

# To Our Shareholders

We are pleased to report that earnings improved in fiscal 2008, the final year of our *KAKUSHIN* medium-term business plan. This fiscal year we have already started our new medium-term plan, and we are moving boldly forward with preparations to implement the agreement reached at the end of fiscal 2008 to integrate our business operations with those of SOMPO JAPAN INSURANCE INC.

## Overview of Fiscal 2008

Conditions surrounding the non-life insurance industry remained severe in fiscal 2008 as corporate earnings plunged due to the contraction in the global economy. Our mainstay automobile insurance business in Japan was severely impacted by the introduction of lower rates for compulsory automobile liability insurance, and by a sharp drop in new car sales.

Net premiums written in fiscal 2008 (ended March 31, 2009) totaled ¥653.4 billion, a decline of ¥35.4 billion compared with the previous fiscal year. (All figures in this section are for NIPPONKOA on a nonconsolidated basis.) If we exclude compulsory automobile liability insurance, which was affected by the mandated reduction in premium rates, net premiums written fell ¥13.6 billion year on year. On the other hand, our loss ratio (excluding compulsory automobile liability insurance) improved 0.7 percentage point year on year, to 62.4%.

Our net expense ratio (excluding compulsory automobile liability insurance) fell to 36.6% in fiscal 2008 (down 1.2 percentage points), and our underwriting balance (excluding compulsory automobile liability insurance) was in the black, showing an underwriting profit of ¥5.4 billion, an increase of ¥10.8 billion compared with the previous fiscal year. However, returns from asset management were down sharply, and as a result ordinary profit fell ¥19.6 billion year on year, for an ordinary loss of ¥2.8 billion. Nearly all of this loss,

however, was covered by a reversal of our price fluctuation reserve. Taken together, the Company posted net income of ¥10.1 billion, up ¥2.2 billion from the previous fiscal year. On a consolidated basis, including Sonpo 24 Insurance Co., Ltd., NIPPONKOA Life Insurance Co., Ltd. and other consolidated subsidiaries, the Company posted an ordinary loss of ¥3.0 billion, while net income totaled ¥9.9 billion, a gain of ¥0.9 billion from the previous fiscal year.

## Completion of Our *KAKUSHIN* Medium-Term Business Plan

Fiscal 2008 was the final year of our *KAKUSHIN* (Reform, Core, Confidence) medium-term business plan, which began in April 2006. Unfortunately we were unable to achieve the expansion in scale that we had envisioned, primarily due to severe economic conditions, weaker-than-expected personal spending, and the effects of the mandated cut in rates for compulsory automobile liability insurance. In view of this situation, we revised our goals and decided to place primary emphasis during the final year of the plan on improving underwriting profitability. As a result of these efforts we were able to lower our loss ratio, primarily by enhancing underwriting. With regard to our goal of controlling underwriting expenses, during the three years of *KAKUSHIN* we succeeded in reducing expenses by ¥24 billion. As mentioned above, by placing a strong emphasis on improving underwriting



**Makoto Hyodo**  
President & CEO

profitability, our underwriting balance (excluding compulsory automobile liability insurance) moved into the black during the final year of the plan.

### Three Pillars of the New Medium-Term Business Plan

The achievements of *KAKUSHIN* laid the foundation for our new two-year, medium-term business plan, which began in fiscal 2009. The new plan is designed to increase corporate value by promoting strategies centered on three major themes, “Contribution to Society,” “Quality Improvement” and “Profitability Improvement.”

In the area of contribution to society, our goal is to enhance corporate value by promoting an environmentally sustainable business model. As an insurance company, our mission is to provide safety and peace of mind for our customers. To do this, we believe we must also play a leading role in helping to prevent global warming. In the area of quality improvement, our failure to pay out incidental claims and improper nonpayment of claims caused us to lose the trust of many of our customers. It is therefore essential that we continue to promote our ongoing company-wide “Quality Improvement Program” to ensure that such incidents are never repeated.

The two years of our new medium-term plan will be spent on implementing measures that offer solutions

to problems facing society, and on improving the quality of our business practices. During this period we will also reinforce our business foundations to enhance our earnings capacity, and explore the potential for strategic growth fields. (See page 6 for an overview of the new medium-term business plan.)

### Embracing a New Opportunity

NIPPONKOA and SOMPO JAPAN INSURANCE INC. reached a basic agreement on March 13, 2009 to integrate their business operations through formation of a joint holding company pursuant to a joint stock transfer, contingent upon approval by stockholders and the relevant regulatory agencies. The target date for completion of business integration is April 2010.

The new Group will take full advantage of the collective expertise of the two companies, which together have been nurtured through 120 years of experience in the insurance business. The new Group’s aim is to create a “new solution service Group that provides customers with the highest level of security and service, and contributes to social welfare and peace of mind, while being a factor in the betterment of society.” (See the following pages for further details on the business integration.)

Fiscal 2009 is an exceptionally important year. Not only is it the first year of our new medium-term business plan, but also it is a year in which we will be preparing to put into operation our new business integration agreement. Economic conditions remain severe, but the entire NIPPONKOA Insurance Group is firmly committed to achieving further growth and increasing corporate value. I appreciate your continued support of our Company.

August 2009

**Makoto Hyodo**  
President & CEO

# Business Integration

NIPPONKOA Insurance Co., Ltd. (President & CEO: Makoto Hyodo) (“NIPPONKOA”) and SOMPO JAPAN INSURANCE INC. (President and Chief Executive Officer: Masatoshi Sato) (“SOMPO JAPAN”) (collectively, the “Parties”) signed a “Memorandum of Understanding” on March 13, 2009, agreeing to establish a joint holding company through a joint stock transfer, subject to approval by both each Party’s shareholders’ meeting and the relevant regulatory authorities. The Parties aim to complete their business integration in April 2010.



(From left) Masatoshi Sato, SOMPO JAPAN, and Makoto Hyodo, NIPPONKOA

## I. Background and Objectives of Business Integration

In the face of the declining birthrate and aging society—the significant challenges Japan faces in the medium to long-term period—as well as increased risks associated with depopulating society, global climate change, and in response to the diversified consumer demands amidst the individuals’ lifestyle changes, companies are urged to take proper actions and contribute to social safety and customers’ sense of

security. Based on this shared perspective, the Parties decided to establish a “new solution service group that provides customers with security and service of the highest quality and contributes to social welfare” (the “New Group”), while sharing as a unitary group the strengths nurtured through 120 years of their respective history.

## II. Management’s Vision and the New Group’s Aspirations

NIPPONKOA and SOMPO JAPAN will pursue realization of the “New Group” as provided below, aiming to receive overwhelming support from their stakeholders, with a view, at the core of the management, to “making all value judgments from the perspective of customers, providing customers with security and service of the highest quality and contributing to social welfare.”

- 1. The group that seeks to provide the highest-quality security and service**
- 2. The group with focus on its business in Japan**
- 3. The group that provides a broad range of solutions friendly to the society and the environment**
- 4. The group that seeks to maximize the shareholder value**
- 5. The group with a free, vigorous, open and energetic corporate culture**
- 6. The group independent from the influence of any corporate or financial group**

### III. Effects of Business Integration

The New Group aims to achieve sustainable growth, enhance corporate value and contribute to social welfare by further pursuing revenue growth and efficiency through its post-integration position and strengths in the industry, as well as by implementing a thoroughgoing business alliance, promptly taking feasible actions and quickly maximizing synergy effects through the business integration by way of such measures as standardization and sharing of functions and services.

- Top-level non-life insurance market share in approximately half the number of the prefectures in Japan
- Strong distribution channels supported by exclusive and specialized professional agents
- Overwhelming strengths in financial institution-related agents, especially regional banks

#### 1. Perspective of Customers

NIPPONKOA and SOMPO JAPAN will review, “from the perspective of customers,” their entire service process from the execution of insurance contracts to payment for insurance claims. By making use of the know-how, infrastructures and management resources of the Parties while keeping in mind such keywords as “convenience” and “easy to understand,” NIPPONKOA and SOMPO JAPAN will seek to provide a sense of security in ways that meet the customer expectations.

#### 2. Contribution to Social Welfare

The Parties will:

- (1) Accelerate the contemplated scheme to establish new business for security and safety beyond the conventional framework of insurance business, such as healthcare business and risk consulting business, by using the know-how and the business infrastructures developed by both companies.
- (2) Become proactively involved with global environmental problems and joint development and provision of “products and services that would help mitigate global warming problems.”

#### 3. Enhancement of Corporate Value

NIPPONKOA and SOMPO JAPAN will:

- (1) Consider the best combination of underwriting, sales and claims functions in the life insurance business and consolidate the overall operational system with the goal of enhancing the life insurance business.
- (2) Aim to enhance profitability by jointly expanding the overseas insurance business with high growth potential through consideration of M&A and review of the existing overseas sales network.
- (3) Seek to improve the group management efficiency through consideration and promotion of integration or reorganization in the businesses associated with the existing financial related businesses.
- (4) Seek to increase the insurance profits by centralizing the risk management process through a joint risk management system and by sharing the know-how of underwriting.
- (5) Seek to improve the expense ratio by standardizing and sharing the business base such as profit management by business unit, customer centers, IT systems and administrative services.
- (6) Consider reduction of procurement cost by making an effective use of real estates under their ownership, reforming the supply chain such as joint purchase of materials and goods and the distribution system as well as by promoting shared services.
- (7) Seek to improve their capital efficiency and financial base through enhanced sophistication of the internal model such as capital adequacy measurement, and through cautious inspection and due diligence review of the investment returns of the stock holdings based on the advanced risk management method.
- (8) Jointly improve and streamline their operational platforms and management and risk control systems while in compliance with the enforcement of the Insurance Law, the Financial Instrument and Exchange Law, the International Accounting Standards and others.

# New Medium-Term Business Plan Begins

In fiscal 2009 we started a new two-year, medium-term business plan. The basic idea behind this plan is to enhance corporate value by implementing strategies centered on three major themes, “Contribution to Society,” “Quality Improvement” and “Profitability Improvement.”

## Overview of the New Medium-Term Business Plan

### Medium-Term Vision (Aspiration)

Provide society- and environment-friendly security and safety through our core insurance business

### Three Main Points of the New Medium-Term Business Plan:

#### Contribution to Society

- ▶ Environmental efforts (provide carbon-offsetting products/claims-handling service, promote eco-safe driving, etc.)
- ▶ Exercise CSR (Corporate Social Responsibility) as an “Eco-First Company”
- Contribute to both the global environment and our revenue opportunities through the insurance business and other new business areas compatible with the insurance business

#### Quality Improvement

- ▶ Provide best claims-handling service (24 hours a day, 365 days a year)
- ▶ Improve sales quality (enhance quality of agencies, propose a broad range of non-life and life insurance based on risk management)
- ▶ Enhance product/operational quality (offer easy-to-understand products, simplify procedures, etc.)
- Ensure customers’ security and safety by improving quality in every step of the process from product development to claim payments

#### Profitability Improvement

- ▶ Strengthen underwriting activities and prevent accidents (improve quality of policies in force, improve measures to prevent accidents, etc.)
- ▶ Improve profitability of business units (conduct profitability analysis by products/channels, establish and execute improvement plan quickly)
- ▶ Reduce operating expenses (reform business process, continue review of procurement practice, promote streamlining in sales process, etc.)
- ▶ Restructure asset management portfolio (reduce relationship stocks, etc.)
- ▶ Pursue stable revenue from our international business and capture growth opportunities (increase insurance business of Japanese corporations overseas, enhance Asian business operations, etc.)
- Enhance revenue base to achieve sustainable growth by improving underwriting profitability and increasing competitiveness

## Key Financial Targets for Fiscal 2009

Below are the major financial targets we have set for fiscal 2009, the first year of our new medium-term business plan. In view of the continuing severity of the business climate, we are forecasting a drop in net premiums written, even excluding the effects of compulsory automobile liability insurance. However, claims payments are also expected to fall, so we estimate that our loss ratio (excluding compulsory automobile liability insurance) will improve by 0.5 percentage point to 61.9%. Our expense ratio (excluding compulsory automobile liability insurance) will rise by 1.1% to 37.7%, as cost-cutting efforts will be offset by increased outlays for IT systems and

quality upgrades aimed at helping us to interact more effectively with our customers. As a result, we forecast an underwriting balance of ¥2.5 billion in fiscal 2009, a decline of ¥2.9 billion compared with the previous fiscal year, and an underwriting loss of ¥4.0 billion. On the other hand, in terms of asset management, revaluation losses on the value of securities will be significantly lower than in fiscal 2008, so we expect to post ordinary profit of ¥22.0 billion, a year-on-year increase of ¥24.8 billion. Net income on both a consolidated and nonconsolidated basis is projected to be ¥13.0 billion.

(Nonconsolidated basis)	Billions of Yen		
	FY2008	FY2009(E)	Change
Net premiums written	¥ 653.4	¥ 645.0	¥ -8.4
Net premiums written (excl. CALI)	572.4	569.1	-3.3
Loss ratio (excl. CALI)	62.4%	61.9%	-0.5%
Expense ratio (excl. CALI)	36.6%	37.7%	+1.1%
Underwriting balance (excl. CALI)	5.4	2.5	-2.9
Underwriting profit (loss)	5.4	(4.0)	-9.4
Ordinary profit (loss)	(2.8)	22.0	+24.8
Net income	10.1	13.0	+2.8
Adjusted income* <sup>1</sup>	12.6	17.0	+4.3
Adjusted ROE* <sup>2</sup>	2.6%	3.4%	+0.8%

(Consolidated basis)	Billions of Yen (Except Where Noted)		
	FY2008	FY2009(E)	Change
Ordinary profit (loss)	(3.0)	22.0	+25.0
Net income	9.9	13.0	+3.0
Adjusted income* <sup>3</sup>	15.2	22.0	+6.7
Adjusted ROE* <sup>4</sup>	2.6%	3.6%	+1.0%

### Assumptions of the plan

Paid losses from natural disaster: ¥13.0 billion

Gains on the sale of securities: ¥15.0 billion

\*1: Adjusted income (nonconsolidated) = (Underwriting profit + Provision for catastrophe reserve + Net interest/dividend + Provision for reserve for price fluctuations - Special factors) x (1 - Effective tax rate)  
Note: Negative for reversal of reserves

\*2: Adjusted ROE (nonconsolidated) = Adjusted income / Adjusted shareholders' equity

• Adjusted shareholders' equity (nonconsolidated) = Net assets - Net unrealized gain on Available-for-sale securities - Subscription rights to shares + Catastrophe reserve + Reserve for price fluctuations

\*3: Adjusted income (consolidated) = Nonconsolidated adjusted income + Sonpo 24/Overseas subsidiaries' financial accounting net income + Adjusted increase in NIPPONKOA Life EV

• Adjusted increase in EV excludes impacts from asset management, impacts from change of risk-based discounted rate and the amount of capital increase/reduction when it happens

\*4: Revised ROE (consolidated) = Adjusted income (consolidated) / Adjusted shareholders' equity (consolidated)

• Adjusted shareholders' equity (consolidated) = Adjusted shareholders' equity (nonconsolidated) + Sonpo 24/Overseas subsidiaries' financial accounting net assets + NIPPONKOA Life EV