

Update on Credit Derivatives, etc. as of September 30, 2008

We have prepared herewith a further update on “Credit Derivatives” and “Reinsurance Ceded from US Monolines”. For the status as of September 30, 2008, please see the following Q and A’s.

◆Credit Derivatives

Q1: Tell us the breakdown of outstanding notional amount as of September 30, 2008.

A1:

The total notional amount is ¥597.7 billion. Of this total, the exposure to CDSs, where credit risks of companies have been underwritten, is ¥173.8 billion. The notional amount of CDO tranches underwritten is ¥423.9 billion.

Of the ¥423.9 billion for CDO tranches, ¥411.2 billion is for corporate CDOs, and ¥12.6 billion is for ABS-CDOs.

As for US-subprime, our exposure to US-subprime here can be concluded to be nil, even though part of the ABS-CDOs contains US-subprime risk.

Q2: What about the outstanding notional amount by ratings?

A2:

For the CDSs, please see the table below. The exposure to companies of “A” rating or higher accounts for 96% of the portfolio.

As for ¥423.7 billion exposure for CDOs, 98% remains at “AAA” rating or higher.

(Y bn)

Rating	Notional Amount (Percentage Distribution)					
			Domestic Companies		Overseas Companies	
AAA	9.2	(5.3%)	4.1	(3.2%)	5.1	(11.5%)
AA	101.7	(58.5%)	79.6	(61.8%)	22.0	(49.1%)
A	56.7	(32.6%)	43.2	(33.5%)	13.5	(30.1%)
BBB	6.1	(3.5%)	2.0	(1.6%)	4.1	(9.2%)
BB or lower	-	(-)	-	(-)	-	(-)
Total	173.8	(100%)	128.9	(100%)	44.9	(100%)

Q3: What's the mark-to-market unrealized gains/losses booked for credit derivatives for the 2nd fiscal quarter cumulative period of FY 2008?

A3:

It's ¥6.0 billion in gains: ¥5.9 billion gain for corporate CDOs, and ¥0.1 gain for ABS-CDOs. Beginning with the 2nd fiscal quarter, the newly-introduced in-house model has covered wider range of credit derivatives exposure with regard to mark-to-market evaluation.

◆Reinsurance Ceded from US Monolines

Q1: Tell us the breakdown of outstanding reinsured par amount as of September 30, 2008.

A1:

The total outstanding amount is ¥710.5 billion. Of this total, the exposure to “public finance” is ¥448.7 billion. The exposure to “structured finance” is ¥261.7 billion.

Of the ¥261.7 billion for “structured finance”, ¥45.9 billion is for RMBSs, ¥39.2 billion is for CDOs, and ¥176.5 billion is for ABSs in general.

As for US-subprime, part of RMBSs and CDOs contain US-subprime risk. However, our exposure to US-subprime here is virtually ¥1.8 billion.

Q2: What about the outstanding reinsured par amount by ratings?

A2:

As exhibited below, 74% is rated “A” or higher, and 96% “BBB” or higher, maintaining a strong level.

(Y bn)

Rating	Outstanding Guaranteed Amount (Percentage Distribution)	
AAA	99.9	(14.1%)
AA	174.7	(24.6%)
A	250.2	(35.2%)
BBB	158.0	(22.2%)
BB or lower	27.5	(3.9%)
Total	710.5	(100%)

Q3: Do the downgrades to US monolines have any adverse effect on the quality of your portfolio of reinsurance?

A3:

It is not the credit risk of monolines that we have underwritten through inward reinsurance but the credit risk of municipal bonds, ABSs and the like which the monolines have underwritten (collectively, the “original risk”).

Therefore, the downgrades to monolines (primary insurer) do not have any adverse effects on the nature or quality of the risk we have underwritten through inward reinsurance.

For your information, while the main activity of our reinsurance business in Financial Services domain is to underwrite part of the original risk from US monolines mostly through reinsurance treaties, terms and conditions are set to see that the future portfolio reinsured be in line with our underwriting policy.

(ref.) The following is our credit exposure to US monolines as of September 30, 2008.

- credit derivatives (notional amount: ¥3.1 billion) for which the single reference entity is a monoline.
- ¥11.3 billion for guarantees/underwriting in relation to bonds guaranteed by monolines, and ¥13.2 billion investments in bonds guaranteed by monolines.
(Note that, as for these guarantees and investments, it is only when both the “underlying bond” and the “guaranteeing monoline” go into default that we become liable to pay.)

Q4: What’s the amount of the loss incurred during the 2nd fiscal quarter cumulative period of FY 2008 with regard to reinsurance ceded from US monolines?

A4:

It’s ¥1.7 billion.