are the leading Japanese non-life insurance company in terms of the balance of investment trusts marketed.

GAAP in the United States

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Five-Year Summary

Mitsui Sumitomo Insurance Co., Ltd. and subsidiaries
For the years ended March 31, 1999, 2000, 2001, 2002 and 2003

	Yen in millions				
	1999	2000	2001	2002	2003
For the year:					
Net premiums written.....	¥1,172,644	¥1,157,796	¥1,195,450	¥1,232,000	¥1,300,681
Net premiums earned.....	1,175,193	1,141,198	1,154,425	1,182,675	1,228,000
Premium income for life insurance contracts.....	69,141	95,610	116,369	137,324	147,761
Investment income, net of investment expenses.....	144,125	128,948	137,310	124,029	116,603
Total revenue	1,402,797	1,430,788	1,438,366	1,436,710	1,490,205
Total expenses.....	1,316,640	1,340,110	1,384,159	1,384,084	1,421,874
Net income (loss) from underwriting	18,726	(19,393)	(36,518)	5,355	17,484
Net income	136,283	60,993	37,983	25,981	38,312
At year-end:					
Total investments	5,888,004	6,374,012	6,091,248	5,784,255	5,355,672
Total assets.....	7,596,804	7,979,086	7,717,668	7,416,455	7,076,642
Total shareholders' equity.....	1,891,679	2,179,332	1,996,517	1,827,169	1,543,053
					Percent
Key ratios*:					
Loss ratio.....	51.3%	54.4%	57.5%	54.9%	55.5%
Combined loss and expense ratio.....	98.3	101.2	102.1	97.8	96.4
Annual percentage change:					
Net income (loss) from underwriting	(9.1)	(203.6)	—	—	226.4
Investment income, net of investment expenses.....	(10.3)	(10.5)	6.5	(9.7)	(6.0)

See accompanying notes to consolidated financial statements.

* The key ratios relate to property and casualty insurance.

Management's Discussion and Analysis

Operating Results

In non-life insurance, net premiums written rose 5.6% from the previous term, to ¥1,300.7 billion. While operating in an environment made harsh due to the slackness of economic conditions and a decline in premium rates, the Company achieved the increase in net premiums by launching new products in its principal Voluntary Automobile, Fire, and Casualty Insurance lines and aggressively expanding its marketing activities. Another major factor contributing to the increase was a rise in revenues owing to the elimination of the government reinsurance program for Compulsory Automobile Liability Insurance. Net premiums earned increased 3.8%, to ¥1,228.0 billion.

In Life Insurance, premium income for life insurance rose 7.6%, to ¥147.8 billion, owing to the active development of business operations at our subsidiary, Mitsui Sumitomo Kirameki Life Insurance.

Performance by business sector was as follows.

Hull

Net premiums written declined 2.6% from the previous term, to ¥12.8 billion. This reflected the stabilization of premium rates following a rate surge in the wake of the September 11 terrorist attacks in the United States and the influence of yen appreciation. Owing to cases of large claims, the loss ratio increased 23.3 percentage points, to 112.0%.

Cargo and Transit

Net premiums written rose 7.9%, to ¥57.3 billion, principally owing to a recovery in Japanese exports that supported a large rise in net premiums written for Cargo Insurance. The loss ratio fell 6.4 percentage points, to 40.9%.

Fire and Allied Lines

Net premiums written advanced 2.3%, to ¥170.3 billion, as robust sales of new products developed for households and companies offset the slackness of private-sector capital investment and a decrease in housing starts. Although damages from natural disasters were low compared to previous fiscal years, damage from Typhoon 21 caused the loss ratio to edge up 0.6 percentage point, to 39.3%.

Personal Accident

Net premiums written declined 1.2%, to ¥123.9 billion, owing to a drop in savings-type insurance products that offset the effects of the Company's launch and proactive marketing of new products. The loss ratio increased 2.4 percentage points, to 40.4%.

Voluntary Automobile

Net premiums written decreased 4.5%, to ¥575.9 billion. While the Company continued proactive marketing operations centered on its flagship MOST product, the main reason for the decline in net premiums written was a large rise in refund expenses owing

to the maturity of a considerable volume of the Company's unique *Modo-Rich* Automobile Insurance policies marketed in previous periods.

The loss ratio decreased 1.6 percentage points from the previous fiscal year, to 56.0%. This resulted from the strengthening of risk management services as well as a relatively low level of impact from floods and other natural disasters compared to previous fiscal years. Automobile theft has become a major issue in recent years. However, the rise in the number of vehicles stolen during the period under review was offset by a drop in the average claim value, keeping the value of losses roughly unchanged.

Compulsory Automobile Liability

Net premiums written surged 82.3%, to ¥165.0 billion, mainly owing to such major systemic reforms as the elimination of the government reinsurance program for Compulsory Automobile Liability Insurance, which enabled insurance companies to handle the reinsurance role previously played by the government. The loss ratio increased 6.0 percentage points, to 69.6%.

Other Property and Casualty

Net premiums written increased 8.3%, to ¥195.5 billion. This resulted from Aviation Insurance premium rate hikes following the September 11 terrorist attacks in the United States as well as an increase in underwriting Liability Insurance and other types of insurance through the Lloyd's market, in which the Company has been engaged since April 2000. The loss ratio edged up 0.7 percentage point, to 70.2%.

Life

Premium income for Life Insurance rose 7.6%, to ¥147.8 billion, owing to robust growth in the total amount of insurance in force for Individual Insurance and Individual Annuity Insurance.

Losses, Claims, and Loss Adjustment Expenses

Losses and claims incurred grew ¥32.3 billion, to ¥681.5 billion, due to a rise in losses and claims on Compulsory Automobile Liability and other property and casualty products. Loss adjustment expenses increased ¥6.4 billion, to ¥64.2 billion. As a result, losses, claims, and loss adjustment expenses, expressed as a percentage of net premiums earned, edged up 0.9 percentage point, to 60.7%.

Underwriting and Administrative Expenses Incurred

Underwriting and administrative expenses incurred fell ¥3.9 billion, to ¥464.3 billion, due to facility consolidation moves and personnel reductions enabled by the merger. As a result of this and the rise in premiums written, underwriting and administrative expenses incurred as a percentage of premiums written showed a noteworthy drop of 2.3 percentage points, to 35.7%. The combined loss and expense ratio decreased by 1.4 percentage points, to 96.4%.

Investments and Income

Investment income, net of investment expenses, fell 6.0% from ¥124.0 billion level of the previous fiscal year, to ¥116.6 billion, as domestic interest rates remained at low levels. Realized losses on investments amounted to ¥2.2 billion, but this figure reflected significant improvement from the ¥7.3 billion of realized losses on investments in the previous fiscal year. Partly as a result of the preceding factors, income before income taxes surged 29.8% from the ¥52.6 billion level in the previous fiscal year, to ¥68.3 billion. Net income totaled ¥38.3 billion, up 47.5%. Net income per share assuming dilution amounted to ¥24.93, compared with ¥16.53 in the previous year.

Cash Flow Analysis and Financial Position

Cash and cash equivalents at the end of the fiscal year amounted to ¥371.1 billion, almost unchanged from ¥372.8 billion at the previous fiscal year-end. Net cash provided by operating activities amounted to ¥243.5 billion, up considerably from ¥187.4 billion in the previous fiscal year. The main factors behind this increase were a rise in premiums written and a decrease in other expenses including the costs for integration.

Net cash provided by investing activities amounted to ¥2.2 billion, compared with the ¥15.8 billion used in investing activities in the previous fiscal year. A large factor behind the change was sales of equity securities.

Net cash used in financing activities totaled ¥248.1 billion, up from ¥201.3 billion in the previous fiscal year. This reflected the redemption of convertible bonds in the previous fiscal year and the fiscal year under review.

Total assets at March 31, 2003, stood at ¥7,076.6 billion, down 4.6% from the previous fiscal year-end. Total investments (—other than investments in affiliates—) fell 7.4%, to ¥5,355.7 billion, due mainly to a substantial decrease in equity securities.

Total shareholders' equity was ¥1,543.1 billion, down considerably from ¥1,827.2 billion at the end of the previous fiscal year. The main cause for the drop was a decrease in accumulated other comprehensive income due to a fall in unrealized gains on equity securities.

The equity ratio was 21.8%, compared with 24.6% at the end of the previous fiscal year.

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 Japanese Ministry of Finance's 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 Ministry of Finance and the Financial Services Agency of Japan, 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, 2002 and 2003

(Yen in billions)

	2002	2003	Change (%)	
Solvency margin total amount.....	¥2,297.1	¥1,947.5	-349.6	(-15.2%)
Risk amount.....	429.7	418.5	-11.2	(-2.6%)
Solvency margin ratio.....	1,069.2%	930.7%	-138.5 points	

The Company'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 bonds, 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, 2003

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	Best's Ratings	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.

	1999		2000		2001	
	¥	%	¥	%	¥	%
Hull	21,114	1.65%	18,608	1.47%	18,018	1.37%
Cargo and Transit	64,732	5.05	57,249	4.53	59,124	4.49
Fire and Allied Lines ¹	194,248	15.16	189,292	14.99	196,203	14.91
Personal Accident ²	142,156	11.10	134,615	10.66	133,106	10.12
Voluntary Automobile.....	563,857	44.02	568,105	44.97	594,744	45.22
Compulsory Automobile Liability ³	141,816	11.07	146,120	11.57	149,700	11.38
Other ⁴	153,008	11.95	149,220	11.81	164,597	12.51
Total	¥1,280,931	100.00%	¥1,263,209	100.00%	¥1,315,492	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. See Note 1 (a) of the notes to the consolidated financial statements, page 38.

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, 2002 and 2003.

	Reinsurance Premiums Assumed			Reinsurance Premiums Ceded		
	2002	2003	2003	2002	2003	2003
Hull	¥ 7,090	¥ 6,259	\$ 52,158	¥ 14,335	¥ 12,709	\$ 105,908
Cargo and Transit	8,318	8,574	71,450	14,904	14,579	121,492
Fire and Allied Lines ¹	23,098	31,786	264,884	48,488	62,135	517,792
Personal Accident ²	1,034	1,636	13,633	2,642	2,770	23,083
Voluntary Automobile.....	5,957	4,927	41,058	6,276	5,568	46,400
Compulsory Automobile Liability ³	47,588	125,046	1,042,050	106,985	141,571	1,179,758
Other ⁴	46,823	54,477	453,975	50,221	66,380	553,167
Total	¥139,908	¥232,705	\$1,939,208	¥243,851	¥305,712	\$2,547,600

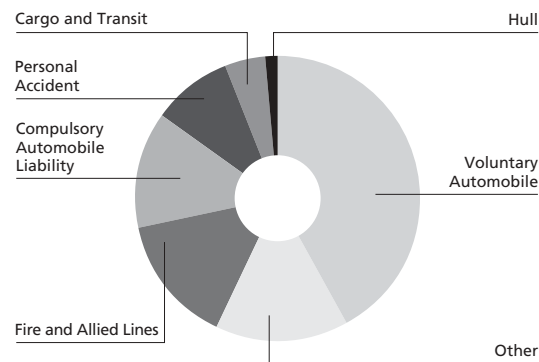
¹⁻⁴ Same as above notes for Direct Premiums Written

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

Amounts in the table have been restated from amounts previously reported. See Note 1 (a) of the notes to the consolidated financial statements, page 38.

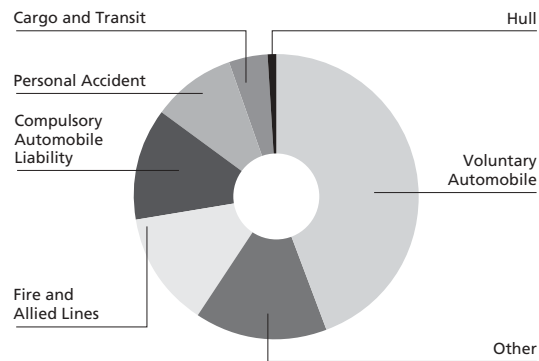
(Yen in millions; dollars in thousands)					
2002			2003		
¥	20,368	1.52%	¥	19,232	1.40%
	59,741	4.47		63,352	4.61
	191,921	14.37		200,643	14.61
	127,000	9.51		125,032	9.10
	603,151	45.15		576,510	41.96
	149,911	11.22		181,560	13.22
	183,851	13.76		207,359	15.10
	¥1,335,943	100.00%		¥1,373,688	100.00%
					\$ 160,267
					527,933
					1,672,025
					1,041,933
					4,804,250
					1,513,000
					1,727,992
					\$11,447,400

Direct Premiums Written (2003)
Total ¥1,373.7 billion



(Yen in millions; dollars in thousands)					
Net Premiums Written					
2002			2003		
¥	13,123	1.07%	¥	12,782	0.98%
	53,155	4.31		57,347	4.41
	166,531	13.52		170,294	13.09
	125,392	10.18		123,898	9.53
	602,832	48.92		575,869	44.27
	90,514	7.35		165,035	12.69
	180,453	14.65		195,456	15.03
	¥1,232,000	100.00%		¥1,300,681	100.00%
					\$ 106,517
					477,891
					1,419,117
					1,032,483
					4,798,908
					1,375,292
					1,628,800
					\$10,839,008

Net Premiums Written (2003)
Total ¥1,300.7 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
	1999	2000	2001	2002	2003	2003
Hull:						
Net premiums written.....	¥ 13,939	¥ 12,144	¥ 10,947	¥ 13,123	¥ 12,782	\$ 106,517
Net premiums earned.....	14,442	12,799	11,157	12,144	12,895	107,458
Losses incurred	9,827	8,945	8,759	10,772	14,442	120,350
Loss ratio	68.0%	69.9%	78.5%	88.7%	112.0%	
Cargo and Transit:						
Net premiums written.....	¥ 57,233	¥ 51,455	¥ 53,116	¥ 53,155	¥ 57,347	\$ 477,891
Net premiums earned.....	59,133	51,753	52,719	52,995	56,802	473,350
Losses incurred	26,869	24,356	25,875	25,043	23,235	193,625
Loss ratio	45.4%	47.1%	49.1%	47.3%	40.9%	
Fire and Allied Lines:						
Net premiums written.....	¥ 165,268	¥ 166,106	¥ 167,298	¥ 166,531	¥ 170,294	\$ 1,419,117
Net premiums earned.....	155,212	152,570	153,961	150,328	149,838	1,248,650
Losses incurred	73,115	74,125	59,788	58,153	58,862	490,517
Loss ratio	47.1%	48.6%	38.8%	38.7%	39.3%	
Personal Accident:						
Net premiums written.....	¥ 140,606	¥ 133,151	¥ 131,600	¥ 125,392	¥ 123,898	\$ 1,032,483
Net premiums earned.....	145,699	139,103	134,128	130,410	126,099	1,050,825
Losses incurred	57,363	54,152	52,861	49,596	50,951	424,592
Loss ratio	39.4%	38.9%	39.4%	38.0%	40.4%	
Voluntary Automobile:						
Net premiums written.....	¥ 561,641	¥ 566,064	¥ 592,875	¥ 602,832	¥ 575,869	\$ 4,798,908
Net premiums earned.....	570,183	560,574	576,635	593,876	596,454	4,970,450
Losses incurred	300,320	321,476	357,986	342,008	333,971	2,783,091
Loss ratio	52.7%	57.3%	62.1%	57.6%	56.0%	
Compulsory Automobile Liability:						
Net premiums written.....	¥ 83,426	¥ 85,356	¥ 87,718	¥ 90,514	¥ 165,035	\$ 1,375,292
Net premiums earned.....	86,097	84,975	86,037	87,676	107,606	896,717
Losses incurred	52,133	54,131	56,866	55,787	74,867	623,892
Loss ratio	60.6%	63.7%	66.1%	63.6%	69.6%	
Other:						
Net premiums written.....	¥ 150,531	¥ 143,520	¥ 151,896	¥ 180,453	¥ 195,456	\$ 1,628,800
Net premiums earned.....	144,427	139,424	139,788	155,246	178,306	1,485,883
Losses incurred	82,669	83,551	101,720	107,925	125,211	1,043,425
Loss ratio	57.2%	59.9%	72.8%	69.5%	70.2%	
Total:						
Net premiums written.....	¥1,172,644	¥1,157,796	¥1,195,450	¥1,232,000	¥1,300,681	\$10,839,008
Net premiums earned.....	1,175,193	1,141,198	1,154,425	1,182,675	1,228,000	10,233,333
Losses incurred	602,296	620,736	663,855	649,284	681,539	5,679,492
Loss ratio	51.3%	54.4%	57.5%	54.9%	55.5%	
Loss adjustment expenses incurred—unallocated	¥ 57,333	¥ 59,325	¥ 61,443	¥ 57,779	¥ 64,216	\$ 535,133
Ratio of losses and loss adjustment expenses incurred to premiums earned	56.1%	59.6%	62.8%	59.8%	60.7%	
Underwriting and administrative expenses incurred	¥ 495,256	¥ 482,132	¥ 469,619	¥ 468,261	¥ 464,321	\$ 3,869,342
Ratio of underwriting and administrative expenses incurred to premiums written	42.2%	41.6%	39.3%	38.0%	35.7%	
Combined loss and expense ratio.....	98.3%	101.2%	102.1%	97.8%	96.4%	
Net premiums/direct premiums written ratio.....	91.5%	91.7%	90.9%	92.2%	94.7%	

* Amounts in the table have been restated from amounts previously reported. See Note 1 (a) of the notes to the consolidated financial statements, page 38.

Investments

The following table summarizes the investments of Mitsui Sumitomo Insurance at March 31, 2002 and 2003.

Cost or amortized cost	Yen in millions		Percent of total investments		Dollars in thousands
	2002	2003	2002	2003	2003
Bonds:					
Japanese bonds.....	¥2,011,329	¥2,098,397	43.68%	45.92%	\$17,486,642
Foreign bonds	619,906	602,511	13.46	13.18	5,020,925
Total bonds.....	2,631,235	2,700,908	57.14	59.10	22,507,567
Stocks—other than affiliates:					
Japanese companies	886,431	868,077	19.25	18.99	7,233,975
Foreign companies.....	172,566	165,213	3.75	3.61	1,376,775
Total common stock— other than affiliates.....	1,058,997	1,033,290	23.00	22.60	8,610,750
Loans—other than affiliates:					
Mortgage loans on real estate.....	30,921	26,752	0.67	0.59	222,933
Mortgage loans on vessels and facilities	6,531	2,363	0.14	0.05	19,692
Collateral and guaranteed loans	319,181	306,756	6.93	6.71	2,556,300
Unsecured loans.....	392,399	373,863	8.52	8.18	3,115,525
Total loans.....	749,032	709,734	16.26	15.53	5,914,450
Other:					
Short-term investments	88,486	56,167	1.92	1.23	468,058
Investment real estate.....	76,131	69,747	1.65	1.53	581,225
Long-term investments.....	1,352	303	0.03	0.01	2,525
Total investments	¥4,605,233	¥4,570,149	100.00%	100.00%	\$38,084,575

Value shown on balance sheets	Yen in millions		Percent of total investments		Dollars in thousands
	2002	2003	2002	2003	2003
Bonds:					
Japanese bonds.....	¥2,073,738	¥2,203,575	35.85%	41.15%	\$18,363,125
Foreign bonds	694,521	690,519	12.01	12.89	5,754,325
Total bonds.....	2,768,259	2,894,094	47.86	54.04	24,117,450
Stocks—other than affiliates:					
Japanese companies	1,917,706	1,462,735	33.15	27.31	12,189,459
Foreign companies.....	183,289	162,892	3.17	3.04	1,357,433
Total common stock— other than affiliates.....	2,100,995	1,625,627	36.32	30.35	13,546,892
Loans—other than affiliates:					
Mortgage loans on real estate.....	30,921	26,752	0.54	0.50	222,933
Mortgage loans on vessels and facilities	6,531	2,363	0.11	0.04	19,692
Collateral and guaranteed loans	319,181	306,756	5.52	5.73	2,556,300
Unsecured loans.....	392,399	373,863	6.78	6.98	3,115,525
Total loans.....	749,032	709,734	12.95	13.25	5,914,450
Other:					
Short-term investments	88,486	56,167	1.53	1.05	468,058
Investment real estate.....	76,131	69,747	1.32	1.30	581,225
Long-term investments.....	1,352	303	0.02	0.01	2,525
Total investments	¥5,784,255	¥5,355,672	100.00%	100.00%	\$44,630,600

Consolidated Balance Sheets

Mitsui Sumitomo Insurance Co., Ltd. and subsidiaries
March 31, 2002 and 2003

Assets	Yen in millions		Dollars in thousands
	2002	2003	2003
Investments—other than investments in affiliates (Notes 3 and 11):			
Securities available for sale:			
Fixed maturities, at fair value	¥2,763,711	¥2,892,047	\$24,100,392
Equity securities, at fair value	2,100,995	1,625,627	13,546,892
Securities held to maturity:			
Fixed maturities, at amortized cost	4,548	2,047	17,058
Mortgage loans on real estate	30,921	26,752	222,933
Investment real estate, at cost less accumulated depreciation of ¥46,468 million in 2002; ¥44,654 million (\$372,167 thousand) in 2003	76,131	69,747	581,225
Policy loans	32,847	33,899	282,492
Other long-term investments	686,616	649,386	5,411,550
Short-term investments	88,486	56,167	468,058
Total investments	5,784,255	5,355,672	44,630,600
Cash and cash equivalents	372,781	371,119	3,092,658
Investments in and indebtedness from affiliates:			
Investments	18,731	25,382	211,517
Indebtedness (Note 11)	3,451	2,972	24,767
Total investments in and indebtedness from affiliates	22,182	28,354	236,284
Accrued investment income	24,852	22,576	188,133
Premiums receivable and agents' balances	125,028	118,693	989,108
Prepaid reinsurance premiums	167,642	195,452	1,628,767
Funds held by or deposited with ceding reinsurers	52,834	59,399	494,992
Reinsurance recoverable on paid losses	69,083	71,938	599,483
Reinsurance recoverable on unpaid losses	126,149	143,597	1,196,642
Property and equipment, net of accumulated depreciation (Note 4)	253,467	239,652	1,997,100
Deferred policy acquisition costs (Note 2(h))	336,750	346,735	2,889,458
Other assets	81,432	123,455	1,028,792
Total assets	¥7,416,455	¥7,076,642	\$58,972,017

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Yen in millions		Dollars in thousands
	2002	2003	2003
Liabilities:			
Losses and claims (Note 22):			
Reported and estimated losses and claims.....	¥ 573,087	¥ 630,581	\$ 5,254,842
Adjustment expenses.....	28,996	29,597	246,641
Total losses and claims	602,083	660,178	5,501,483
Unearned premiums.....	1,109,904	1,209,348	10,077,900
Future policy benefits for life insurance contracts.....	356,724	444,041	3,700,342
Investment deposits by policyholders (Notes 8 and 11).....	2,677,232	2,507,250	20,893,750
Indebtedness to affiliates.....	2,167	1,700	14,167
Accrued income taxes (Note 5):			
Payable.....	3,381	22,181	184,842
Deferred applicable to:			
Unrealized gains on investments.....	425,529	281,695	2,347,458
Other.....	3,981	(27,385)	(228,208)
Total accrued income taxes	432,891	276,491	2,304,092
Retirement and severance benefits (Note 7).....	145,195	210,143	1,751,192
Ceded reinsurance balances payable.....	65,326	81,520	679,333
Short-term debt (Note 6).....	64,148	22,647	188,725
Long-term debt (Notes 6 and 11).....	22,500	1,100	9,167
Other liabilities.....	109,880	118,318	985,983
Total liabilities	5,588,050	5,532,736	46,106,134
Minority interests.....	1,236	853	7,108
Shareholders' equity:			
Common stock:			
Authorized—3,000,000,000 shares; issued—1,479,894,005 shares in 2002 and in 2003 (Notes 6 and 14).....	126,376	126,376	1,053,133
Other shareholders' equity:			
Additional paid-in capital (Note 14).....	75,372	75,372	628,100
Retained earnings:			
Appropriated (Note 15):			
Legal reserve.....	36,585	38,953	324,608
Reserve for price fluctuation.....	20,663	6,831	56,925
Unappropriated (Note 16).....	1,038,971	1,077,797	8,981,642
Accumulated other comprehensive income (Note 17).....	540,805	233,696	1,947,467
Treasury stock, 19,921,884 shares in 2002 and 28,301,836 shares in 2003, at cost.....	(11,603)	(15,972)	(133,100)
Total shareholders' equity	1,827,169	1,543,053	12,858,775
Commitments and contingent liabilities (Notes 9 and 13)			
Total liabilities and shareholders' equity	¥7,416,455	¥7,076,642	\$58,972,017

Consolidated Statements of Income

Mitsui Sumitomo Insurance Co., Ltd. and subsidiaries
For the years ended March 31, 2001, 2002 and 2003

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Revenue:				
Net premiums written	¥1,195,450	¥1,232,000	¥1,300,681	\$10,839,008
Less increase in unearned premiums.....	41,025	49,325	72,681	605,675
Net premiums earned (Note 9)	1,154,425	1,182,675	1,228,000	10,233,333
Premium income for life insurance contracts (Note 9).....	116,369	137,324	147,761	1,231,342
Investment income, net of investment expenses (Note 3)	137,310	124,029	116,603	971,692
Realized gains (losses) on investments (Note 3)	30,262	(7,318)	(2,159)	(17,992)
Total revenue	1,438,366	1,436,710	1,490,205	12,418,375
Expenses:				
Losses, claims and loss adjustment expenses (Note 9):				
Losses and claims incurred and provided for	663,855	649,284	681,539	5,679,492
Related adjustment expenses	61,443	57,779	64,216	535,133
Policyholder benefits for life insurance				
contracts (Note 9)	97,304	120,727	129,829	1,081,908
Policy acquisition costs.....	367,520	330,871	364,655	3,038,792
Investment income credited to investment deposits				
by policyholders (Note 8)	76,847	69,440	63,597	529,975
Other expenses (Note 21)	117,190	155,983	118,038	983,650
Total expenses	1,384,159	1,384,084	1,421,874	11,848,950
Income before income taxes	54,207	52,626	68,331	569,425
Income taxes (Note 5):				
Current.....	14,628	17,862	34,489	287,408
Deferred	1,349	8,090	(4,600)	(38,333)
Total income taxes	15,977	25,952	29,889	249,075
Minority interests	247	153	130	1,083
Income before cumulative effect of change				
in accounting principle	37,983	26,521	38,312	319,267
Cumulative effect of change in accounting principle, net of tax (Note 2(o)).....	—	(540)	—	—
Net income	¥ 37,983	¥ 25,981	¥ 38,312	\$ 319,267
Yen				
Dollars				
Earnings per share (Notes 2(p) and 16):				
Income before cumulative effect of change				
in accounting principle:				
Basic	¥25.41	¥17.94	¥26.29	\$0.22
Diluted.....	23.71	16.87	24.93	0.21
Net income:				
Basic	25.41	17.58	26.29	0.22
Diluted.....	23.71	16.53	24.93	0.21

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, 2001, 2002 and 2003

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Net income	¥ 37,983	¥ 25,981	¥ 38,312	\$ 319,267
Other comprehensive loss, net of tax (Note 17):				
Foreign currency translation adjustments	2,699	5,042	(4,650)	(38,750)
Unrealized losses on securities	(186,859)	(188,030)	(257,372)	(2,144,767)
Net gains (losses) on derivative instruments	—	852	(398)	(3,317)
Minimum pension liability adjustment	(6,017)	8,678	(44,689)	(372,408)
Other comprehensive loss	(190,177)	(173,458)	(307,109)	(2,559,242)
Comprehensive income (loss)	¥(152,194)	¥(147,477)	¥(268,797)	\$(2,239,975)

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, 2001, 2002 and 2003

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Common stock:				
Balance at beginning of year	¥ 128,071	¥ 126,374	¥ 126,376	\$ 1,053,133
Conversion of convertible debentures.....	2	2	—	—
Redemption and cancellation of common stock (Note 14)	(1,699)	—	—	—
Balance at end of year	126,374	126,376	126,376	1,053,133
Additional paid-in capital:				
Balance at beginning of year	93,775	75,369	75,372	628,100
Conversion of convertible debentures.....	2	3	—	—
Redemption and cancellation of common stock (Note 14)	(18,408)	—	—	—
Balance at end of year	75,369	75,372	75,372	628,100
Legal reserve:				
Balance at beginning of year	31,964	34,257	36,585	304,875
Transfer from unappropriated retained earnings (Note 15).....	2,293	2,328	2,368	19,733
Balance at end of year	34,257	36,585	38,953	324,608
Reserve for price fluctuation:				
Balance at beginning of year	15,601	19,713	20,663	172,192
Transfer from (to) unappropriated retained earnings (Note 15) ...	4,112	950	(13,832)	(115,267)
Balance at end of year	19,713	20,663	6,831	56,925
Unappropriated retained earnings:				
Balance at beginning of year	1,005,481	1,026,541	1,038,971	8,658,091
Net income for the year.....	37,983	25,981	38,312	319,267
Dividends paid (Note 16)	(10,518)	(10,273)	(10,950)	(91,250)
Transfers from (to) (Note 15):				
Legal reserve.....	(2,293)	(2,328)	(2,368)	(19,733)
Reserve for price fluctuation.....	(4,112)	(950)	13,832	115,267
Balance at end of year (Note 16)	1,026,541	1,038,971	1,077,797	8,981,642
Accumulated other comprehensive income (Notes 3, 5, 7 and 17):				
Balance at beginning of year	904,440	714,263	540,805	4,506,709
Other comprehensive loss, net of tax	(190,177)	(173,458)	(307,109)	(2,559,242)
Balance at end of year	714,263	540,805	233,696	1,947,467
Treasury stock:				
Balance at beginning of year	—	—	(11,603)	(96,692)
Purchase of common stock.....	—	(11,603)	(4,369)	(36,408)
Balance at end of year	—	(11,603)	(15,972)	(133,100)
Total shareholders' equity	¥1,996,517	¥1,827,169	¥1,543,053	\$12,858,775
			Yen	Dollars
Cash dividends per share (Note 16)	¥6.94	¥6.94	¥7.50	\$0.06

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, 2001, 2002 and 2003

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Net cash provided by operating activities (Note 18)	¥205,178	¥187,442	¥243,453	\$2,028,775
Cash flows from investing activities:				
Proceeds from:				
Securities available for sale:				
Fixed maturities	289,121	295,243	325,388	2,711,567
Equity securities.....	97,836	84,592	106,234	885,283
Trading securities:				
Fixed maturities	1,944	—	—	—
Equity securities.....	1,739	—	—	—
Fixed maturities available for sale matured.....	266,059	222,581	229,194	1,909,950
Fixed maturities held to maturity matured.....	1,415	4,100	3,568	29,733
Investment real estate.....	2	—	3,210	26,750
Collection of:				
Mortgage loans on real estate.....	15,871	29,884	11,047	92,058
Policy loans	50,716	36,947	26,841	223,675
Other long-term investments.....	306,855	265,020	206,131	1,717,758
Purchases of:				
Securities available for sale:				
Fixed maturities	(689,604)	(692,980)	(622,497)	(5,187,475)
Equity securities.....	(89,599)	(43,035)	(100,020)	(833,500)
Securities held to maturity:				
Fixed maturities	(13,615)	—	(1,634)	(13,617)
Investments in:				
Mortgage loans on real estate.....	(7,210)	(3,874)	(7,537)	(62,808)
Investment real estate.....	(299)	—	(1,030)	(8,583)
Policy loans	(49,183)	(36,854)	(27,893)	(232,441)
Other long-term investments.....	(174,197)	(185,131)	(175,782)	(1,464,850)
Decrease in short-term investments, net	30,184	18,002	36,585	304,875
Decrease (increase) in investments in and indebtedness from affiliates.....	(1,476)	3,039	(5,236)	(43,633)
Increase in property and equipment, net	(4,696)	(16,259)	(8,155)	(67,958)
Business acquired, net of cash acquired	13,744	—	—	—
Business disposed of, net of cash held by the disposed business.....	—	—	(1,781)	(14,842)
Other, net	(986)	2,966	5,518	45,983
Net cash provided by (used in) investing activities	44,621	(15,759)	2,151	17,925
Cash flows from financing activities:				
Decrease in commercial paper	(30,000)	—	—	—
Decrease in investment deposits by policyholders	(140,359)	(159,054)	(169,560)	(1,413,000)
Repayment of short-term debt.....	—	(19,854)	(64,148)	(534,566)
Proceeds from long-term debt.....	500	—	1,369	11,408
Repayment of long-term debt.....	—	(450)	—	—
Redemption and cancellation of common stock	(20,106)	—	—	—
Acquisition of treasury stock	—	(11,598)	(4,369)	(36,408)
Dividends paid to shareholders	(10,526)	(10,328)	(11,247)	(93,725)
Other, net	(570)	(3)	(194)	(1,617)
Net cash used in financing activities	(201,061)	(201,287)	(248,149)	(2,067,908)
Effect of exchange rate changes on cash and cash equivalents.....	4,275	1,103	883	7,358
Net change in cash and cash equivalents	53,013	(28,501)	(1,662)	(13,850)
Cash and cash equivalents at beginning of year	348,269	401,282	372,781	3,106,508
Cash and cash equivalents at end of year	¥401,282	¥372,781	¥371,119	\$3,092,658

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Mitsui Sumitomo Insurance Co., Ltd. and subsidiaries

(1) Basis of Presentation

(a) Basis of Financial Statements and Merger

The accompanying consolidated financial statements are expressed in yen. However, solely for the convenience of the reader, the consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars at the rate of ¥120=U.S.\$1, the approximate exchange rate prevailing on the Tokyo foreign exchange market on March 31, 2003. This translation should not be construed as a presentation that all the amounts shown could be converted into U.S. dollars.

The accompanying consolidated financial statements of Mitsui Sumitomo Insurance Company, Limited ("the Company") are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

On October 1, 2001, the Company was formed through the merger of Mitsui Marine & Fire Insurance Company, Limited ("Mitsui") and The Sumitomo Marine & Fire Insurance Company, Limited ("Sumitomo"). The merger was accounted for under the pooling-of-interest method, and, accordingly, the consolidated financial statements and financial information prior to the merger have been restated as if the companies had been combined for all periods presented. Certain reclassifications were made to Sumitomo's financial statements to conform to Mitsui's presentation. Intercompany transactions caused by reinsurance transactions were eliminated and reflected in the consolidated balance sheets.

Pursuant to the merger agreement, the Company issued 722,670,455 shares of its common stock in exchange for all of Sumitomo's outstanding shares based on an exchange ratio of 1.09 of a share of the Company's common stock.

The following information is reconciliation of total revenue and net income for the separate companies with amounts presented in the accompanying consolidated financial statements for the year ended March 31, 2001 and for the six months

ended September 30, 2001, the operating period of Mitsui and Sumitomo prior to the merger.

	Yen in millions	
	Year ended March 31, 2001	Six months ended September 30, 2001 (Unaudited)
Revenue:		
Mitsui	¥ 757,508	¥424,553
Sumitomo	680,858	378,605
Combined, as restated	¥1,438,366	¥803,158
Net income:		
Mitsui	¥ 15,364	¥ 7,104
Sumitomo	22,619	8,342
Combined, as restated	¥ 37,983	¥ 15,446

(b) Nature of Operations

The Company and subsidiaries operate mainly in the Japanese domestic insurance industry and sell a wide range of various 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.

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and revenues and expenses during the reporting period. As additional information becomes available, the estimates may be revised and are generally reflected in current operating results.

(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 Insurance Group Holdings (USA), Inc.
Mitsui Marine & Fire Insurance Company of America
Sumitomo Marine & Fire Insurance Company of America
Mitsui Sumitomo Insurance Company (Europe), Limited

The Sumitomo Marine & Fire Insurance Company
(Europe) Limited
Mitsui Sumitomo Insurance (London Management) Limited
Mitsui Sumitomo Insurance (Singapore) Pte Ltd.
Mitsui Sumitomo Insurance Company (Hong Kong) Limited
P.T. Asuransi Mitsui Marine Indonesia
P.T. Asuransi Sumitomo Marine & Pool
Mitsui Sumitomo Seguros S.A.
Mitsui Sumitomo Reinsurance Limited
MS Frontier Reinsurance Limited
Mitsui Sumitomo Kirameki Life Insurance Company, Limited
MITSUI SUMITOMO INSURANCE Venture Capital Co., Ltd.

All material intercompany balances and transactions have been eliminated.

On December 1, 2002 Sumitomo Mitsui Asset Management Company, Limited, the 17.5%-owned affiliate of the Company, was formed through the merger of MITSUI SUMITOMO INSURANCE Asset Management Co., Ltd., the former wholly owned subsidiary of the Company, and four other asset management companies. MITSUI SUMITOMO INSURANCE Asset Management Co., Ltd. was consolidated until November 30, 2002, and Sumitomo Mitsui Asset Management Company, Limited was accounted for under the equity method from December 1, 2002.

Mitsui Sumitomo Insurance (Malaysia) Bhd. is a 47%-owned affiliate and is accounted for under the equity method.

Mitsui Sumitomo Citilinsurance Life 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 in short-term investments 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 other comprehensive income. Securities held to maturity are recorded at amortized cost. Securities which do not have readily determinable fair values are recorded at 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.

On October 1, 2001, Mitsui Mirai Life Insurance Co., Ltd. ("Mitsui Mirai"), a wholly owned life insurance subsidiary of Mitsui merged with and into The Sumitomo Marine Yu-Yu Life Insurance Co., Ltd. ("Sumitomo Yu-Yu"), a wholly owned life insurance subsidiary of Sumitomo. Upon the merger Sumitomo Yu-Yu changed its name to Mitsui Sumitomo Kirameki Life Insurance Co., Ltd. ("Kirameki"). In connection with the merger, fixed maturity debt securities of ¥29,574 million held by Mitsui Mirai were reclassified from "held to maturity" to "available for sale" to conform to an investment management policy of Kirameki. The impact of this reclassification on the financial statements was immaterial.

(d) Investments in Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans throughout Japan. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in Japan.

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 the specific allowance for credit losses.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans placed on nonaccrual 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 observable market price) 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, 2002 and 2003 with respect to foreign branches and agents of the Company represent data within three months before March 31, 2002 and 2003, 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 that 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

On April 1, 2002, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of business. SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of. SFAS No. 144 also changes the criteria for classifying an asset as held for sale; and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The impact of the adoption of SFAS No. 144 on the Company's financial statements was not significant.

In accordance with SFAS No. 144, 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.

(h) Policy Acquisition Costs

For property and casualty insurance, policy acquisition costs are deferred and amortized over the periods in which the related premiums are earned. Acquisition costs include the 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.

For life insurance, certain acquisition costs related to acquiring life insurance contracts are deferred and amortized over the expected lives of the insurance contracts.

Details of policy acquisition costs are as follows:

(Property and casualty insurance)

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Deferred at beginning of year.....	¥271,418	¥278,259	¥302,003	\$2,516,692
Capitalized during year:				
Commissions and brokerage	205,624	206,674	210,390	1,753,250
Salaries and other compensation	94,236	94,308	102,366	853,050
Other underwriting costs ..	71,105	48,723	49,441	412,008
	370,965	349,705	362,197	3,018,308
Amortized during year	(364,124)	(325,961)	(359,409)	(2,995,075)
Deferred at end of year...	¥278,259	¥302,003	¥304,791	\$2,539,925

(Life insurance)

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Deferred at beginning of year.....	¥19,058	¥26,059	¥34,747	\$289,558
Capitalized during year.....	10,397	13,598	12,443	103,692
Amortized during year	(3,396)	(4,910)	(5,246)	(43,717)
Deferred at end of year.....	¥26,059	¥34,747	¥41,944	\$349,533

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.

(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 reserves for unpaid losses and adjustment expenses at March 31, 2002 and 2003 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 be less than 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 have been 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 ¥86,037 million in the year ended March 31, 2001, ¥87,676 million in the year ended March 31, 2002, and ¥107,606 million (\$896,717 thousand) in the year ended March 31, 2003 from underwriting Compulsory Automobile Liability Insurance were recognized.

(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.

Losses resulting from foreign currency transactions in the amount of ¥488 million in the year ended March 31, 2001 and ¥3,666 million (\$30,550 thousand) in the year ended March 31, 2003 and gains in the amount of ¥1,598 million in the year ended March 31, 2002 are included in other expenses in the accompanying consolidated statements of income.

(o) Derivatives

On April 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities," and SFAS No. 138, "Accounting for Derivative Instruments and Certain Hedging Activity, an Amendment of

SFAS No. 133." Upon adoption, all derivatives were recognized on the balance sheet at their fair value. The adoption of SFAS No. 133 and SFAS No. 138 resulted in the Company recording a net transition adjustment loss of ¥540 million (net of related income tax of ¥303 million) in net income and a net transition adjustment loss of ¥243 million (net of related income tax of ¥136 million) in accumulated other comprehensive income at April 1, 2001. Furthermore, the adoption of SFAS No. 133 resulted in the Company recognizing ¥2,720 million of derivative instrument liabilities and increased the carrying amounts of hedged assets by ¥1,675 million.

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"). The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a fair value hedge is recorded in current period earnings, along with the loss or gain on the hedged item attributable to the hedged risk. The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a cash flow hedge is recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the 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 the assessment is considered as not highly effective, the Company discontinues hedge accounting.

Prior to the adoption of SFAS No. 133, the Company entered into two types of derivative instruments, trading and other-than-trading. Trading derivatives were carried at fair value and changes in fair value were recorded in earnings as realized gains on investments. Gains and losses on foreign exchange and futures instruments for purposes other than

trading were recognized in the same period in which gains or losses from the transaction being hedged are recognized. The difference to be paid or received on interest rate swap agreements of other-than-trading derivatives was recognized over the life of the agreement.

(p) Net Income per Share

SFAS No. 128, "Earnings per Share (EPS)" requires dual presentation of basic and diluted EPS with an appropriate reconciliation of both computations (See Note 15). 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, 2001 and 2002 have been reclassified in the accompanying consolidated financial statements to conform with the March 31, 2003 presentation.

(r) New Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 applies to legal obligations related to the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of long-lived assets, except for certain obligations of lessees. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as a part of the carrying amounts of the long-lived asset and subsequently allocated to expenses over the asset's useful life. The Company adopted SFAS No. 143 on April 1, 2003. The adoption of SFAS No. 143 did not have a significant effect on the Company's financial position or results of operations.

In November 2002, the FASB issued Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an Interpretation of FASB Statements No. 5, 57 and 107 and a Rescission of FASB Interpretation No. 34." FIN No. 45 elaborates on the disclosures to be made by a guarantor in

its financial statements about its obligations under guarantees issued. FIN No. 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of FIN No. 45 are applicable to guarantees issued or modified after December 31, 2002. The Company adopted FIN No. 45 on January 1, 2003. The adoption of FIN No. 45 did not have a significant effect on the Company's financial position or results of operations. The disclosure requirements became effective for the Company's financial statements for the year ended March 31, 2003.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." FIN No. 46 addresses the consolidation by business enterprises of variable interest entities as defined in FIN No. 46. FIN No. 46 applies immediately to variable interests in variable interest entities created or obtained after January 31, 2003. For variable interest entities created before February 1, 2003, FIN No. 46 applies no later than the beginning of the first annual reporting period beginning after June 15, 2003. FIN No. 46 also requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when FIN No. 46 becomes effective. The Company is currently evaluating the impact of applying FIN No. 46 to the existing variable interest entities. See Note 12 for the variable interest entities potentially consolidated by the Company in the future.

(3) Investments

The amortized cost of fixed maturity securities or cost of equity securities and money trusts and related fair values were as follows:

(Securities held to maturity)

	Yen in millions				Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		
March 31, 2002:					
Fixed maturity securities:					
U.S. government and government agencies and authorities.....	¥ 212	¥ —	¥—		¥ 212
Governments and government agencies and authorities other than U.S.	50	—	—		50
Other corporate bonds	4,286	508	—		4,794
Total securities held to maturity.....	¥4,548	¥508	¥—		¥5,056

	Yen in millions				Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		
March 31, 2003:					
Fixed maturity securities:					
Governments and government agencies and authorities other than U.S.	¥1,171	¥ —	¥—		¥1,171
Other corporate bonds	876	11	—		887
Total securities held to maturity.....	¥2,047	¥11	¥—		¥2,058

	Dollars in thousands				Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		
March 31, 2003:					
Fixed maturity securities:					
Governments and government agencies and authorities other than U.S.	\$ 9,758	\$ —	\$—		\$ 9,758
Other corporate bonds	7,300	92	—		7,392
Total securities held to maturity.....	\$17,058	\$92	\$—		\$17,150

(Securities available for sale)

	Yen in millions			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount/ Fair Value
March 31, 2002:				
Fixed maturity securities:				
U.S. government and government agencies and authorities	¥ 74,410	¥ 9,972	¥ (52)	¥ 84,330
U.S. municipalities and political subdivisions....	5	0	—	5
Other governments and government agencies and authorities	313,296	17,322	(2,937)	327,681
Other municipalities and political subdivisions	1,016,825	70,849	(1,049)	1,086,625
Convertibles and bonds with warrants attached	79,065	1,965	(94)	80,936
Other corporate bonds....	1,143,084	45,462	(4,412)	1,184,134
Total fixed maturity securities	2,626,685	145,570	(8,544)	2,763,711
Equity securities	1,055,508	1,070,791	(25,304)	2,100,995
Total securities available for sale.....	¥3,682,193	¥1,216,361	¥(33,848)	¥4,864,706

	Yen in millions			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount/ Fair Value
March 31, 2003:				
Fixed maturity securities:				
U.S. government and government agencies and authorities	¥ 63,241	¥ 10,216	¥ (30)	¥ 73,427
U.S. municipalities and political subdivisions....	4	0	—	4
Other governments and government agencies and authorities	400,515	35,971	(229)	436,257
Other municipalities and political subdivisions	960,022	70,033	(21)	1,030,034
Convertibles and bonds with warrants attached	65,746	1,852	(12)	67,586
Other corporate bonds....	1,209,333	76,052	(646)	1,284,739
Total fixed maturity securities	2,698,861	194,124	(938)	2,892,047
Equity securities	1,033,290	644,449	(52,112)	1,625,627
Total securities available for sale.....	¥3,732,151	¥838,573	¥(53,050)	¥4,517,674

	Dollars in thousands			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Amount/ Fair Value
March 31, 2003:				
Fixed maturity securities:				
U.S. government and government agencies and authorities	\$ 527,008	\$ 85,134	\$ (250)	\$ 611,892
U.S. municipalities and political subdivisions....	33	0	—	33
Other governments and government agencies and authorities	3,337,625	299,758	(1,908)	3,635,475
Other municipalities and political subdivisions	8,000,183	583,609	(175)	8,583,617
Convertibles and bonds with warrants attached	547,884	15,433	(100)	563,217
Other corporate bonds....	10,077,775	633,766	(5,383)	10,706,158
Total fixed maturity securities	22,490,508	1,617,700	(7,816)	24,100,392
Equity securities	8,610,750	5,370,409	(434,267)	13,546,892
Total securities available for sale.....	\$31,101,258	\$6,988,109	\$(442,083)	\$37,647,284

(Trading securities)

	Yen in millions			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2002:				
Money trusts included in short-term investments	¥42,942	¥1,486	¥(6,035)	¥38,393

	Yen in millions			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2003:				
Money trusts included in short-term investments	¥25,172	¥487	¥(1,412)	¥24,247

	Dollars in thousands			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2003:				
Money trusts included in short-term investments	\$209,767	\$4,058	\$(11,767)	\$202,058

The change in net unrealized losses on trading securities have been included in earnings as losses of ¥1,303 million and gains of ¥3,624 million (\$30,200 thousand) for the years ended March 31, 2002 and 2003, respectively.

The amortized cost and fair values of investments in fixed maturity securities held to maturity and available for sale at March 31, 2003 by contractual maturity were as follows:

(Securities held to maturity)

	Yen in millions		Dollars in thousands	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
March 31, 2003:				
Due within one year	¥ 970	¥ 972	\$ 8,083	\$ 8,100
Due after one year through five years	1,077	1,086	8,975	9,050
	¥2,047	¥2,058	\$17,058	\$17,150

(Securities available for sale)

	Yen in millions		Dollars in thousands	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
March 31, 2003:				
Due within one year	¥ 236,401	¥ 242,487	\$ 1,970,008	\$ 2,020,725
Due after one year through five years	1,277,044	1,355,188	10,642,033	11,293,233
Due after five years through ten years	1,058,388	1,146,824	8,819,900	9,556,867
Due after ten years	127,028	147,548	1,058,567	1,229,567
	¥2,698,861	¥2,892,047	\$22,490,508	\$24,100,392

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 11.

Gross realized and unrealized gains and losses from investments for the years ended March 31 were as follows:

2001:	Yen in millions			
	Fixed Maturities	Equity Securities	Other Investments	Total Gains (Losses)
Realized gains (losses).....	¥ (716)	¥ 34,610	¥(3,632)	¥ 30,262
Unrealized gains (losses).....	103,732	(394,618)	(1,178)	(292,064)
Combined realized and unrealized gains (losses)	¥103,016	¥(360,008)	¥(4,810)	¥(261,802)

2002:	Yen in millions			
	Fixed Maturities	Equity Securities	Other Investments	Total Losses
Realized gains (losses).....	¥ (3,536)	¥ (8,961)	¥ 5,179	¥ (7,318)
Unrealized gains (losses).....	(9,916)	(293,631)	5,872	(297,675)
Combined realized and unrealized gains (losses).....	¥(13,452)	¥(302,592)	¥11,051	¥(304,993)

2003:	Yen in millions			
	Fixed Maturities	Equity Securities	Other Investments	Total Losses
Realized gains (losses).....	¥14,065	¥ (11,485)	¥(4,739)	¥ (2,159)
Unrealized gains (losses).....	56,160	(453,150)	(5,065)	(402,055)
Combined realized and unrealized gains (losses).....	¥70,225	¥(464,635)	¥(9,804)	¥(404,214)

2003:	Dollars in thousands			
	Fixed Maturities	Equity Securities	Other Investments	Total Losses
Realized gains (losses).....	\$117,208	\$ (95,708)	\$ (39,492)	\$ (17,992)
Unrealized gains (losses)	468,000	(3,776,250)	(42,208)	(3,350,458)
Combined realized and unrealized gains (losses).....	\$585,208	\$(3,871,958)	\$(81,700)	\$(3,368,450)

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

2002:	Yen in millions			
	Fixed Maturities	Equity Securities	Other Investments	Total Gains
Unrealized gains, net....	¥137,026	¥1,045,487	¥5,964	¥1,188,477
Deferred income taxes				(631,419)
				¥ 557,058

2003:	Yen in millions			
	Fixed Maturities	Equity Securities	Other Investments	Total Gains
Unrealized gains, net....	¥193,186	¥592,337	¥899	¥786,422
Deferred income taxes				(486,736)
				¥299,686

2003:	Dollars in thousands			
	Fixed Maturities	Equity Securities	Other Investments	Total Gains
Unrealized gains, net....	\$1,609,883	\$4,936,141	\$7,492	\$6,553,516
Deferred income taxes				(4,056,133)
				\$2,497,383

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

(Fixed maturity securities)

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Gross realized gains	¥ 9,858	¥ 11,297	¥ 19,165	\$ 159,708
Gross realized losses	(10,230)	(10,374)	(4,117)	(34,308)
Net realized gains (losses)	¥ (372)	¥ 923	¥ 15,048	\$ 125,400
Proceeds from fixed maturity securities.....	¥289,121	¥295,243	¥325,388	\$2,711,567

(Equity securities)

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Gross realized gains	¥53,960	¥40,787	¥ 43,163	\$359,692
Gross realized losses	(11,880)	(6,107)	(14,834)	(123,617)
Net realized gains.....	¥42,080	¥34,680	¥ 28,329	\$236,075
Proceeds from equity securities.....	¥97,836	¥84,592	¥106,234	\$885,283

Bonds carried at ¥16,244 million at March 31, 2002 and ¥29,571 million (\$246,425 thousand) at March 31, 2003, short-term investments carried at ¥1,554 million at March 31,

2002 and ¥61 million (\$508 thousand) at March 31, 2003 and cash equivalents carried at ¥3,883 million at March 31, 2002 and ¥4,137 million (\$34,475 thousand) at March 31, 2003 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 whereby certain securities from its portfolio are loaned to other institutions for short periods of time in order to earn lending fees. Collateral is not obtained for those transactions. The loaned securities remain as recorded assets of the Company as securities available for sale. At March 31, 2002 and 2003, the carrying amounts of loaned securities were ¥76,882 million and ¥63,323 million (\$527,692 thousand), respectively.

The Company engages in sales of securities under repurchase agreements for short periods of time. The sold securities remain as recorded assets of the Company, and the amounts of the cash received are recorded as cash and cash equivalents. The amount booked as cash and cash equivalents at March 31, 2003 was ¥2,000 million (\$16,667 thousand).

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 included the following as of March 31:

	Yen in millions		Dollars in thousands
	2002	2003	2003
Mortgage loans on vessels and facilities.....	¥ 6,531	¥ 2,363	\$ 19,692
Collateral and guaranteed loans.....	286,334	272,857	2,273,808
Unsecured loans.....	392,399	373,863	3,115,525
Other investments.....	1,352	303	2,525
	¥686,616	¥649,386	\$5,411,550

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.

Short-term investments included the following as of March 31:

	Yen in millions		Dollars in thousands
	2002	2003	2003
Money trusts.....	¥38,393	¥24,247	\$202,058
Invested cash.....	48,350	26,338	219,483
Other.....	1,743	5,582	46,517
	¥88,486	¥56,167	\$468,058

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, 2002 and 2003 was ¥328 million and ¥5,000 million (\$41,667 thousand), respectively.

The total recorded investment in impaired loans and the amount of the total valuation allowance at March 31, 2002 and 2003 were as follows:

	Yen in millions		Dollars in thousands
	2002	2003	2003
Recorded investment in impaired loans:			
Mortgage loans on real estate.....	¥ 1,627	¥ 3,352	\$ 27,933
Mortgage loans on vessels and facilities.....	44	524	4,367
Collateral and guaranteed loans.....	859	1,338	11,150
Unsecured loans.....	31,931	26,028	216,900
	¥34,461	¥31,242	\$260,350
Valuation allowance:			
Mortgage loans on real estate.....	¥ 196	¥ 855	\$ 7,125
Mortgage loans on vessels and facilities.....	—	134	1,117
Collateral and guaranteed loans.....	77	458	3,816
Unsecured loans.....	14,477	15,558	129,650
	¥14,750	¥17,005	\$141,708

The recorded investment in loans on nonaccrual status was approximately ¥20,245 million and ¥9,640 million (\$80,333 thousand) as of March 31, 2002 and 2003, respectively. The recorded investment in loans past due 90 days or more and still accruing was approximately ¥692 million and ¥743 million (\$6,192 thousand) as of March 31, 2002 and 2003, respectively.

An analysis of activity in the total allowance for credit losses related to loans during the years ended March 31, 2001, 2002 and 2003 is as follows:

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Balance at beginning of year	¥52,183	¥37,356	¥18,703	\$155,858
Charge (credit) to income	(2,310)	(17,220)	3,675	30,625
Principal charge-offs.....	(12,517)	(1,433)	(2,143)	(17,858)
Balance at end of year	¥37,356	¥18,703	¥20,235	\$168,625

The total allowance for credit losses related to loans in the years ended March 31, 2001, 2002 and 2003 includes an allowance for doubtful accounts in the amount of ¥11,677 million, ¥3,953 million and ¥3,230 million (\$26,917 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 amount during the past period against outstanding balances.

The average recorded investment in impaired loans was approximately ¥72,755 million, ¥42,001 million and ¥32,851 million (\$273,758 thousand) in the years ended March 31, 2001, 2002 and 2003, respectively. The Company recognized interest income from impaired loans of ¥665 million, ¥716 million and ¥516 million (\$4,300 thousand) in the years ended March 31, 2001, 2002 and 2003, respectively, on a cash basis.

Other long-term investments include loans of ¥5,412 million as of March 31, 2002 and ¥37 million (\$308 thousand) as of March 31, 2003 which had been non-income producing for the twelve months preceding each balance sheet date.

The components of net investment income for the years ended March 31 were as follows:

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Interest on fixed maturities	¥ 74,134	¥ 75,796	¥ 73,460	\$ 612,167
Dividends from equity securities.....	25,487	28,523	26,722	222,683
Interest on mortgage loans on real estate.....	1,847	1,157	799	6,658
Rent from investment real estate	8,319	7,946	7,940	66,167
Interest on policy loans	1,280	1,232	1,205	10,042
Interest on other long-term investments	22,744	17,978	14,859	123,825
Interest on short-term investments	3,056	1,936	1,636	13,633
Interest on call loans	134	16	2	17
Other	8,093	3,238	3,594	29,950
Gross investment income	145,094	137,822	130,217	1,085,142
Less investment expenses	7,784	13,793	13,614	113,450
Net investment income	¥137,310	¥124,029	¥116,603	\$ 971,692

In accordance with the Company's internal policy, the Company utilized numerous counterparties to ensure that there is no significant concentration of credit risk with any individual counterparties or group of counterparties. The concentration of credit risk exceeding 10 percent of total shareholders' equity as of March 31, 2003 is exposure to the Japanese government, amounting to ¥338,175 million (\$2,818,125 thousand).

(4) Property and Equipment

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

	Yen in millions		Dollars in thousands
	2002	2003	2003
Land	¥ 84,524	¥ 83,663	\$ 697,191
Buildings.....	288,124	292,533	2,437,775
Furniture and equipment	111,868	110,361	919,675
Construction in progress.....	792	779	6,492
	485,308	487,336	4,061,133
Less accumulated depreciation.....	(231,841)	(247,684)	(2,064,033)
	¥253,467	¥ 239,652	\$ 1,997,100

Property and equipment acquired in settling insurance claims included in other assets are ¥33,339 million (\$277,825 thousand) as of March 31, 2003. A part of the property and equipment amounting to ¥14,168 million (\$118,067 thousand) was pledged as collateral.

(5) Income Taxes

Total income taxes for the years ended March 31, 2001, 2002 and 2003 were allocated as follows:

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Taxes on income	¥ 15,977	¥ 25,952	¥ 29,889	\$ 249,075
Taxes on other comprehensive income (loss):				
Foreign currency translation adjustment	1,534	—	—	—
Net unrealized losses on investments.....	(105,205)	(109,645)	(144,683)	(1,205,692)
Net gains (losses) on derivative investments	—	479	(224)	(1,867)
Minimum pension liability adjustment.....	(3,385)	4,881	(25,138)	(209,483)
	¥ (91,079)	¥ (78,333)	¥ (140,156)	\$ (1,167,967)

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, 2001, 2002 and 2003 differed from the Japanese statutory income tax rates for the following reasons:

	2001	2002	2003
Japanese statutory income tax rate	36.0%	36.0%	36.0%
Tax credit for dividends received	(8.5)	(7.0)	(4.8)
Expenses not deductible for tax purposes.....	2.8	3.0	2.4
Change in valuation allowance	(0.6)	13.9	7.7
Other.....	(0.2)	3.4	2.4
Effective tax rate	29.5%	49.3%	43.7%

The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and deferred tax liabilities at March 31, 2002 and 2003 were as follows:

	Yen in millions		Dollars in thousands
	2002	2003	2003
Deferred taxes applicable to items other than unrealized gains on investments and derivatives:			
Deferred tax assets:			
Reported and estimated losses and claims.....	¥ 4,020	¥ 13,163	\$ 109,692
Adjustment expenses.....	6,533	7,098	59,150
Retirement and severance benefits ...	46,388	71,699	597,492
Computer software development costs.....	14,708	15,779	131,492
Impairment losses	40,429	56,361	469,675
Gains on sales of investments not recognized for financial statement purposes	72,631	47,410	395,083
Tax credit carryforwards	178	343	2,858
Other	10,704	16,601	138,341
Total gross deferred tax assets....	195,591	228,454	1,903,783
Less valuation allowance.....	(8,884)	(14,158)	(117,983)
Net deferred tax assets	186,707	214,296	1,785,800
Deferred tax liabilities:			
Unearned premiums	33,685	40,478	337,317
Deferred policy acquisition costs....	120,426	123,683	1,030,692
Property and equipment.....	3,913	5,929	49,408
Impairment of investments not recognized for financial statement purposes	32,555	16,779	139,825
Other	109	42	350
Total gross deferred tax liabilities.....	190,688	186,911	1,557,592
	3,981	(27,385)	(228,208)
Deferred tax liability applicable to unrealized gains on investments and derivatives.....	425,529	281,695	2,347,458
	¥429,510	¥ 254,310	\$ 2,119,250

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, 2003.

The significant portion of the valuation allowance was provided for impairment losses on real estate and equity securities amounting to ¥8,806 million and ¥13,853 million (\$115,442 thousand) as of March 31, 2002 and 2003, respectively. The net change in total valuation allowance for the years ended March 31, 2001, 2002 and 2003 was a decrease of ¥280 million, an increase of ¥7,922 million and an increase of ¥5,274 million (\$43,950 thousand) for 2001, 2002 and 2003, respectively.

(6) Short-Term Debt and Long-Term Debt

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

	Yen in millions		Dollars in thousands	
	2002	2003	2002	2003
1.6% Japanese yen convertible debentures, due 2003	¥12,850	¥ —	\$ —	—
0.7% Japanese yen convertible debentures, due 2003	49,998	—	—	—
1.2% Japanese yen convertible debentures, due 2004	22,250	22,250	185,417	
Bank loans with weighted average interest of 1.25%, due 2004 and 2005	1,550	1,497	12,475	
	86,648	23,747	197,892	
Less current portion classified as short-term debt	(64,148)	(22,647)	(188,725)	
Total long-term debt	¥22,500	¥ 1,100	\$ 9,167	

The 1.2% Japanese yen convertible debentures are currently convertible into approximately 33,313,000 shares of common stock at the conversion price of ¥667.9 (\$5.57) per share. These debentures are redeemable at the option of the Company to March 30, 2004 at premiums ranging from 3% to 1% and at par thereafter.

(7) Retirement and Severance Benefits

The Company has an unfunded lump-sum payment benefit plan and funded non-contributory pension plan 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 has an Employees' Pension Fund (EPF) plan, which is a defined benefit pension plan established under the Japanese Welfare Pension Insurance Law (JWPIL). The plan is composed of (a) a substitutional portion based on the pay-related part of the old-age pension benefits prescribed by JWPIL and (b) a corporate portion based on a non-contributory defined benefit pension arrangement. In June 2001, the JWPIL was amended to permit each employer/EPF to separate the substitutional portion from its EPF and transfer the obligation and related assets to the government. On April 1, 2003, the Company obtained an approval of exemption from the obligation for benefits related to future employee service under the substitutional portion. The approval is one of the core processes required to transfer the obligation and related assets to the government. However, it will be accounted for as a settlement when the obligation and related assets are finally transferred to the government, pursuant to EITF 03-2. No gain or loss on settlement has been recognized in the accompanying financial statements.

The components of net periodic benefit cost for the years ended March 31, 2001, 2002 and 2003 were as follows:

	Yen in millions			Dollars in thousands	
	2001	2002	2003	2001	2003
Components of net periodic benefit cost:					
Service cost	¥12,604	¥13,076	¥13,171	\$109,759	
Interest cost	9,347	9,440	8,025	66,875	
Expected return on plan assets	(5,170)	(5,831)	(4,177)	(34,808)	
Amortization of net obligation at transition	3,985	2,392	—	—	
Amortization of prior service cost	717	(500)	(2,450)	(20,417)	
Recognized actuarial loss	1,149	1,183	5,146	42,883	
Net periodic benefit cost	¥22,632	¥19,760	¥19,715	\$164,292	

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets are as follows for the years ended March 31:

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Change in benefit obligations:				
Benefit obligations at beginning of year.....	¥ 315,024	¥ 326,907	¥ 321,835	\$ 2,681,958
Service cost.....	12,604	13,076	13,171	109,759
Interest cost.....	9,347	9,440	8,025	66,875
Plan participants' contributions.....	1,405	1,316	1,380	11,500
Plan amendments.....	—	(30,104)	—	—
Actuarial loss (gain)....	(1,915)	13,635	75,007	625,058
Benefits paid.....	(9,558)	(12,435)	(11,714)	(97,617)
Benefit obligations at end of year.....	¥ 326,907	¥ 321,835	¥ 407,704	\$ 3,397,533
Change in plan assets:				
Fair value of plan assets at beginning of year.....	¥ 147,716	¥ 143,267	¥ 139,233	\$ 1,160,275
Actual return on plan assets.....	(10,867)	(12,599)	(6,527)	(54,392)
Employer contributions.....	9,703	12,146	18,104	150,867
Plan participants' contributions.....	1,405	1,316	1,380	11,500
Benefits paid.....	(4,690)	(4,897)	(5,224)	(43,533)
Fair value of plan assets at end of year.....	¥ 143,267	¥ 139,233	¥ 146,966	\$ 1,224,717
Funded status.....	¥(183,640)	¥(182,602)	¥(260,738)	\$(2,172,817)
Unrecognized actuarial loss.....	46,434	77,838	158,403	1,320,025
Unrecognized prior service cost.....	8,556	(21,047)	(18,597)	(154,975)
Unrecognized net obligation at transition....	2,392	—	—	—
Net amount recognized.....	¥(126,258)	¥(125,811)	¥(120,932)	\$(1,007,767)
Amounts recognized in the balance sheets consist of:				
Retirement and severance benefits...	¥(167,758)	¥(145,195)	¥(210,143)	\$(1,751,192)
Intangible assets.....	8,556	—	—	—
Accumulated other comprehensive income, gross of tax.....	32,944	19,384	89,211	743,425
Net amount recognized.....	¥(126,258)	¥(125,811)	¥(120,932)	\$(1,007,767)

	2001	2002	2003
Actuarial assumptions:			
Discount rate.....	3.00%	2.50%	1.50%
Expected long-term return rate on plan assets.....	3.70	4.07	3.00
Rate of increase in future compensation.....	3.63	3.00	3.00

Special termination benefits provided to employees during the year ended March 31, 2003 for the special early retirement plan amounting to ¥4,491 million (\$37,425 thousand) are included in other expenses.

(8) 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 0.13% to 1.5% for the years ended March 31, 2001, 2002 and 2003.

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. Investment income on policyholder deposits is credited to investment income. 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.

(9) 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. 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. 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. The 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. Reinsurance contracts do not relieve the Company from its obligation to policyholders.

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, 2003, 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 were as follows for the years ended March 31:

(Property and casualty insurance)

Premiums	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Written:				
Direct	¥1,315,492	¥1,335,943	¥1,373,688	\$11,447,400
Assumed	94,670	139,908	232,705	1,939,208
Ceded	(214,712)	(243,851)	(305,712)	(2,547,600)
Net premiums written.....	¥1,195,450	¥1,232,000	¥1,300,681	\$10,839,008
Earned:				
Direct	¥1,263,894	¥1,291,185	¥1,338,214	\$11,151,783
Assumed	99,717	128,625	165,767	1,381,392
Ceded	(209,186)	(237,135)	(275,981)	(2,299,842)
Net premiums earned.....	¥1,154,425	¥1,182,675	¥1,228,000	\$10,233,333

Losses and claims incurred	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Direct	¥754,365	¥752,202	¥770,189	\$6,418,242
Assumed	95,346	101,821	118,802	990,017
Ceded	(185,856)	(204,739)	(207,452)	(1,728,767)
Net losses and claims incurred	¥663,855	¥649,284	¥681,539	\$5,679,492

(Life insurance)

Premiums earned	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Direct premiums.....	¥116,752	¥137,565	¥147,922	\$1,232,684
Reinsurance ceded	(383)	(241)	(161)	(1,342)
Net premiums earned	¥116,369	¥137,324	¥147,761	\$1,231,342

Policyholder benefits	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Direct	¥97,905	¥120,849	¥129,958	\$1,082,983
Reinsurance ceded	(601)	(122)	(129)	(1,075)
Net policyholder benefits ..	¥97,304	¥120,727	¥129,829	\$1,081,908

(10) Derivative Financial Instruments

The Company utilizes derivative financial instruments (a) to manage interest rate risk and foreign exchange risk arising from a 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 guideline and derivative instruments entered into for hedging purposes require the advance approval of management. The Company utilizes numerous counterparties 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. They 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. These amounts subsequently are reclassified into net investment income when the hedged interest cash flows affect earnings. The Company estimates that the net amount of the existing losses at March 31, 2003 that will be reclassified into earnings within the next 12 months is ¥6 million (\$50 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, 2002 and 2003 were insignificant.

Derivatives for generating 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.

(11) Fair Value of Financial Instruments

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.

The estimated fair values of the financial instruments at March 31, 2002 and 2003 were as follows:

	Yen in millions			
	2002		2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Fixed maturity securities	¥2,768,259	¥2,768,768	¥2,894,094	¥2,894,105
Equity securities	2,100,995	2,100,995	1,625,627	1,625,627
Mortgage loans on real estate.....	30,921	30,046	26,752	26,144
Other long-term investments.....	686,616	673,462	649,386	643,351
Short-term investments.....	88,486	88,486	56,167	56,167
Indebtedness				
from affiliates	3,451	3,670	2,972	3,278
Weather derivatives	629	629	72	72
Derivative assets:				
Foreign exchange contracts.....	390	390	64	64
Interest rate contracts.....	2,987	2,987	2,575	2,575
Bond and equity index contracts	91	91	—	—
Credit derivatives	—	—	991	991
Financial liabilities:				
Investment deposits by policyholders.....	(2,677,232)	(2,966,738)	(2,507,250)	(2,783,720)
Long-term debt	(22,500)	(24,503)	(1,100)	(1,101)
Weather derivatives	(26)	(26)	(34)	(34)
Derivative liabilities:				
Foreign exchange contracts.....	(1,233)	(1,233)	(2,050)	(2,050)
Interest rate contracts.....	(1,594)	(1,594)	(1,768)	(1,768)
Bond and equity index contracts	(9)	(9)	—	—
Credit derivatives	(3,860)	(3,860)	(8,322)	(8,322)

	Dollars in thousands	
	2003	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Fixed maturity securities	\$24,117,450	\$24,117,542
Equity securities	13,546,892	13,546,892
Mortgage loans on real estate	222,933	217,867
Other long-term investments	5,411,550	5,361,258
Short-term investments	468,058	468,058
Indebtedness from affiliates	24,767	27,317
Weather derivatives	600	600
Derivative assets:		
Foreign exchange contracts	533	533
Interest rate contracts	21,458	21,458
Bond and equity index contracts	—	—
Credit derivatives	8,258	8,258
Financial liabilities:		
Investment deposits by policyholders	(20,893,750)	(23,197,667)
Long-term debt	(9,167)	(9,175)
Weather derivatives	(283)	(283)
Derivative liabilities:		
Foreign exchange contracts	(17,083)	(17,083)
Interest rate contracts	(14,733)	(14,733)
Bond and equity index contracts	—	—
Credit derivatives	(69,350)	(69,350)

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

(a) Investments in Fixed Maturity 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 approximately ¥260,213 million and ¥251,234 million (\$2,093,617 thousand) at March 31, 2002 and 2003, respectively, approximates the carrying amount. The floating and fixed rates on consumer loans in the years ended March 31, 2001, 2002 and 2003 range from approximately 1.0% to 18.0%, and the remaining loan periods are from approximately three months to 35 years.

(c) Short-term Investments

The fair values of those investments other than money trusts with quoted market prices are estimated using quoted market prices, and the carrying amounts for other instruments approximate their fair values because of the short maturities of such instruments.

(d) 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 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) Long-term Debt

The fair values of long-term obligations are estimated using quoted market prices for instruments with similar characteristics.

(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 of those by external models or based on quotes from brokers.

(12) Variable Interest Entities

The Company provides guarantees or similar contracts to various entities that may be considered variable interest entities ("VIEs") under FIN No. 46. The Company may consolidate the VIEs when the consolidation provision of FIN No. 46 becomes effective.

The Company engages in certain structured transactions, mainly securitization of independent third parties' assets and project financing, through VIEs. In most cases, the Company provides guarantees on obligations of VIEs or recoveries of VIEs' assets as credit enhancement. The maximum potential loss associated with those transactions is estimated to be ¥54,074 million (\$450,617 thousand) as of March 31, 2003.

The Company uses VIEs in the normal course of its credit business. The Company provides guarantee insurance on credit derivative contracts engaged between the VIEs and independent third parties. The maximum potential loss associated with those transactions is estimated to be ¥179,437 million (\$1,495,308 thousand) as of March 31, 2003.

The above figures represent maximum potential losses associated with VIEs and are not projections of actual losses.

(13) Commitments and Contingent Liabilities

The Company is contingently liable for various financial guarantees totaling ¥51,249 million as of March 31, 2002 and ¥25,519 million (\$212,658 thousand) as of March 31, 2003. Fees related to these guarantees totaling ¥845 million, ¥285 million and ¥335 million (\$2,792 thousand) were recorded as revenue on an accrual basis by the Company for the years ended March 31, 2001, 2002 and 2003, 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 guarantees of ¥16,654 million (\$138,783 thousand) outstanding as of March 31, 2003 will mature within a year. 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 Marine & Fire Insurance Company of America, the wholly owned subsidiary of the Company. The maximum potential future payment associated with these transactions is estimated to be ¥20,252 million (\$168,767 thousand) as of March 31, 2003. A liability of ¥30 million (\$250 thousand) has been recorded in connection with the guarantees as of March 31, 2003.

At March 31, 2003, the Company had a ¥4,274 million (\$35,617 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, 2003, the most recent balance sheet date, management believes the likelihood of an additional capital requirement is remote. In addition to the above commitment, the Company has provided a financial guarantee to the limited partnership with a maximum potential payment of ¥215,688 million (\$1,797,400 thousand) as of March 31, 2003. The obligation of the Company under the guarantee was fully collateralized with securities, and no net exposure existed as of March 31, 2003.

In the normal course of business, the Company enters into credit derivative transactions mainly as a protection seller. The maximum potential loss associated with those transactions is ¥561,964 million (\$4,683,033 thousand) as of March 31, 2003. A liability of ¥8,322 million (\$69,350 thousand) has been recorded in connection with those transactions as of March 31, 2003.

The Company has loan commitment agreements amounting to ¥1,904 million (\$15,867 thousand) as of March 31, 2003. The policy of the Company 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, 2003:

Years ending March 31	Yen in millions	Dollars in thousands
2004	¥ 889	\$ 7,408
2005	410	3,417
2006	166	1,383
2007	111	925
2008	44	367
Later years.....	8	67
Total future minimum rental payments.....	¥1,628	\$13,567

Rental expenses for the years ended March 31, 2001, 2002 and 2003 were, on an aggregated basis, ¥15,764 million, ¥15,144 million and ¥13,987 million (\$116,558 thousand), respectively.

(14) Common Stock

During the year ended March 31, 2001, the Company purchased 22,000,000 of its own shares at ¥20,107 million. As a result of those transactions, common stock and additional paid-in capital were reduced by ¥1,699 million and ¥18,407 million in 2001, respectively.

During the year ended March 31, 2002, the Company issued 7,486 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 the additional paid-in capital.

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

	Yen in millions	Dollars in thousands
	2003	2003
Common stock.....	¥ 128,476	\$1,070,633
Additional paid-in capital	81,992	683,267
Legal reserve	38,341	319,508
Retained earnings.....	366,966	3,058,050
Unrealized gain on securities	426,705	3,555,875
Treasury stock	(15,972)	(133,100)
Total statutory equity	¥1,026,508	\$8,554,233

The Company's statutory basis net income was ¥32,363 million (\$269,692 thousand) for the year ended March 31, 2003.

The minimum capital requirement of the Insurance Business Law of Japan for a Japanese insurance company is ¥1,000 million (\$8,333 thousand) on a statutory basis.

The Company and its domestic life insurance subsidiary are required to maintain solvency margin ratios of 200% or more 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 margins of the Company and its domestic life insurance subsidiary at March 31, 2003 are 930.7% and 1,549.2%, respectively.

(15) Appropriated Retained Earnings

(a) Legal Reserve

Article 14 of the Insurance Business Law of Japan requires insurance companies to provide an amount equal to at least 20% of all appropriations paid in cash, such as cash dividends and bonuses to directors, 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, 2003 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 and (2) the amount for which permission is granted by the Financial Services Agency of Japan, for any other purpose.

(16) 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 ¥54,190 million (\$451,583 thousand) as of March 31, 2003.

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 Commercial Code of Japan.

Cash dividends and appropriations to the legal reserve charged to unappropriated retained earnings for the years ended March 31, 2001, 2002 and 2003 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 ¥7.50 (\$0.06) per share totaling ¥10,886 million (\$90,717 thousand), subsequently proposed by the Board of Directors and, on June 27, 2003, approved by the shareholders, at March 31, 2003 nor for the related appropriation to the legal reserve.

Cash dividends per share are computed based on dividends paid during the year.

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

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Net income available to common-stock holders	¥37,983	¥25,981	¥38,312	\$319,267
Effect of dilutive securities:				
2.1% convertible debentures.....	37	37	—	—
1.1% convertible debentures.....	121	123	—	—
1.6% convertible debentures.....	131	136	173	1,442
0.7% convertible debentures.....	234	234	334	2,783
1.2% convertible debentures.....	171	174	177	1,475
Diluted net income	¥38,677	¥26,685	¥38,996	\$324,967
	Number of shares in thousands			
	2001	2002	2003	
Average common stock outstanding.....	1,494,940	1,477,939	1,457,297	
Dilutive effect of:				
2.1% convertible debentures.....	3,168	3,151	—	
1.1% convertible debentures.....	25,847	25,705	—	
1.6% convertible debentures.....	13,473	13,473	13,473	
0.7% convertible debentures.....	60,464	60,464	60,464	
1.2% convertible debentures.....	33,314	33,313	33,313	
Diluted common shares outstanding	1,631,206	1,614,045	1,564,547	

	Yen		Dollars	
	2001	2002	2003	2003
Earnings per share:				
Income before cumulative effect of change in accounting principle:				
Basic.....	¥25.41	¥17.94	¥26.29	\$0.22
Diluted	23.71	16.87	24.93	0.21
Net income:				
Basic.....	25.41	17.58	26.29	0.22
Diluted	23.71	16.53	24.93	0.21

(17) Other Comprehensive Income

Changes in accumulated other comprehensive income for the years ended March 31, 2001, 2002 and 2003 were as follows:

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Foreign currency translation adjustments, net of tax:				
Balance at beginning of period.....	¥ (12,440)	¥ (9,741)	¥ (4,699)	\$ (39,158)
Current-period change....	2,699	5,042	(4,650)	(38,750)
Balance at end of period.....	¥ (9,741)	¥ (4,699)	¥ (9,349)	\$ (77,908)
Unrealized gains on securities, net of tax:				
Balance at beginning of period.....	¥931,947	¥745,088	¥557,058	\$4,642,150
Current-period change....	(186,859)	(188,030)	(257,372)	(2,144,767)
Balance at end of period.....	¥745,088	¥557,058	¥299,686	\$2,497,383
Net gains on derivative instruments, net of tax:				
Balance at beginning of period.....	¥ —	¥ —	¥ 852	\$ 7,100
Current-period change....	—	852	(398)	(3,317)
Balance at end of period.....	¥ —	¥ 852	¥ 454	\$ 3,783
Minimum pension liability adjustment, net of tax:				
Balance at beginning of period.....	¥ (15,067)	¥ (21,084)	¥ (12,406)	\$ (103,383)
Current-period change....	(6,017)	8,678	(44,689)	(372,408)
Balance at end of period.....	¥ (21,084)	¥ (12,406)	¥ (57,095)	\$ (475,791)
Total accumulated other comprehensive income, net of tax:				
Balance at beginning of period.....	¥904,440	¥714,263	¥540,805	\$4,506,709
Current-period change....	(190,177)	(173,458)	(307,109)	(2,559,242)
Balance at end of period.....	¥714,263	¥540,805	¥233,696	\$1,947,467

The tax effect allocated to each component of other comprehensive income (loss) and the reclassification adjustment for the years ended March 31, 2001, 2002 and 2003 were as follows:

	Yen in millions		
	Before Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
2001:			
Foreign currency translation adjustments.....	¥ 4,233	¥ (1,534)	¥ 2,699
Unrealized losses on securities:			
Unrealized holding losses arising during period.....	(206,886)	74,078	(132,808)
Less: reclassification adjustment for losses realized in net income.....	(85,178)	31,127	(54,051)
Net unrealized losses.....	(292,064)	105,205	(186,859)
Minimum pension liability adjustment.....	(9,402)	3,385	(6,017)
Other comprehensive loss.....	¥(297,233)	¥107,056	¥(190,177)

	Yen in millions		
	Before Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
2002:			
Foreign currency translation adjustments.....	¥ 5,042	¥ —	¥ 5,042
Unrealized losses on securities:			
Unrealized holding losses arising during period.....	(260,953)	96,404	(164,549)
Less: reclassification adjustment for losses realized in net income.....	(36,722)	13,241	(23,481)
Net unrealized losses.....	(297,675)	109,645	(188,030)
Net gains on derivative instruments.....	1,331	(479)	852
Minimum pension liability adjustment.....	13,559	(4,881)	8,678
Other comprehensive loss.....	¥(277,743)	¥104,285	¥(173,458)

	Yen in millions		
	Before Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
2003:			
Foreign currency translation adjustments.....	¥ (4,650)	¥ —	¥ (4,650)
Unrealized losses on securities:			
Unrealized holding losses arising during period.....	(338,898)	122,313	(216,585)
Less: reclassification adjustment for losses realized in net income.....	(63,157)	22,370	(40,787)
Net unrealized losses.....	(402,055)	144,683	(257,372)
Net losses on derivative instruments.....	(622)	224	(398)
Minimum pension liability adjustment.....	(69,827)	25,138	(44,689)
Other comprehensive loss.....	¥(477,154)	¥170,045	¥(307,109)

	Dollars in thousands		
	Before Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
2003:			
Foreign currency translation adjustments.....	\$ (38,750)	\$ —	\$ (38,750)
Unrealized losses on securities:			
Unrealized holding losses arising during period.....	(2,824,150)	1,019,275	(1,804,875)
Less: reclassification adjustment for losses realized in net income.....	(526,309)	186,417	(339,892)
Net unrealized losses.....	(3,350,459)	1,205,692	(2,144,767)
Net losses on derivative instruments.....	(5,184)	1,867	(3,317)
Minimum pension liability adjustment.....	(581,891)	209,483	(372,408)
Other comprehensive loss.....	\$(3,976,284)	\$1,417,042	\$(2,559,242)

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

Years ended March 31,	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Net income.....	¥ 37,983	¥ 25,981	¥ 38,312	\$ 319,267
Adjustments to reconcile net income to net cash provided by operating activities:				
Valuation allowance for credit losses.....	(2,063)	(15,598)	3,424	28,533
Impairment losses of long-lived assets.....	7,373	4,183	1,660	13,833
Realized (gains) losses from sales of investments.....	(51,552)	5,710	(4,900)	(40,833)
Amortization of fixed maturity securities.....	5,769	6,019	7,805	65,042
Depreciation.....	25,189	24,857	23,188	193,233
Provision for retirement and severance benefits.....	8,034	(486)	(4,624)	(38,533)
Deferred income taxes ...	1,349	8,090	(4,600)	(38,333)
Acquisition of property and equipment for return of losses.....	—	—	(24,196)	(201,633)
Decrease (increase) in assets:				
Premiums receivable and agents' balances, net of ceded reinsurance.....	8,043	(3,761)	22,276	185,633
Deferred policy acquisition costs.....	(13,842)	(31,528)	(8,240)	(68,667)
Accrued investment income.....	(1,634)	1,710	1,101	9,175
Other assets.....	(17,201)	17,921	(28,140)	(234,500)
Increase (decrease) in liabilities:				
Losses and claims.....	58,619	11,893	46,792	389,933
Unearned premiums..	47,653	46,547	72,916	607,633
Future policy benefits...	81,521	90,178	86,862	723,850
Income taxes.....	(21,023)	(2,958)	19,662	163,850
Other liabilities.....	21,545	(15,916)	(4,024)	(33,533)
Other, net.....	9,415	14,600	(1,821)	(15,175)
Net cash provided by operating activities.....	¥205,178	¥187,442	¥243,453	\$2,028,775

(19) Supplementary Cash Flow Information

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Cash paid during the year for:				
Interest	¥ 1,218	¥1,261	¥ 890	\$ 7,417
Income taxes	46,232	7,334	13,531	112,758

(20) 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 CitiInsurance Life Insurance Co., Ltd.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on income before income taxes. Intersegment revenues, primarily for services provided, are recorded based upon the agreed-upon fees for such services.

Summarized financial information with respect to the business segments as of and for the years ended March 31, 2002 and 2003 is as follows:

	Yen in millions			
	Property and Casualty Insurance	Life Insurance	Elimination	Consolidated
2002:				
Revenues from external customers:				
Net premiums earned	¥1,182,675	¥ —	¥ —	¥1,182,675
Premium income for life insurance contracts.....	—	137,324	—	137,324
Intersegment revenues ...	321	—	(321)	—
Net investment revenues	118,043	6,307	(321)	124,029
Depreciation expense	24,711	146	—	24,857
Income before income taxes	48,218	4,352	56	52,626
Capital expenditures	18,039	317	—	18,356
Segment assets	7,043,980	404,280	(31,805)	7,416,455

	Yen in millions			
	Property and Casualty Insurance	Life Insurance	Elimination	Consolidated
2003:				
Revenues from external customers:				
Net premiums earned	¥1,228,000	¥ —	¥ —	¥1,228,000
Premium income for life insurance contracts.....	—	147,761	—	147,761
Intersegment revenues ...	333	—	(333)	—
Net investment revenues	109,898	7,038	(333)	116,603
Depreciation expense	23,054	134	—	23,188
Income before income taxes	62,324	6,007	—	68,331
Capital expenditures	10,579	48	—	10,627
Segment assets	6,589,834	518,690	(31,882)	7,076,642

	Dollars in thousands			
	Property and Casualty Insurance	Life Insurance	Elimination	Consolidated
2003:				
Revenues from external customers:				
Net premiums earned	\$10,233,333	\$ —	\$ —	\$10,233,333
Premium income for life insurance contracts.....	—	1,231,342	—	1,231,342
Intersegment revenues.....	2,775	—	(2,775)	—
Net investment revenues	915,817	58,650	(2,775)	971,692
Depreciation expense	192,116	1,117	—	193,233
Income before income taxes	519,367	50,058	—	569,425
Capital expenditures	88,158	400	—	88,558
Segment assets	54,915,283	4,322,417	(265,683)	58,972,017

Summarized financial information with respect to the business segment as of and for the year ended March 31, 2001 is not presented. It is impracticable to develop such information because Sumitomo had not prepared the business segment information for the year ended March 31, 2001 under U.S. GAAP.

Selected geographic information as of and for the years ended March 31, 2001, 2002 and 2003 is as follows:

	Yen in millions		
	Japan	Foreign	Consolidated
2001:			
Premiums earned	¥1,241,092	¥29,702	¥1,270,794
Long-lived assets	350,185	2,356	352,541
2002:			
Premiums earned	¥1,265,080	¥54,919	¥1,319,999
Long-lived assets	327,489	3,136	330,625
2003:			
Premiums earned	¥1,286,178	¥89,583	¥1,375,761
Long-lived assets	314,529	37,245	351,774

	Dollars in thousands		
	Japan	Foreign	Consolidated
2003:			
Premiums earned	\$10,718,150	\$746,525	\$11,464,675
Long-lived assets	2,621,075	310,375	2,931,450

(21) Impairment Losses of Long-Lived Assets

The carrying amount of long-lived assets held for sale as of March 31, 2003 was ¥641 million (\$5,342 thousand). It consists of property and equipment, and is included in property and equipment at the lower of its carrying amount or its fair value less cost to sell. The impairment loss on long-lived assets held for sale, included in other expenses, was ¥631 million (\$5,258 thousand) for the year ended March 31, 2003. Those impairment losses on long-lived assets were recognized in the property and casualty insurance segment under SFAS No. 131.

The impairment loss on long-lived assets to be held and used, which arose from investment real estate, included in realized gains (losses) on investments, was ¥1,066 million (\$8,883 thousand) for the year ended March 31, 2003. Those impairment losses on long-lived assets were recognized in the property and casualty insurance segment under SFAS No. 131.

Prior to the adoption of SFAS No. 144, impairment losses in accordance with SFAS No. 121 were recognized on the Company's property and equipment in the property and casualty insurance business segment (including investment real estate which is made up mostly of landholdings). The Company recognized impairment losses principally due to a substantial decline in the market values of these assets. Other expenses included impairment losses to assets in property and equipment of ¥7,373 million and ¥4,183 million in the years ended March 31, 2001 and 2002, respectively.

(22) Liabilities for Losses and Claims

Activities in the liabilities for losses and claims and claim adjustment expenses are summarized as follows for the years ended March 31, 2001, 2002 and 2003:

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Balance at beginning of year	¥485,994	¥551,688	¥602,083	\$5,017,358
Less: reinsurance recoverable	80,492	87,566	126,149	1,051,242
Net balance at beginning of year	405,502	464,122	475,934	3,966,116
Incurred related to:				
Current year insured events	724,980	711,127	736,804	6,140,033
Prior year insured events	318	(4,064)	8,951	74,592
Total incurred	725,298	707,063	745,755	6,214,625
Paid related to:				
Current year insured events	445,099	438,839	451,790	3,764,917
Prior year insured events	221,579	256,412	253,318	2,110,983
Total paid	666,678	695,251	705,108	5,875,900
Net balance at end of year ...	464,122	475,934	516,581	4,304,841
Plus reinsurance recoverable	87,566	126,149	143,597	1,196,642
Balance at end of year	¥551,688	¥602,083	¥660,178	\$5,501,483

Losses and expenses related to the terrorist attacks of September 11, 2001 were included in "Losses and claims incurred and provided for" and "Related adjustment expenses" in the consolidated statement of income for the year ended March 31, 2002 and classified as a part of income from continuing operations in accordance with the consensus by Emerging Issues Task Force 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001." In connection to the terrorist attacks, the Company recorded net incurred losses related to its property and casualty insurance business of ¥4,731 million for the year ended March 31, 2002, net of reinsurance recoveries of ¥8,419 million.

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, 2002 and 2003, 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, 2003. 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.

The consolidated financial statements of the Company for the year ended March 31, 2001 have been restated to reflect the pooling-of-interests transaction with The Sumitomo Marine & Fire Insurance Company, Limited as described in Note 1(a) to the consolidated financial statements. We did not audit the consolidated financial statements of The Sumitomo Marine & Fire Insurance Company, Limited, which statements reflect total revenues constituting 47 percent of the consolidated total for the year ended March 31, 2001. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Sumitomo Marine & Fire Insurance Company, Limited for the year ended March 31, 2001, is based solely on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Mitsui Sumitomo Insurance Company, Limited and subsidiaries as of March 31, 2002 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis set forth in Note 1(a) of the notes to consolidated financial statements.

A handwritten signature of the KPMG firm, with the letters 'KPMG' written in a stylized, cursive script.

Tokyo, Japan

July 31, 2003

Financial Summaries—GAAP in Japan and GAAP in the United States

The consolidated figures in the section that follows are calculated based on generally accepted accounting principles in Japan. There are several differences between GAAP in Japan and GAAP in the United States, the major ones being:

- 1) GAAP in the United States do not require the inclusion of a catastrophic loss reserve, a reserve for price fluctuation or other such reserves that are required under GAAP in Japan, and
- 2) under GAAP in the United States, policy acquisition costs are deferred and amortized over the periods in which the related premiums are earned, whereas, under GAAP in Japan, such costs are charged to income as incurred.

Financial Summary—GAAP in Japan

	Yen in billions, except per share amounts and ratios				
	1999	2000	2001	2002	2003
Net income	¥ 21.3	¥ 23.4	¥ 29.9	¥ 19.0	¥ 32.8
Net income per share					
—basic (¥).....	14.01	15.38	19.99	12.84	22.46
Total assets.....	5,875	6,145	7,572	7,324	6,478
Shareholders' equity	557	637	1,510	1,270	1,042
ROA (%)	0.36	0.39	0.44	0.25	0.48
ROE (%)	3.9	3.9	2.8	1.4	2.8
Equity ratio (%).....	9.5	10.4	19.9	17.3	16.1

Financial Summary—GAAP in the United States

	Yen in billions, except per share amounts and ratios				
	1999	2000	2001	2002	2003
Net income	¥136.3	¥ 61.0	¥ 38.0	¥ 26.0	¥ 38.3
Net income per share					
—basic (¥).....	89.49	40.17	25.41	17.58	26.29
Total assets.....	7,597	7,979	7,718	7,416	7,077
Shareholders' equity	1,892	2,179	1,997	1,827	1,543
ROA (%)	1.78	0.78	0.48	0.34	0.53
ROE (%)	7.3	3.0	1.8	1.4	2.3
Equity ratio (%).....	24.9	27.3	25.9	24.6	21.8

Reconciliation of Net Consolidated Income between GAAP in Japan and GAAP in the United States

	Yen in billions		
	2001	2002	2003
Net consolidated income in accordance with Japan GAAP	¥29.9	¥19.0	¥ 32.8
Adjustments:			
Catastrophic loss reserve	5.1	12.7	17.4
Other underwriting reserves	(4.3)	11.7	(6.6)
Reserve for price fluctuation	4.1	0.9	(13.9)
Policy acquisition cost	13.1	30.9	8.8
Revaluation of investments in securities and related investment income	(7.1)	(23.1)	21.1
Impairment of long-lived assets.....	1.7	(4.1)	(0.5)
Deferred income taxes.....	(3.6)	(19.4)	(8.3)
Retirement and severance benefits.....	(1.2)	(0.0)	(6.5)
Other.....	0.3	(2.6)	(6.0)
Net consolidated income in accordance with U.S. GAAP	¥38.0	¥26.0	¥ 38.3

GAAP in Japan (Unaudited)

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Consolidated Balance Sheets (Unaudited)

Mitsui Sumitomo Insurance Co., Ltd. and subsidiaries
March 31, 2002 and 2003

Assets	Yen in millions		Dollars in thousands
	2002	2003	2003
Cash and deposits	¥ 415,024	¥ 366,953	\$ 3,057,941
Call loans	328	5,000	41,666
Securities bought under resale agreements	—	1,999	16,658
Monetary claims bought	17,774	38,874	323,950
Money trust	38,639	26,803	223,358
Investments in securities:			
Domestic bonds	2,072,269	2,199,855	18,332,125
Domestic stocks	1,888,726	1,406,696	11,722,466
Foreign securities	889,926	863,146	7,192,883
Other securities	36,263	72,322	602,683
Total investments in securities	4,887,186	4,542,021	37,850,175
Loans (Note 3):			
Policy loans	32,847	33,898	282,483
Others	731,579	693,563	5,779,691
Total loans	764,426	727,462	6,062,183
Property and equipment:			
Land	101,195	108,634	905,283
Building	367,235	390,127	3,251,058
Furniture, equipment and other	112,128	111,401	928,341
	580,559	610,163	5,084,691
Less accumulated depreciation	270,573	284,925	2,374,375
Net property and equipment	309,985	325,237	2,710,308
Premiums receivable and agents' balances	118,845	119,217	993,475
Reinsurance receivable and recoverable on paid losses	81,317	71,777	598,141
Other assets	167,682	211,177	1,759,808
Deferred tax assets	1,334	35,560	296,333
Customers' liability under guarantees and acceptances	547,388	25,519	212,658
Reserve for bad debts	(26,018)	(19,977)	(166,475)
Reserve for losses on investments	(8)	(12)	(100)
Total assets	¥7,323,905	¥6,477,614	\$53,980,116

See accompanying notes to consolidated financial statements.

Liabilities, Minority Interests and Shareholders' Equity	Yen in millions		Dollars in thousands
	2002	2003	2003
Liabilities:			
Underwriting fund:			
Outstanding claims	¥ 465,029	¥ 509,149	\$ 4,242,908
Underwriting reserves	4,466,638	4,483,727	37,364,391
	4,931,667	4,992,877	41,607,308
Short-term debt (Note 4)	64,148	22,647	188,725
Long-term debt (Note 4)	22,625	1,100	9,166
Reinsurance payable and due to other insurance companies.....	70,076	85,919	715,991
Reserve for employees' retirement and severance benefits.....	163,544	152,203	1,268,358
Accrued bonuses for employees	11,278	12,126	101,050
Reserve for losses on sales of loans.....	1,619	—	—
Reserve for loss on valuation of real estate.....	1,220	1,220	10,166
Reserve for price fluctuation	20,662	6,830	56,916
Other liabilities	93,425	123,452	1,028,766
Deferred tax liabilities.....	121,608	7,483	62,358
Liability under guarantees and acceptances.....	547,388	25,519	212,658
Total liabilities	6,049,264	5,431,379	45,261,491
Minority interests	4,713	4,278	35,650
Shareholders' equity (Note 7):			
Common stock, no par value:			
Authorized—3,000,000,000 shares; issued and outstanding—1,479,894,005 shares as of March 31, 2002 and as of March 31, 2003	128,476	128,476	1,070,633
Additional paid-in capital.....	81,991	81,991	683,258
Legal reserve	36,040	38,340	319,500
Unrealized gains on investments, net of tax	688,873	449,101	3,742,508
Foreign currency translation adjustments.....	(1,220)	(5,922)	(49,350)
Treasury stock.....	(11,603)	(15,971)	(133,091)
Retained earnings:			
Voluntary reserves	307,339	312,775	2,606,458
Unappropriated retained earnings	40,029	53,163	443,025
Total retained earnings	347,369	365,938	3,049,483
Total shareholders' equity	1,269,927	1,041,955	8,682,958
Commitments and contingent liabilities (Note 6)			
Total liabilities, minority interests and shareholders' equity	¥7,323,905	¥6,477,614	\$53,980,116

Consolidated Statements of Income (Unaudited)

Mitsui Sumitomo Insurance Co., Ltd. and subsidiaries
For the years ended March 31, 2001, 2002 and 2003

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Ordinary income and expenses:				
Underwriting income:				
Net premiums written	¥1,197,591	¥1,234,874	¥1,303,946	\$10,866,216
Deposit premiums from policyholders.....	373,217	296,730	306,757	2,556,308
Investment income on deposits by policyholders, etc.	78,340	71,226	65,442	545,350
Life insurance premiums.....	108,179	120,055	124,516	1,037,633
Reversal of underwriting reserve	31,581	16,373	—	—
Other underwriting income	839	750	801	6,675
Total underwriting income	1,789,749	1,740,011	1,801,464	15,012,200
Underwriting expenses:				
Net claims paid	633,500	641,878	646,557	5,387,975
Loss adjustment expenses.....	58,303	59,340	59,783	498,191
Commission and collection expenses.....	218,291	223,534	228,342	1,902,850
Maturity refunds to policyholders	585,956	523,145	538,281	4,485,675
Dividends to policyholders.....	1,036	409	79	658
Life insurance claims	7,391	12,749	16,871	140,591
Provision for outstanding claims	40,515	31,668	28,939	241,158
Provision for underwriting reserve	—	—	17,503	145,858
Other underwriting expenses	346	828	1,005	8,375
Total underwriting expenses	1,545,341	1,493,554	1,537,363	12,811,358
Gross underwriting profit	244,407	246,457	264,100	2,200,833
Investment income (expenses):				
Interest and dividend income	140,417	138,378	129,332	1,077,766
Investment loss on money trust, net.....	(2,307)	(2,174)	(2,475)	(20,625)
Investment gain on trading securities, net.....	—	—	467	3,891
Gain on sales or redemption of investments in securities, net	34,212	38,681	31,881	265,675
Loss on devaluation of investment securities.....	(14,580)	(28,220)	(50,647)	(422,058)
Gain (loss) on derivative transactions, net.....	13	(1,269)	(3,025)	(25,208)
Provision for losses on investment.....	—	—	(3)	(25)
Other investment income (expenses), net.....	295	1,705	(4,647)	(38,725)
Transfer to investment income on deposits by policyholders, etc.	(78,340)	(71,226)	(65,442)	(545,350)
Net investment profit	79,710	75,873	35,439	295,325
Operating expenses and general and administrative expenses	258,095	259,183	247,709	2,064,241
Other ordinary expenses (income):				
Interest expenses	1,225	1,263	879	7,325
Provision for bad debt and bad debt written off	2,416	12	69	575
Provision for losses for sales of loans.....	163	—	—	—
Equity in losses of affiliates.....	—	—	546	4,550
Other ordinary expenses (income), net.....	877	(722)	778	6,483
Total other ordinary expenses	4,683	553	2,273	18,941
Ordinary profit	61,339	62,594	49,557	412,975
Extraordinary losses (income):				
Loss (gain) on sales of properties and equipment, net.....	(1,114)	1,912	(1,855)	(15,458)
Provision for price fluctuation reserve.....	4,111	949	—	—
Reversal of price fluctuation reserve.....	—	—	(13,832)	(115,266)
Other extraordinary losses, net.....	15,607	33,861	9,836	81,966
Net extraordinary losses (income)	18,605	36,723	(5,851)	(48,758)
Income before income taxes	42,734	25,870	55,408	461,733
Income taxes—current (Note 9).....	14,948	17,984	34,846	290,383
Income taxes—deferred	(2,800)	(11,470)	(12,753)	(106,275)
Minority interests	697	369	502	4,183
Net income	¥ 29,888	¥ 18,986	¥ 32,812	\$ 273,433
			Yen	Dollars
Net income per share (Note 1 (s)):				
Basic	¥19.99	¥12.84	¥22.46	\$0.18
Diluted.....	18.74	12.19	21.35	0.17

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity (Unaudited)

Mitsui Sumitomo Insurance Co., Ltd. and subsidiaries
For the years ended March 31, 2001, 2002 and 2003

	In thousands					Yen in millions
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Legal Reserve	Voluntary Reserves	Unappropriated Retained Earnings
Balance as of March 31, 2000	1,514,957	¥128,471	¥81,986	¥31,590	¥290,547	¥104,864
Net income	—	—	—	—	—	29,888
Adjustment due to changes of investments in affiliates	—	—	—	—	—	598
Appropriation of retained earnings:						
Cash dividends	—	—	—	—	—	(10,516)
Transfer to legal reserve	—	—	—	2,250	—	(2,250)
Bonuses to directors	—	—	—	—	—	(115)
Voluntary reserve	—	—	—	—	56,154	(56,154)
Share buyback charged to retained earnings	(35,078)	—	—	—	—	(20,106)
Shares issued upon conversion of convertible bonds	7	2	2	—	—	—
Other	—	—	—	—	—	(171)
Balance as of March 31, 2001	1,479,886	128,473	81,989	33,840	346,701	46,037
Net income	—	—	—	—	—	18,986
Adjustment due to changes of investments in affiliates	—	—	—	—	—	69
Appropriation of retained earnings:						
Cash dividends	—	—	—	—	—	(10,272)
Transfer to legal reserve	—	—	—	2,200	—	(2,200)
Bonuses to directors	—	—	—	—	—	(97)
Voluntary reserve	—	—	—	—	8,477	(8,477)
Shares issued upon conversion of convertible bonds	7	2	2	—	—	—
Adjustment due to merger	—	—	—	—	(47,840)	(4,015)
Balance as of March 31, 2002	1,479,894	128,476	81,991	36,040	307,339	40,029
Net income	—	—	—	—	—	32,812
Appropriation of retained earnings:						
Cash dividends	—	—	—	—	—	(10,949)
Transfer to legal reserve	—	—	—	2,300	—	(2,300)
Bonuses to directors	—	—	—	—	—	(84)
Voluntary reserve	—	—	—	—	5,435	(5,435)
Adjustment due to changes of accounting policies of subsidiaries	—	—	—	—	—	(631)
Adjustment due to changes of investments in subsidiaries	—	—	—	—	—	(277)
Balance as of March 31, 2003	1,479,894	¥128,476	¥81,991	¥38,340	¥312,775	¥ 53,163

	Dollars in thousands				
	Common Stock	Additional Paid-in Capital	Legal Reserve	Voluntary Reserves	Unappropriated Retained Earnings
Balance as of March 31, 2002	\$1,070,633	\$683,258	\$300,333	\$2,561,158	\$333,575
Net income	—	—	—	—	273,433
Appropriation of retained earnings:					
Cash dividends	—	—	—	—	(91,241)
Transfer to legal reserve	—	—	19,166	—	(19,166)
Bonuses to directors	—	—	—	—	(700)
Voluntary reserve	—	—	—	45,291	(45,291)
Adjustment due to changes of accounting policies of subsidiaries	—	—	—	—	(5,258)
Adjustment due to changes of investments in subsidiaries	—	—	—	—	(2,308)
Balance as of March 31, 2003	\$1,070,633	\$683,258	\$319,500	\$2,606,458	\$443,025

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows (Unaudited)

Mitsui Sumitomo Insurance Co., Ltd. and subsidiaries
For the years ended March 31, 2001, 2002 and 2003

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Cash flows from operating activities:				
Income before income taxes	¥ 42,734	¥ 25,870	¥ 55,408	\$ 461,733
Depreciation	24,137	24,378	22,549	187,908
Amortization of excess of cost of investment over underlying net assets	—	—	318	2,650
Increase in outstanding claims.....	40,253	33,182	28,939	241,158
Increase (decrease) in underwriting reserves.....	(14,581)	(18,573)	15,633	130,275
Decrease in reserve for bad debts	(15,910)	(8,595)	(6,000)	(50,000)
Increase (decrease) in reserve for losses on investment.....	(5,428)	(142)	3	25
Increase (decrease) in reserve for employees' retirement and severance benefits.....	39,902	407	(11,173)	(93,108)
Increase (decrease) in reserve for accrued bonuses for employees	(272)	2,608	940	7,833
Increase (decrease) in reserve for losses on sales of loans	163	(1,031)	(1,619)	(13,491)
Increase (decrease) in reserve for loss on valuation of real estate.....	2,309	(1,089)	—	—
Increase (decrease) in reserve for price fluctuation.....	4,111	949	(13,832)	(115,266)
Interest and dividend income.....	(140,417)	(138,378)	(129,332)	(1,077,766)
Losses (gains) on investment in securities	(35,434)	(10,363)	18,969	158,075
Interest expenses.....	1,225	1,263	879	7,325
Foreign exchange gain.....	(1,958)	(909)	(1,287)	(10,725)
Losses (gains) on disposal of property and equipment	5,456	3,144	(636)	(5,300)
Equity in losses of affiliates	—	—	546	4,550
Acquisition of property and equipment return of losses.....	—	—	(24,196)	(201,633)
Decrease (increase) in other assets.....	9,465	(6,906)	(14,530)	(121,083)
Increase (decrease) in other liabilities.....	(3,664)	(22,953)	6,691	55,758
Others	17,762	12,991	5,291	44,091
Subtotal.....	(30,145)	(104,147)	(46,438)	(386,983)
Interest and dividends received	142,640	143,970	137,046	1,142,050
Interest paid	(1,217)	(1,261)	(889)	(7,408)
Income tax paid.....	(46,507)	(7,553)	(13,839)	(115,325)
Net cash provided by operating activities	64,768	31,007	75,878	632,316
Cash flows from investing activities:				
Net increase in deposit at banks	17,543	7,918	16,121	134,341
Purchase of monetary claims bought	(19,585)	(5,867)	(6,099)	(50,825)
Proceeds from sales and redemption of monetary claims bought	34,094	6,287	5,692	47,433
Purchase of money trusts	(16,128)	(4,080)	(15,200)	(126,666)
Proceeds from sales of money trusts.....	28,664	12,235	32,508	270,900
Purchase of securities	(789,321)	(737,705)	(730,143)	(6,084,525)
Proceeds from sales and redemption of securities	652,317	608,882	664,744	5,539,533
Investment in loans	(211,004)	(219,903)	(204,441)	(1,703,675)
Collection of loans	339,488	325,731	239,115	1,992,625
Acquisition of property and equipment.....	(15,462)	(19,693)	(10,239)	(85,325)
Proceeds from sales of property and equipment	10,391	2,516	6,040	50,333
Others	(3,715)	2,699	4,114	34,283
Net cash provided by (used in) investing activities	27,282	(20,979)	2,213	18,441
Cash flows from financing activities:				
Issue of commercial paper	26,500	—	—	—
Redemption of commercial paper	(56,500)	—	—	—
Redemption of short-term debt	—	(19,854)	(62,848)	(523,733)
Acquisition of treasury stock	(20,110)	(11,598)	(4,368)	(36,400)
Cash dividends paid.....	(10,516)	(10,272)	(10,949)	(91,241)
Cash dividends paid to minority shareholders	(131)	(122)	(549)	(4,575)
Others	(40)	(452)	(124)	(1,033)
Net cash used in financing activities	(60,799)	(42,299)	(78,840)	(657,000)
Effect of exchange rate changes on cash and cash equivalents.....	3,898	1,454	919	7,658
Net change in cash and cash equivalents	35,150	(30,816)	172	1,433
Cash and cash equivalents at beginning of year	349,252	401,475	372,383	3,103,191
Increase in cash and cash equivalents related to a newly consolidated subsidiary.....	602	1,725	—	—
Increase in cash and cash equivalents related to acquisition of business	16,469	—	—	—
Decrease in cash and cash equivalents related to changes of investment in subsidiaries.....	—	—	(1,780)	(14,833)
Cash and cash equivalents at end of year (Note 8)	¥401,475	¥372,383	¥370,775	\$3,089,791

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

Mitsui Sumitomo Insurance Co., Ltd. and subsidiaries

(1) Summary of Significant Accounting Policies

(a) Basis of Presenting Financial Statements

Mitsui Sumitomo Insurance Company, Limited (“the Company”) maintains its accounting records and prepares its financial statements in Japanese yen in accordance with the provisions of the accounting standards for non-life insurance companies issued by the Financial Services Agency of Japan and in conformity with generally accepted accounting principles and practices in Japan (“Japan GAAP”), which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The Company was formed with the October 1, 2001, merger of Mitsui Marine and Fire Insurance Company, Limited and The Sumitomo Marine & Fire Insurance Company, Limited. The Japan GAAP consolidated financial statements for the fiscal year ended March 31, 2002 submitted to the Ministry of Finance consist of the premerger figures from Mitsui Marine and Fire Insurance Company, Limited for April 1, 2001 through September 30, 2001 and the Company’s pro forma results for October 1, 2001 through March 31, 2002. However, for the purposes of this report, the consolidated financial statements were created as if the two companies had merged in the past. Therefore, amounts for the past financial years in the accompanying consolidated financial statements have been restated from amounts previously reported.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan.

The accompanying consolidated financial statements have been extracted and translated from the consolidated financial statements that are prepared for Japanese domestic purposes in accordance with the provisions of the Securities and Exchange Law of Japan and filed with the Ministry of Finance of Japan and stock exchanges in Japan.

The accompanying footnotes include information which is not required under Japan GAAP but is presented herein as additional information for the financial statements.

Amounts of less than one million yen and one thousand dollars have been eliminated. As a result, totals in yen and dollars shown herein do not necessarily agree with the sum of the individual amounts.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the parent company and its significant subsidiaries. All material intercompany balances and transactions are eliminated.

The Company consolidated 25 subsidiaries as of the fiscal year ended March 31, 2003. Major subsidiaries are as follows:

Mitsui Sumitomo Kirameki Life Insurance Co., Ltd.

Mitsui Sumitomo Insurance Group Holdings (USA), Inc.

Mitsui Sumitomo Insurance Company (Europe), Limited

Mitsui Sumitomo Insurance (Singapore) Pte. Ltd.

The Company accounted for 2 affiliates by the equity method in the year ended March 31, 2003.

The affiliates are as follows:

Mitsui Sumitomo CitiInsurance Life Insurance Co., Ltd.

Sumitomo Mitsui Asset Management Company, Limited

The investments in and the operating results of other subsidiaries are not significant to the Company.

The scope of consolidation required under generally accepted accounting principles in the United States of America (“U.S. GAAP”) differs from that required under Japan GAAP.

(c) Foreign Currency Translations

(i) Foreign currency accounts

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the rate of exchange in effect at the balance sheet date.

All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions are made. The resulting exchange gains and losses are credited or charged to income.

(ii) Foreign currency financial statements of consolidated subsidiaries

Assets and liabilities of the consolidated subsidiaries 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 translation of foreign currency financial statements are excluded from the income statements and are accumulated and classified in "Foreign currency translation adjustments" in the consolidated balance sheets.

Foreign currency translation adjustments are included in "Shareholders' equity" and "Minority interests" in accordance with the Regulation of Consolidated Financial Statements.

(d) Investments

The Company classified investments in securities as "Trading securities," "Securities held to maturity," "Stocks of subsidiaries and affiliates" and "Other securities." The valuation policies and methods of each category are as follows:

- Trading securities are valued at fair value at the balance sheet date, and the cost of sale is calculated using the moving average method.
- Securities held to maturity are valued at amortized cost.
- Stocks of subsidiaries and affiliates are valued at cost using the moving average method.
- Other securities with fair values are valued at fair value at the balance sheet date. Net unrealized gains or losses are reported as a separate component of shareholders' equity, and cost of sales is calculated using the moving average method.
- Other securities without fair values are valued at cost using the moving average method or at amortized cost.
- Securities managed as a major component of trust assets in the money trust are valued at fair value.

Derivative financial instruments are valued at fair value.

Interest rate swaps and currency swaps that meet certain criteria are accounted for under exceptional methods, as regulated in the related accounting standards, as if the interest rates or currencies under those swaps were originally applied to underlying bonds or loans.

Profit and losses on stock price option contracts for the purpose of hedging risks arising from fluctuations in stock prices relating to holding stocks and currency swap contracts used for hedging risks of variability in the cash flows of foreign bonds arising from fluctuations of foreign exchange rates are accounted for under the deferral hedge accounting method. Interest rate swap contracts for hedging risks arising from fluctuations in the cash flows of loans or bonds relating to fluctuations in interest rates are accounted for under the deferral hedge accounting method or exceptional methods when they meet certain criteria, as mentioned above.

The effectiveness of hedging is assessed semiannually based on an analysis comparing cumulative amounts of fluctuations of the prices or the cash flows between the hedged items and the hedging instruments during the periods from the start of hedging to the date of the assessment. When hedged items and hedging instruments are highly and clearly interrelated or when interest swap transactions meet the criteria for applying exceptional methods, the assessments for the effectiveness of hedging are omitted.

(e) Property and Equipment

Property and equipment are principally stated at cost less accumulated depreciation. Depreciation is computed mainly by the declining-balance method based on estimated useful lives, which are prescribed by Japanese income tax laws.

Properties to be disposed of, that were acquired to recover paid claims, are valued at the lower of cost or market value, and no depreciation is recorded.

(f) Leases

Under Japanese accounting standards for leases, finance leases that have been deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

(g) Policy Acquisition Costs

Policy acquisition costs are charged to income as incurred.

(h) Reserve for Outstanding Claims

In accordance with the regulations of the Insurance Business Law, a reserve for outstanding claims has been established in amounts estimated to be sufficient, in the opinion of management, to discharge claims incurred and reported.

A provision for losses incurred but not reported at the balance sheet date has also been made.

(i) Underwriting Reserves

Pursuant to the provisions of the Insurance Business Law and related rules and regulations, the Company is required to maintain underwriting reserves in amounts determined as follows:

(i) Premium reserve:

- Property and casualty insurance

—Insurance other than Compulsory Automobile Liability Insurance and Earthquake Insurance

Whichever is the greater of the unearned premiums or the underwriting balance at the end of the year for policies written during the year, by lines of insurance and types of policy

—Compulsory Automobile Liability Insurance

Accumulated total sum of premiums written less claims incurred and related net investment income less income taxes and contributions to the Japan Red Cross Society and other Japanese institutions. Insurance companies are not permitted to recognize any profit or loss from underwriting compulsory automobile liability insurance.

—Earthquake Insurance

Accumulated total amounts of underwriting balance and related net investment income less income taxes

In addition to the above, in order to provide for any extraordinary risks which might arise from a catastrophe, the Company is required to maintain a contingency reserve at an amount determined based on net premiums written by lines of business.

- Life insurance

Future policy benefits for life insurance contracts are mainly calculated pursuant to the five-year zillmerized reserve method.

(ii) Deposits by policyholders:

The Company maintains reserves for the deposit portion of premiums and investment income on such portion, which are refundable to policyholders under long-term insurance.

(j) Reserve for Bad Debts

The reserve for bad debts is established under the standard for self-assessment of assets and the policy for depreciation and provision. Loans to debtors who are legally deemed to be experiencing financial difficulties such as bankruptcy, special clearance or whose notes are under suspension at clearing-houses and loans to debtors who are substantially deemed to be experiencing financial difficulties are provided for based on the amount remaining after deducting the collateral's resale value and collectible collateral amounts through guarantees. Loans to debtors for which there is a probability of financial difficulties in the future are provided for based on the amount remaining after deducting the collateral's resale value and amounts collectible from guarantees considering debtors' abilities to repay the entire outstanding debt.

Loans other than those mentioned above are provided for by multiplying actual bad debt ratios computed based on the actual bad debt amounts during past periods against outstanding balances.

(k) Reserve for Losses on Investments

The reserve for losses on investments is established to provide for possible future losses arising from holding shares of investments.

(l) Accrued Employees' Retirement

and Severance Benefits and Pension Plans

The Company has an unfunded lump-sum payment benefit plan and funded non-contributory pension plan 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 plan.

In addition to the plans described above, substantially all employees of the Company are covered by a funded pension plan whose benefits are based on length of service and certain other factors and include a portion representing the governmental social security welfare pension.

Unrecognized net actuarial gains and losses are amortized from the next fiscal year using the straight-line method over periods within the estimated average remaining service years of employees.

Unrecognized prior service cost is amortized using the straight-line method over periods within the estimated average remaining service years of employees.

(m) Accrued Bonuses for Employees

Accrued bonuses for employees are provided for based on the estimated amounts to be paid allocated over the periods to which payment of bonuses are applicable.

(n) Reserve for Losses on Sales of Loans

The reserve for losses on sales of loans is established to provide for possible losses arising from a decline in the collateral values of loans sold to the Cooperative Credit Purchasing Company, Limited.

(o) Reserve for Loss on Valuation of Real Estate

The reserve for loss on valuation of real estate is established to provide for future possible losses in connection with future real estate transactions.

(p) Reserve for Price Fluctuation

In conformity with the Insurance Business Law (the "Law"), insurance companies must establish a provision for losses resulting from fluctuations in the price of securities, bank deposits and loans denominated in foreign currencies. The amount of the annual transfer to the "Reserve for price fluctuation" is calculated using percentages set forth in the Law for each type of security, and the balance limitation is also stipulated in the Law. Pursuant to the Law, the Company may

reduce this reserve by: (1) the amount of the net loss resulting from sales and reappraisals of securities, etc., and (2) the amount for which permission is granted by the Financial Services Agency of Japan for any other reasons.

(q) Deferred Assets under Article 113 of the Insurance Business Law

In conformity with Article 113 of the Insurance Business Law, insurance companies are permitted to capitalize the amount relating to the business expenses for the initial five fiscal years following the establishment of an insurance company. Mitsui Sumitomo Kirameki Life Insurance Co., Ltd., a wholly owned life insurance subsidiary, is amortizing such amounts within ten years following incorporation as permitted by the Law.

(r) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and all highly liquid debt instruments with an original maturity of three months or less.

(s) Net Income per Share

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year.

As a result of a change to Japanese accounting standards, from the fiscal year ended March 31, 2003, net income is calculated by excluding figures not attributable to common stock.

Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year with an applicable adjustment for related interest expense, net of tax.

(2) U.S. Dollar Amounts

The translations of yen amounts into U.S. dollar amounts are included solely for the convenience of the reader and have been made, as a matter of arithmetical computation only, at ¥120=U.S.\$1, the approximate rate prevailing at March 31, 2003. The translations should not be construed as representations that such yen amounts have been, could have been or could in the future be converted into U.S. dollars at that or any other rate.

(3) Loans

Loans as of March 31, 2002 and 2003 included "Loans to financially impaired parties" and "Overdue loans" on which accrued interest income had not been recognized in accordance with the Accounting Standards for Non-Life Insurance Companies, "Overdue loans more than 3 months past due" and "Restructured loans" as follows:

	Yen in millions		Dollars in thousands
	2002	2003	2003
Loans to financially impaired parties	¥ 5,501	¥ 78	\$ 650
Overdue loans	14,743	9,561	79,675
Overdue loans more than 3 months past due	742	692	5,766
Restructured loans	12,915	21,866	182,216
Total	¥33,903	¥32,199	\$268,325

Loans to financially impaired parties represent those loans on which accrued interest receivable is not recognized because repayments of principal or interest were overdue for considerable periods and they are regarded as not collectible (excluding the portion of the loans that were written off) and which meet the conditions described in Article 96, Sections 1-3, 4, of the Corporation Tax Enforcement Law (1965 Government Ordinance No. 97).

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

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

Restructured loans have favorable terms to debtors such as interest exemption or reduction, grace on interest payments, grace on principal repayments or forgiveness of debts for the purpose of the restructuring of or the provision of support to debtors in financial difficulty. Loans to financially impaired parties, overdue loans and overdue loans more than 3 months past due are excluded.

(4) Short-Term Debt and Long-Term Debt

Short-term debt and long-term debt consist of the following as of March 31, 2002 and 2003:

	Yen in millions		Dollars in thousands
	2002	2003	2003
0.7% Japanese yen convertible debentures, due 2003	¥49,998	¥ —	\$ —
1.6% Japanese yen convertible debentures, due 2003	12,850	—	—
1.2% Japanese yen convertible debentures, due 2004	22,250	22,250	185,416
Bank loans	1,675	1,497	12,475
	86,773	23,747	197,891
Less current portion classified as short-term debt	64,148	22,647	188,725
Total long-term debt	¥22,625	¥ 1,100	\$ 9,166

If all convertible bonds outstanding were converted as of March 31, 2003, common shares outstanding would be increased by 33,313 thousand shares.

Under the trust deeds, conversion prices are subject to adjustment in certain cases including stock splits or the issuance of new shares at paid-in prices which are less than market prices.

(5) Extraordinary Losses (Income)

Other extraordinary losses (income), net, in the year ended March 31, 2001 includes gain on sales of securities of ¥17,912 million, which were sold in connection with the provision of underwriting reserve, reversal of reserve for bad debts of ¥5,391 million and reversal of reserve for losses on investments of ¥2,983 million. Also, other extraordinary losses (income), net, in the year ended March 31, 2001 includes the amortization of differences arising from changes in accounting method in the amount of ¥1,521 million in accordance with the application of severance benefit accounting methods, the provision for reserve for loss on valuation of real estate of ¥2,309 million, valuation losses on land and construction in process due to significant declines in fair values of ¥6,570 million, miscellaneous expenses for the merger of ¥6,689 million, the amortization of actuarial differences in the amount of ¥6,891 million in accordance with the application of severance benefit accounting methods and the previous year adjustment for underwriting reserve for co-insurance contracts on fire insurance managed by another company of ¥17,912 million.

Other extraordinary losses (income), net, in the year ended March 31, 2002 includes reversal of reserve for bad debts of ¥1,783 million, reversal of reserve for losses on investments of ¥14 million, reversal of reserve for losses on sales of loans of ¥36 million, and temporary revenue amounting to ¥1,384 million from prior years' service costs related to the accounting standard for retirement benefits. Also, other extraordinary losses (income), net, in the year ended March 31, 2002 includes miscellaneous expenses for the merger of ¥31,396 million, the amortization of actuarial differences in the amount of ¥5,551 million in accordance with the application of severance benefit accounting methods and valuation losses on land and construction in process of ¥132 million due to significant declines in fair values.

Other extraordinary losses (income), net, in the year ended March 31, 2003 includes reversal of reserve for bad debts of ¥3,596 million (\$29,966 thousand). Also, other extraordinary losses (income), net, in the year ended March 31, 2003 includes miscellaneous expenses for the merger of ¥7,726 million (\$64,383 thousand), such expenses as those related to premium severance pay for a reemployment support system of ¥4,491 million (\$37,425 thousand) and valuation losses on land and buildings of ¥1,215 million (\$10,125 thousand) due to significant declines in fair values.

(6) Commitments and Contingent Liabilities

According to the Enforcement Regulations of the Insurance Business Law, "Liability under guarantees and acceptances" and "Customers' liability under guarantees and acceptances" are presented in the consolidated balance sheets. These are provided in the ordinary course of business and include guarantees for the repayment of several types of asset-backed securities and Japanese city bank issued bonds. The contractual amounts of the financial guarantees reflect the Company's maximum exposure to credit loss in the event of nonperformance.

Total payments for finance leases other than those which have been deemed to transfer ownership of the leased property to the lessee were ¥1,447 million and ¥473 million (\$3,941 thousand) in the years ended March 31, 2002 and 2003, respectively. Lease property less accumulated depreciation

and unexpended lease expenses for such financial leases amounted to ¥243 million (\$2,025 thousand) in the year ended March 31, 2003.

(7) Shareholders' Equity

Legal Reserve and Appropriations of Retained Earnings

The Insurance Business Law, which is applicable to the appropriations of retained earnings, requires that an amount equaling 20% or more of retained earnings appropriated for dividends be set aside as a reserve until the aggregate amount of such reserve and additional paid-in capital reaches the stated value of common stock. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. Voluntary reserves are available for future dividends subject to the approval of the shareholders and legal reserve requirements. At their general meeting on June 27, 2003, shareholders authorized the appropriation of retained earnings for the year ended March 31, 2003 as follows:

	Yen in millions	Dollars in thousands
Legal reserve	¥ 2,200	\$ 18,333
Cash dividends, ¥7.5 (\$0.06) per share.....	10,886	90,716
Bonuses to directors.....	80	666
Voluntary reserves.....	10,000	83,333
Total.....	¥23,166	\$193,050

(8) Information for Statements of Cash Flows

Cash and cash equivalents reported on the consolidated balance sheets on March 31, 2001, 2002 and 2003 were as follows:

	Yen in millions			Dollars in thousands
	2001	2002	2003	2003
Cash and deposits	¥352,176	¥415,024	¥366,953	\$3,057,941
Call loans	20,224	328	5,000	41,666
Securities bought under resale agreements	—	—	1,999	16,658
Monetary claims bought	84,637	17,774	38,874	323,950
Monetary trust.....	—	—	26,803	223,358
Investments in securities....	8,858	427	—	—
Time deposits at banks with maturities over 3 months.....	(60,576)	(57,719)	(40,754)	(339,616)
Monetary claims bought with maturities over 3 months.....	(3,845)	(3,452)	(3,810)	(31,750)
Monetary trust with maturities over 3 months...	—	—	(24,291)	(202,425)
Cash and cash equivalents	¥401,475	¥372,383	¥370,775	\$3,089,791

(9) Income Taxes

The Company and its domestic subsidiaries are subject to corporate (national) and inhabitants (local) taxes based on income which, in the aggregate, resulted in a normal statutory tax rate of approximately 36% for the years ended March 31, 2001, 2002 and 2003.

Enterprise (local) tax was imposed on net domestic premiums written and was included in loss adjustment expenses and operating expenses and general and administrative expenses.

(10) Segment Information

The Company operates principally in two business segments: property and casualty insurance and life insurance. Life insurance operations are mainly conducted by its wholly owned subsidiary Mitsui Sumitomo Kirameki Life Insurance Co., Ltd., which offers mainly individual and group life policies. Summarized financial information with respect to the business segments is as follows:

Yen in millions				
March 31, 2001	Property and Casualty Insurance	Life Insurance	Adjustments and Eliminations	Consolidated
Ordinary income	¥1,870,352	¥114,167	¥(82,052)	¥1,902,467
Adjustments and eliminations.....	1,588	125	(1,714)	—
Total	1,871,940	114,293	(83,766)	1,902,467
Ordinary expense	1,811,445	113,414	(83,732)	1,841,127
Ordinary profit....	¥ 60,494	¥ 878	¥ (33)	¥ 61,339
Assets	¥7,308,739	¥293,801	¥(30,538)	¥7,572,002
Depreciation	23,993	144	—	24,137
Capital investment...	17,763	80	—	17,844

Yen in millions				
March 31, 2002	Property and Casualty Insurance	Life Insurance	Adjustments and Eliminations	Consolidated
Ordinary income	¥1,815,843	¥129,310	¥(85,147)	¥1,860,007
Adjustments and eliminations.....	1,784	72	(1,857)	—
Total	1,817,627	129,383	(87,004)	1,860,007
Ordinary expense	1,755,874	128,576	(87,038)	1,797,412
Ordinary profit....	¥ 61,753	¥ 806	¥ 33	¥ 62,594
Assets	¥6,985,012	¥369,487	¥(30,594)	¥7,323,905
Depreciation	24,230	148	—	24,378
Capital investment...	18,130	316	—	18,447

Yen in millions				
March 31, 2003	Property and Casualty Insurance	Life Insurance	Adjustments and Eliminations	Consolidated
Ordinary income	¥1,857,644	¥133,056	¥(70,321)	¥1,920,379
Adjustments and eliminations.....	1,844	—	(1,844)	—
Total	1,859,488	133,056	(72,166)	1,920,379
Ordinary expense	1,809,384	133,603	(72,166)	1,870,821
Ordinary profit (loss).....	¥ 50,104	¥ (547)	¥ —	¥ 49,557
Assets	¥6,028,854	¥479,272	¥(30,513)	¥6,477,614
Depreciation	22,415	134	—	22,549
Capital investment...	10,719	47	—	10,766

Dollars in thousands				
March 31, 2003	Property and Casualty Insurance	Life Insurance	Adjustments and Eliminations	Consolidated
Ordinary income	\$15,480,366	\$1,108,800	\$(586,008)	\$16,003,158
Adjustments and eliminations.....	15,366	—	(15,366)	—
Total	15,495,733	1,108,800	(601,383)	16,003,158
Ordinary expense	15,078,200	1,113,358	(601,383)	15,590,175
Ordinary profit (loss).....	\$ 417,533	\$ (4,558)	\$ —	\$ 412,975
Assets	\$50,240,450	\$3,993,933	\$(254,275)	\$53,980,116
Depreciation	186,791	1,116	—	187,908
Capital investment...	89,325	391	—	89,716

Eliminations in ordinary income include the transferred amount due to the inclusion of the provision for outstanding claims and for underwriting reserves of ordinary expense for the life insurance segment as a reversal of such amounts in the consolidated statements of income.

The portfolio investment activities are considered a part of insurance business and not as an independent segment to be disclosed. Pursuant to the materiality rules of the applicable Japanese regulations, segment information by location and overseas sales amounts are not disclosed.

Overseas Network

(As of July 31, 2003)

- Overseas Subsidiaries and Affiliates
- ☆ Overseas Branches
- ★ Overseas Offices
- Underwriting Agents for Mitsui Sumitomo Insurance Co., Ltd., Head Office

ASIA AND OCEANIA

Singapore

- Mitsui Sumitomo Insurance (Singapore) Pte Ltd.
16 Raffles Quay #24-01, Hong Leong Building, Singapore 048581
Tel: 65-6220-9644~8
Fax: 65-6225-6371 (24F Reception) /9201 (21F) /6324-0096 (Reins. Dept.)
- MSI Management (Singapore) Pte Ltd.
16 Raffles Quay #19-06, Hong Leong Building, Singapore 048581
Tel: 65-6227-2130
Fax: 65-6227-5547
- Mitsui Sumitomo Reinsurance Limited, Singapore Branch
16 Raffles Quay #21-03, Hong Leong Building, Singapore 048581
Tel: 65-6224-9962
Fax: 65-6225-3477
- Interisk Asia Pte. Ltd.
16 Raffles Quay #19-01, Hong Leong Building, Singapore 048581
Tel: 65-6227-4576
Fax: 65-6222-9575

Thailand

- ☆ Mitsui Sumitomo Insurance Co., Ltd., Thailand Branch
14th Floor, Sathorn City Tower, No. 175 South Sathorn Road, Khwaeng Thungmahamek, Sathorn, Bangkok 10120, Thailand
Tel: 66-2-679-6165~6187
Fax: 66-2-679-6209~6214
- MSI Adjusting (Thailand) Co., Ltd.
14th Floor, Sathorn City Tower, No. 175 South Sathorn Road, Khwaeng Thungmahamek, Sathorn, Bangkok 10120, Thailand
Tel: 66-2-679-6165~6187
Fax: 66-2-679-6209~6214

- Calm Sea Service Co., Ltd.
14th Floor, Sathorn City Tower, No. 175 South Sathorn Road, Khwaeng Thungmahamek, Sathorn, Bangkok 10120, Thailand
Tel: 66-2-679-6165~6187
Fax: 66-2-679-6209~6214
- Wilson Insurance Company Limited
No. 25 18th Floor, Bangkok Insurance/Y.M.C.A. Bldg., South Sathorn Road, Khwaeng Thungmahamek, Sathorn, Bangkok 10120, Thailand
Tel: 66-2-677-3999 (ext. 100)
Fax: 66-2-677-3978~9
- Kamol Sukosol Insurance Co., Ltd.
663-665, Mahachai Road, Samranraj, Bangkok 10200, Thailand
Tel: 66-2-226-2277~88
Fax: 66-2-224-8373
- MBTS Broking Service Co., Ltd.
14th Floor, Sathorn City Tower, No. 175 South Sathorn Road, Khwaeng Thungmahamek, Sathorn, Bangkok 10120, Thailand
Tel: 66-2-679-6205~8
Fax: 66-2-679-6208
- MBTS Life Insurance Broker Co., Ltd.
14th Floor, Sathorn City Tower, No. 175 South Sathorn Road, Khwaeng Thungmahamek, Sathorn, Bangkok 10120, Thailand
Tel: 66-2-679-6165~6187
Fax: 66-2-679-6209~6214
- Sumikai Service (Thailand) Company Ltd.
14th Floor, Sathorn City Tower, No. 175 South Sathorn Road, Khwaeng Thungmahamek, Sathorn, Bangkok 10120, Thailand
Tel: 66-2-679-6165~6187
Fax: 66-2-679-6209~6214

Malaysia

- Mitsui Sumitomo Insurance (Malaysia) Bhd.
Level 21, 22 & 23 Menara Weld No. 76, Jalan Raja Chulan, 50200 Kuala Lumpur, P.O. Box 11034, 50732 Malaysia
Tel: 60-3-20729711
Fax: 60-3-20701454

- MSI Risk Consultancy Service (Malaysia) Sdn. Bhd.
Level 21, 22 & 23, Menara Weld No. 76, Jalan Raja Chulan, 50200 Kuala Lumpur, P.O. Box 11034, 50732 Malaysia
Tel: 60-3-20729711
Fax: 60-3-20701454
- Mitsui Sumitomo Reinsurance Limited, Labuan Branch
Level 13 (F2), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 WP Labuan, Malaysia
Tel: 60-87-452748
Fax: 60-87-452750
- ☆ Mitsui Sumitomo Insurance Co., Ltd., Labuan Branch
Level 13 (F2), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 WP Labuan, Malaysia
Tel: 60-087-452748
Fax: 60-087-452750

Philippines

- BPI/MS Insurance Corporation
16th Floor, Ayala-FGU Center, 6811 Ayala Avenue, 1226 Makati City, Philippines
Tel: 63-2840-9000
Fax: 63-2840-9229
- First Lepanto-Taisho Insurance Corporation
16th Floor, Pearlbank Centre, 146 Valero Street, Salcedo Village, Makati City, Philippines
Tel: 63-2892-2826
Fax: 63-2812-3907
- Philippine Charter Insurance Corporation
Skyland Plaza, Sen. Gil J. Puyat Avenue, Corner Tindalo Street, Makati City, Philippines
Tel: 63-2844-7044
Fax: 63-2815-4797

Indonesia

- P.T. Asuransi Mitsui Sumitomo Indonesia Summitmas II, 15th Floor, Jalan Jenderal Sudirman, Kavelling 61-62, Jakarta 1200190, Indonesia
Tel: 62-21-2523110
Fax: 62-21-2524308/5256040

Taiwan

- ☆ Mitsui Sumitomo Insurance Co., Ltd.,
Taipei Branch
7th Floor, No. 260, Tun Hwa North
Road, Taipei, Taiwan
Tel: 886-2-8712-1350
Fax: 886-2-8712-1370
- ★ Kaohsiung Representative Office
Room D, 25th Floor, 55, Cung Jeng 3rd
Road, Kaohsiung 800, Taiwan
Tel: 886-7-222-2300
Fax: 886-7-222-2348
- ★ Yangming Representative Office
4F-1, 13, Sec., 2 Peitou Road,
Peitou, Taipei, Taiwan, R.O.C.
Tel: 886-2-2893-0020
Fax: 886-2-2897-9171

The Republic of Korea

- ☆ Mitsui Sumitomo Insurance Co., Ltd.,
Korea Branch
23F, Young Poong Bldg. 33,
Seorin-Dong, Jongno-Gu, Seoul,
110-752, The Republic of Korea
Tel: 82-2-3702-5800
Fax: 82-2-3702-5900

People's Republic of China

- ☆ Mitsui Sumitomo Insurance Co., Ltd.,
Shanghai Branch
41st Floor, HSBC Tower Bldg.,
101 Yin Cheng East Road,
Pudong New Area, Shanghai 200120,
People's Republic of China
Tel: 86-21-6841-1034/0265/1922
Fax: 86-21-6841-0906/4998
- ★ China General Representative Office
Room No. 1608, Beijing Fortune Bldg.,
5 Dong San Huan Bei-Lu,
Chao Yang District, Beijing,
People's Republic of China
Tel: 86-10-6590-8500
Fax: 86-10-6590-8504
- ★ Beijing Representative Office
Room No. 1608, Beijing Fortune Bldg.,
5 Dong San Huan Bei-Lu,
Chao Yang District, Beijing,
People's Republic of China
Tel: 86-10-6590-8500
Fax: 86-10-6590-8504
- ★ Guangzhou Representative Office
Room No. 3908, Zhong Xin Ghuang
Chang, 233 Tian He Bei-Lu, Guangzhou,
People's Republic of China
Tel: 86-20-3877-2136/2129/2156
Fax: 86-20-3877-2161
- ★ Shenzhen Representative Office
28th Floor, Unit 16, Office Tower
Shun Hing Square, Di Wang
Commercial Center, 5002 Shen Nan
Dong Road, Shenzhen 518008,
People's Republic of China
Tel: 86-755-8246-1263/
8246-3442/8246-3700
Fax: 86-755-8246-1267
- ★ Dalian Representative Office
21st Floor, Dalian Senmao Bldg., 147
Zhong Shan Road, Xi gang District,
Dalian, Liao-Ning Province,
People's Republic of China
Tel: 86-411-360-2076
Fax: 86-411-360-0184
- ★ Chengdu Representative Office
Room No. 278, Jinjiang Hotel, 80,
2nd Section, Renmin South Ave.,
Chengdu, Sichuan,
People's Republic of China
Tel: 86-28-8559-4992
Fax: 86-28-8559-3565
- ★ Tianjin Representative Office
Room No. 1703, Tianjin International
Building, No. 75 Nianjing Road, Tianjin,
People's Republic of China
Tel: 86-22-2330-4987
Fax: 86-22-2330-4986
- ★ Suzhou Representative Office
14-D Kings Tower, 12 Shishan Road,
New District, Suzhou,
People's Republic of China
Tel: 86-512-6701-5210
Fax: 86-512-6701-5212

Hong Kong

- Mitsui Sumitomo Insurance Co.,
(H.K.) Limited
Room No. 2308, Bank of America Tower,
12 Harcourt Road, Central,
(G.P.O. Box 3027)
Hong Kong
Tel: 852-252-38191/39136~7/57866
Fax: 852-284-59255
- SPC Company (H.K.) Limited
Room No. 2308, Bank of America Tower,
12 Harcourt Road, Central,
(G.P.O. Box 3027)
Hong Kong
Tel: 852-252-38191
Fax: 852-284-59255
- Oriental Management Service Limited
Room No. 2308, Bank of America Tower,
12 Harcourt Road, Central,
(G.P.O. Box 3027)
Hong Kong
Tel: 852-252-35830
Fax: 852-280-46269
- M&H Insurance Agency Limited
Room No. 2308, Bank of America Tower,
12 Harcourt Road, Central,
(G.P.O. Box 3027)
Hong Kong
Tel: 852-252-38191/39136~7/57866
Fax: 852-284-59255
- Mascot Insurance Brokers Limited
Room No. 2308, Bank of America Tower,
12 Harcourt Road, Central,
(G.P.O. Box 3027)
Hong Kong
Tel: 852-252-38191/39136~7/57866
Fax: 852-284-59255

Macau

- ☆ Mitsui Sumitomo Insurance Co., Ltd.,
Macau Branch
1-3, Rua Dr. Pedro Jose Lobo, Edificio
Banco Luso, 12 Andar, Apartment
1202 Macau
Tel: 853-375427
Fax: 853-596667

Vietnam

- United Insurance Company of Vietnam
Hanoi Tung Shing Square, 11th Floor,
2 Ngo Quyen Street, Hoan Kiem District,
Hanoi, Vietnam
Tel: 84-4-8240495
Fax: 84-4-8240496

- ★ Hanoi Representative Office
Hanoi Tung Shing Square, 11th Floor,
2 Ngo Quyen Street, Hoan Kiem District,
Hanoi, Vietnam
Tel: 84-4-8240495
Fax: 84-4-8240496
- ★ Ho Chi Minh Representative Office
8th Floor, Sun Wah Tower,
115 Nguyen Hue Street, District 1,
Ho Chi Minh City, Vietnam
Tel: 84-8-8219030~1
Fax: 84-8-8219029

India

- Cholamandlam MS General
Insurance Company Limited
"TIAM House" 5th Floor,
72 Rajaji Salai,
Chennai 600 001, India
Tel: 91-44-521-66000
Fax: 91-44-521-66001
- ★ New Delhi Representative Office
No. 1111 on 11th floor of Ashoka Estate,
24 Barakhamba Road,
New Delhi 110 001, India
Tel: 91-11-2376-5130~2
Fax: 91-11-2376-5133

Myanmar

- ★ Yangon Representative Office
Room No. 622, Traders Hotel,
223 Sule Pagoda Road,
G.P.O. Box 888, Yangon, Myanmar
Tel: 95-1-242828 (ext. 7622)
Fax: 95-1-242807

Australia

- ☆ Mitsui Sumitomo Insurance Co., Ltd.
Australia Branch
Level 12, The Chifley Tower,
2 Chifley Square, Sydney, N.S.W. 2000,
Australia
Tel: 61-2-9222-7600
Fax: 61-2-9232-7006
- ★ Sydney Representative Office
Level 12, The Chifley Tower, 2 Chifley
Square, Sydney, N.S.W. 2000, Australia
Tel: 61-2-9222-7600
Fax: 61-2-9232-7006
- ★ Melbourne Representative Office
Level 8, 14 William Street, Melbourne,
Victoria 3000, Australia
Tel: 61-3-9245-8188
Fax: 61-3-9614-2248

New Zealand

- ★ New Zealand Representative Office
Royal & Sun Alliance Center,
48 Shortland Street, Auckland,
New Zealand
Tel: 64-9-357-2394
Fax: 64-9-363-2328
- Royal Sun Alliance Insurance
(New Zealand) Ltd.
Royal & Sun Alliance Center,
48 Shortland Street, Auckland,
New Zealand
Tel: 64-9-357-2394
Fax: 64-9-363-2328

Papua New Guinea

- ☆ Mitsui Sumitomo Insurance Co., Ltd.
Papua New Guinea Branch
Level 1, The Lodge, Bampton Street,
Port Moresby, Papua New Guinea
(P.O. Box 1579)
Tel: 675-321-1600
Fax: 675-321-1658

THE AMERICAS

U.S.A.

- Mitsui Sumitomo Insurance Group
Holdings (USA), Inc.
Corporation Trust Center,
1209 Orange Street,
Wilmington,
Delaware County of New Castle, U.S.A.
Tel: 1-908-604-2900
Fax: 1-908-604-2991
- Mitsui Sumitomo Insurance
Company of America
33 Whitehall Street, 26th Floor,
New York, NY 10004-2112, U.S.A.
Tel: 1-908-604-2900
Fax: 1-908-604-2991
- Mitsui Sumitomo Insurance
USA, Inc.
33 Whitehall Street, 26th Floor,
New York, NY 10004-2112, U.S.A.
Tel: 1-908-604-2900
Fax: 1-908-604-2991
- MSI Re Management, Inc.
c/o RSI-Reinsurance Solutions International
121 River Street, Hoboken,
NJ 07030-5792, U.S.A.
Tel: 1-201-284-5625
Fax: 1-201-284-5480

- 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
- GARM I Inc.
49 East 4th Street, Suite 500,
Dixie Terminal South,
Cincinnati, OH 45202, U.S.A.
Tel: 1-513-287-8220
Fax: 1-513-412-4990
- Seven Hills Insurance Agency Inc.
49 East 4th Street, Suite 500,
Dixie Terminal South,
Cincinnati, OH 45202, U.S.A.
Tel: 1-513-287-8158
Fax: 1-513-412-4990
- Seven Hills Insurance Agency L.L.C.
49 East 4th Street, Suite 500,
Dixie Terminal South,
Cincinnati, OH 45202, U.S.A.
Tel: 1-513-287-8158
Fax: 1-513-412-4990
- Seven Seas Insurance Agency Inc.
49 East 4th Street, Suite 500,
Dixie Terminal South,
Cincinnati, OH 45202, U.S.A.
Tel: 1-513-287-8158
Fax: 1-513-412-4990
- MSI Claims (USA), Inc.
33 Whitehall Street, 26th Floor,
New York, NY 10004-2112, U.S.A.
Tel: 1-212-480-1123
Fax: 1-212-480-1126
- MSI Property, Inc.
15 Independence Boulevard, P.O.Box
4602, Warren, NJ 07059, U.S.A.
Tel: 1-908-647-8917
Fax: 1-908-604-2992
- ★ New York Representative Office
33 Whitehall Street, 26th Floor,
New York, NY 10004-2112, U.S.A.
Tel: 1-212-480-2550
Fax: 1-212-480-1127
- ★ Chicago Representative Office
1750 East Golf Road, Suite 215,
Schaumburg, IL 60173, U.S.A.
Tel: 1-847-995-1772
Fax: 1-847-995-1794
- ★ Cincinnati Representative Office
49 East 4th Street, Suite 500,
Dixie Terminal South,
Cincinnati, OH 45202, U.S.A.
Tel: 1-513-412-4989
Fax: 1-513-412-4990

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

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

- Associated Insurance Underwriters
of the Pacific Inc.
Beach Road, Garapan,
P.O. Box 501369, Saipan,
MP 96950
Tel: 1-670-234-7222
Fax: 1-670-234-5367
- AON Insurance Micronesia (Saipan)
Ground Floor, Lim's Office Bldg.,
cor. Beach Road & Airport Road,
San Jose, Saipan, MP 96950, Saipan
Tel: 1-670-234-2811
Fax: 1-670-234-5462

Canada

- ★ Toronto Representative Office
One Financial Place, 14th Floor,
1 Adelaide St. East, Toronto, Ontario,
M5C 2V9, Canada
Tel: 1-416-359-3190
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: 1-416-863-5010

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) Limited
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, Delegacion Miguel
Hidalgo, 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
Republica de Panama
(P.O. Box 89-9909, Zona 9,
San Francisco, Panama City,
Republica de Panama)
Tel: 507-210-0133/0147
Fax: 507-210-0122

Brazil

- Mitsui Sumitomo Seguros S.A.
Avenida Paulista 1471-1° Andar,
Cep. 01311-927 Cerq. Cesar,
São Paulo, SP, Brazil
Tel: 55-11-3177-5806
Fax: 55-11-289-6997
- ★ São Paulo Representative Office
Avenida Paulista 1471-4° Andar,
Cep. 01311-927 Cerq. Cesar,
São Paulo SP, Brazil
Tel: 55-11-3177-5806
Fax: 55-11-289-6997

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,
Republica Argentina
Tel: 54-11-5218-2396
Fax: 54-11-5218-2397

EUROPE, MIDDLE EAST, AND AFRICA

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
- Mitsui Sumitomo Insurance
(London Management) Limited
12th Floor, 71 Fenchurch Street,
London EC3M 4BS, U.K.
Tel: 44-20-7977-8321
Fax: 44-20-7977-8300
- MSI Corporate Capital Limited
12th Floor, 71 Fenchurch Street,
London EC3M 4BS, U.K.
Tel: 44-20-7977-8321
Fax: 44-20-7977-8300
- 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 Co., Ltd.
UK Branch
6th Floor, New London House,
6 London Street, London
EC3R 7LP, U.K.
Tel: 44-20-7816-0321
Fax: 44-20-7816-0220

★ 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

★ Derby Representative Office
Norman House, Heritage Gate,
Friar Gate, Derby DE1 1NU, U.K.
Tel: 44-1332-294565
Fax: 44-1332-342970

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

★ Düsseldorf Representative Office
Georg-Glock-Str. 8, 40474 Düsseldorf,
Germany
Tel: 49-211-493258-00
Fax: 49-211-493258-100

Hungary

★ Budapest Representative Office
H 1066 Budapest,
Terez Krt. 42-44, Hungary

The Netherlands

★ Amsterdam Representative Office
2nd Floor Rivierstaete Building,
Amsteldijk 166, 1079 LH Amsterdam,
The Netherlands
Tel: 31-20-664-0211
Fax: 31-20-664-3216

France

★ Paris Representative Office
47 Rue de Ponthieu, 75008 Paris,
France
Tel: 33-1-5836-0770
Fax: 33-1-5836-0790

Belgium

★ Brussels Representative Office
Av. Louise 287, Bte. 8,
1050 Brussels, Belgium
Tel: 32-2-646-0940
Fax: 32-2-646-1129

Spain

★ Barcelona Representative Office
Rambla de Catalunya 33, Entresuelo,
08007 Barcelona, Spain
Tel: 34-93-488-0813
Fax: 34-93-488-0413

★ Madrid Representative Office
Edificio Mapfre Luchana, Francisco de
Rojas 12, Madrid 28010, Spain
Tel: 34-91-447-1600
Fax: 34-91-593-1764

Italy

★ Milan Representative Office
Foro Buonaparte, 63 20121
Milan, Italy
Tel: 39-02-8791431
Fax: 39-02-87914331

Austria

★ Vienna Representative Office
Hietzinger Hauptstr. 41,
A-1130 Wien, Austria
Tel: 43-1-87-883-690
Fax: 43-1-87-883-692

Czech Republic

★ Prague Representative Office
IBC-Pobrezni 3, 18600 Prague 8, Czech
Republic, IBC Building 3F
Tel: 420-2-2483-5400
Fax: 420-2-2232-2530

Turkey

★ Generali Sigorta, Mitsui Sumitomo
Insurance Desk
Bankalar Caddesi, Generali Han,
31/33, K: 3 d: 44, Karakoy, 80000
Istanbul, Turkey
Tel: 90-212-243-9071
Fax: 90-212-243-9073

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 Ltd.,
Al Khobar Branch
ACE Building, 28th Street,
Al Khobar, Saudi Arabia
(P.O. Box 358, 31952 Al Khobar)
Tel: 966-3-8820149
Fax: 966-3-8822628

United Arab Emirates

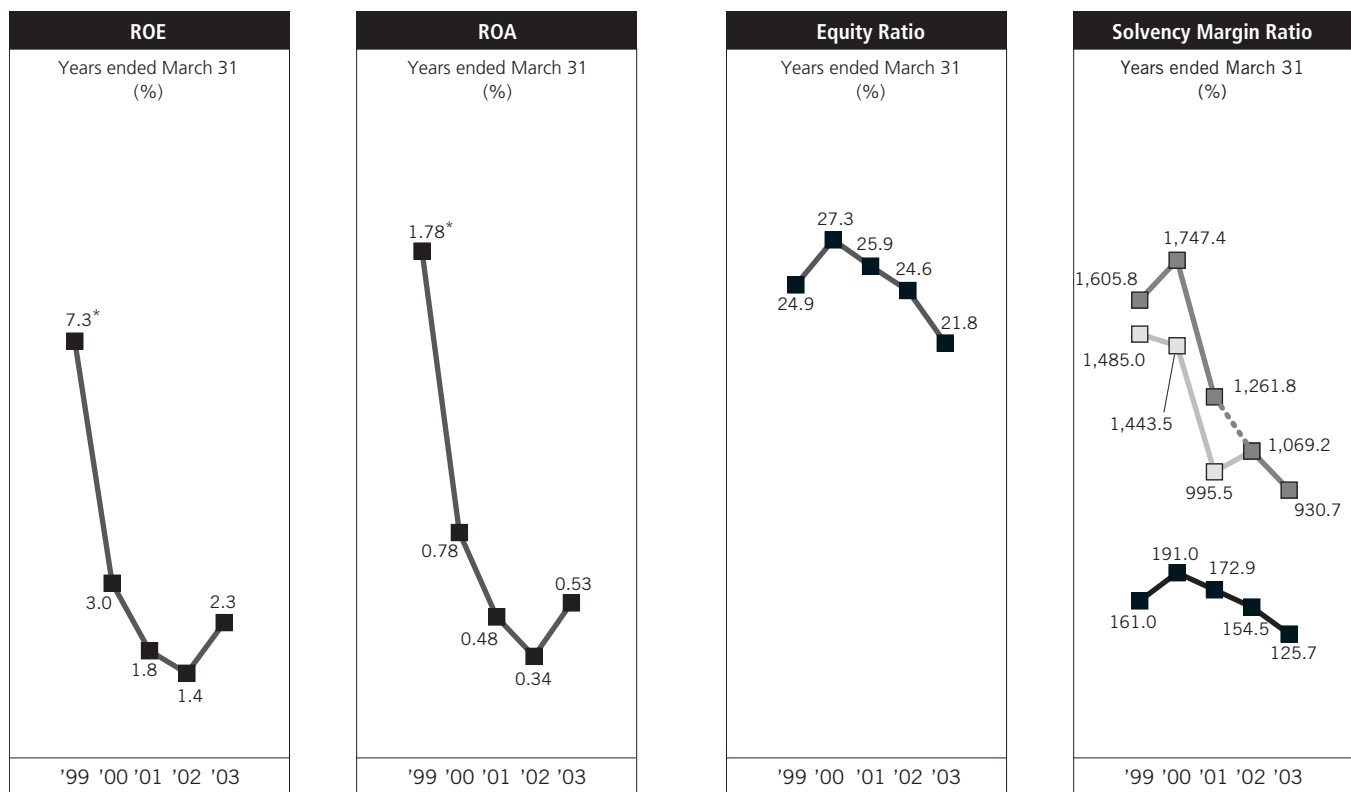
★ Dubai Representative Office
Spectrum Building 109,
P.O. Box 2190,
Dubai, UAE
Tel: 971-4-3365335
Fax: 971-4-3366955

★ Abu Dhabi Representative Office
c/o Abu Dhabi National Insurance Co.,
P.O. Box 43040, Abu Dhabi, UAE
Tel: 971-2-6274834
Fax: 971-2-6275115

■ Arab Commercial Enterprises Ltd.,
Dubai Branch
2nd Floor Riqa Street Abu Dhabi
Commercial Bank Building
P.O. Box 1100, Deira, Dubai, UAE
Tel: 971-4-295881
Fax: 971-4-2957779

■ Arab Commercial Enterprises Ltd.,
Abu Dhabi Branch
2nd Floor Zubara Tower Salam Street,
P.O. Box 585, Abu Dhabi, UAE
Tel: 971-2-6457070
Fax: 971-2-6458050

Investor Information



■ Japan Statutory basis (Sumitomo Marine)
 ■ Japan Statutory basis (Mitsui Marine)

- 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 Japanese Ministry of Finance'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.
 *Net income in the indicated fiscal year was affected by a change in the corporation tax rate.

Corporate Data

(As of July 31, 2003, except where noted)

Mitsui Sumitomo Insurance Co., Ltd.

Head Office

27-2, Shinkawa 2-chome,
Chuo-ku, Tokyo 104-8252, Japan
Tel: (03) 3297-1111

Date Established

October 21, 1918

Network

Domestic Offices: 697
Domestic Agents: 80,928 (As of March 31, 2003)
Overseas Branches and Offices: 56

Number of Employees

14,025

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

Number of Shares of Common Stock

Authorized: 3,000,000,000
Issued: 1,479,894,005

Paid-in Capital

¥128,476 million

Auditors

KPMG

Lines of Business

Animal Insurance
Automobile Insurance
Aviation Insurance
Burglary Insurance
Commercial Credit Insurance
Compulsory Automobile Liability Insurance
Contractors' All Risks Insurance
Fire Insurance
Liability Insurance
Machinery Insurance
Marine Insurance
Miscellaneous Pecuniary Insurance
Movables Comprehensive All Risks Insurance
Nuclear Energy Insurance
Personal Accident Insurance
Plate-Glass Insurance
Ships' Passengers' Accident Liability Insurance
Surety Bond
Transit Insurance
Windstorm and Flood Insurance
Workers' Compensation Insurance
Reinsurance with respect to the preceding items

Investor Relations

Investor Relations Department
Mitsui Sumitomo Insurance Co., Ltd.
27-2, Shinkawa 2-chome,
Chuo-ku, Tokyo 104-8252, Japan
Tel: (03) 3297-1111
Fax: (03) 3297-6888

Mitsui Sumitomo Insurance on the Internet

Key financial results and information about Mitsui Sumitomo Insurance can be found on Mitsui Sumitomo Insurance's Web site on the Internet at:
<http://www.ms-ins.com>

Mitsui Sumitomo Insurance Co.,Ltd.

Head Office:

27-2, Shinkawa 2-Chome

Chuo-ku, Tokyo,104-8252, Japan

Tel: (03) 3297-1111

URL: <http://www.ms-ins.com>

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