

**SUMITOMO LIFE**

**ANNUAL REPORT 2006**

**SUMITOMO LIFE INSURANCE COMPANY**

## Our Management Policy

1. Based upon the concept of coexistence, co-prosperity and mutual assistance, we shall strive to solidify and expand our business, while contributing to the furtherance of social and public welfare.
2. Creditworthiness and steadiness shall be the norms in the execution of our business.
3. We shall always remain imperturbable in judgment and retain a progressive and indomitable spirit, responding to changes in our environment and keeping abreast of the times.

## Contents

Message from the President	1
Operating Results	3
Financial Review	12
Financial Soundness	15
Contributing to Communities	19
Consolidated Balance Sheets	22
Consolidated Statements of Income	23
Consolidated Statements of Surplus	25
Consolidated Statements of Cash Flows	26
Notes to Consolidated Financial Statements	28
International Network/ Directors, Corporate Auditors, and Executive Officers	33



## Overview of Fiscal Year 2005

The Japanese economy in the year ended March 31, 2006 entered a full-fledged recovery phase as capital investment grew on improved corporate

earnings, consumer spending continued to increase based on better employment and income conditions, and external demand spurred an upward trend in exports.

The life insurance industry also took a firm step towards new growth thanks to an improvement in the investing environment and the growth of medical insurance and individual annuities.

Under these circumstances, Sumitomo Life achieved outstanding financial results for the fiscal year 2005. Annualized premium of new policies increased 29.8% over the preceding year. At the same time, the rate of policy cancellations and lapses improved 6.5% on an annualized premium basis. Annualized premium from policies in force also turned to net positive. Moreover, we have secured a stable level of core business profit, expressing our earnings. This core profit totaled ¥266.4 billion after offsetting negative spread, and was used to increase internal reserves by ¥165.4 billion and further consolidated our financial foundation. These developments significantly raised our solvency margin ratio to 949.7%, far exceeding the 200% margin required to be considered sound, further strengthening our risk tolerance.

Our strong performance in fiscal year 2005 can be attributed to several factors. Firstly, in response to consumer need and demographic changes, we actively cultivated markets such as medical insurance, annuities, and the middle-aged / elderly sectors, thereby increasing earnings. We also enhanced sales and service activities by providing consultations for existing policyholders. These consultations involve reviewing our customers' existing policies and updating them to provide the customers with optimal, current insurance packages. In particular, *Senkyaku Banrai*, a whole life insurance policy with a medical rider launched in April 2005, is a breakthrough product that can be purchased by individuals even if they are undergoing treatment for an existing health conditions, providing they meet certain criteria. The policy even pays out benefits for hospitalization caused by an illness for which the policyholder was undergoing treatment at the time the policy was taken out. This innovative product was awarded a Grand Prize at the 2005 Nikkei Outstanding Product and Service Awards, sponsored by the Nihon Keizai Shimbun newspaper. Sales via banking institutions also remained strong. We added *Tanoshimi VA Plus*, a variable annuity with minimal life insurance features, to the

bank product line in July 2005; the outcome was that cumulative sales of single premium products reached the ¥1 trillion mark in May 2006.

At the same time, however, the inappropriate handling of insurance benefit payments<sup>1</sup>, the core operation of an insurance company, came to public attention. Fiscal Year 2005, therefore, was a year in which the industry as a whole fought to regain the trust of its customers. In light of this situation, and as the company of the chairman of The Life Insurance Association of Japan, we demonstrated leadership, and promoted reforms to raise the trust of customers in the life insurance industry. These reforms involve creating self-imposed industry guidelines for appropriate benefit payments. Internally, we established the Customer Satisfaction Promotion Committee in July 2005 and developed a structure to ensure customers' voices are promptly brought into management decision. We have worked to strengthen internal oversight by creating mechanisms whereby customers accurately inform us of all health conditions or any incidents including the inappropriate payment of insurance benefits, and by establishing a new internal body for auditing the appropriateness of investigations into insurance underwriting and benefit payments.

## RE-Sumisei Revolution – A New Long-Term Business Strategy

Ahead of fiscal year 2006 we established a long-term management strategy in order to further strengthen our already-established course of growth. This new strategy, the "RE-Sumisei Revolution", is intended to allow Sumitomo Life to break out of the traditional role of a life insurer, and to bring about bold reform. Specifically, we intend to pay particular attention to three forms of quality: sales quality, service quality and product quality, as we work to take a customer-oriented approach, dramatically improving overall quality from the customer's standpoint.

The RE-Sumisei Revolution comprises a new vision for growth supported by a Business Infrastructure Revolution. The new vision for growth is a marketing strategy founded on the four pillars of retail, wholesale, bank channel and new fields of business. Retail sales play a leading role in the strategy. We will continue developing underserved

<sup>1</sup> Regarding inappropriate handling of insurance benefit payments, it came to light that some insurance companies attempted to boost their earnings by intentional and improper, non-payment of claims and withholding of benefits on a large scale by fraudulently invalidating policies or claiming that policyholders did not make proper disclosures. These companies were officially disciplined. Prompted by this incident, life insurance companies reexamined instances of non-payment, and at many of the companies this resulted in revelations that, in anywhere from a few cases to several dozen cases, payments had not been made, or benefits provided, when they should have been.

markets centered on the long-term care and medical insurance sectors. We will dramatically strengthen our system of sales through our dedicated sales representative channel, which is key in improving marketing quality. For wholesale sales, we will take on the challenge of building a new business model through collaboration<sup>2</sup> with retail sales divisions. As for the infrastructural reform of operations, we intend to thoroughly remodel our administration, service and sales infrastructures, as well as our human resources and management, all in line with our drive to maximize the customer-oriented dimension of our business.

The RE-Sumisei Revolution strategy puts corporate social responsibility at the heart of management. Sumitomo Life's mission reflects our managerial philosophy, and part of that mission is our declared commitment to contributing to public welfare. Under the new strategy, all executives and employees will take this to heart with renewed commitment and continue to meet the expectations of customers with a sense of purpose and responsibility.

society where people live long, happy, prosperous lives using our core business.

With remarkable speed, Japan is becoming a country with an aging population. Alongside these demographic changes comes what is known as "longevity risk". It is not clear, however, how the social security system will cover for these changes. We believe that long life should be celebrated. There is something very wrong with a society in which inadequate preparations for long life risk make long life itself an inevitable source of worry and anxiety.

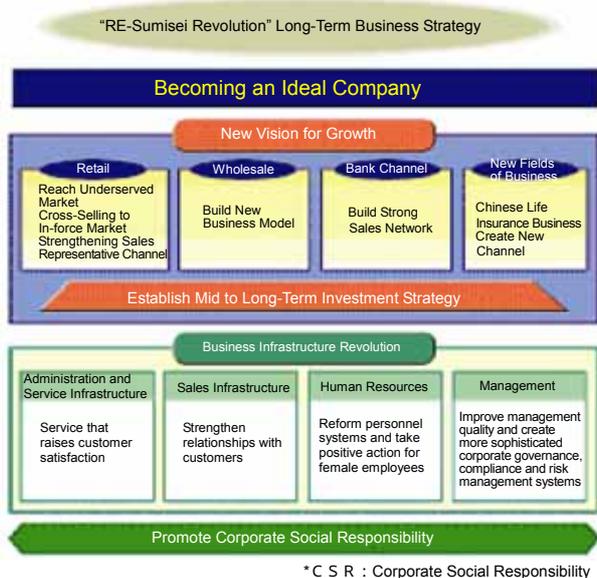
We plan to reinstate the proper view of aging; that is, to make long life a cause for celebration, creating a society in which people live long, happy, and prosperous lives. This is, I believe, precisely our mission.

Sumitomo Life will steadfastly fulfill this mission and steadily and strongly strive to embody this vision of an ideal company so that we may live up to the trust placed in us by customers. Thank you for your continuing encouragement and support.

July 2006



Shinichi Yokoyama  
President and Chief Executive Officer



## Conclusion

Sumitomo Life was established in 1907 under the name of Hinode Life Insurance. Our founder was strongly motivated to create what he envisioned as an ideal company with his own hands. Thanks to the trust and support from customers we have received over the years, 2007 will mark our 100th anniversary. On this important occasion, we envision an "ideal company" in which we make a

<sup>2</sup> The collaboration involves partnering with retail sales divisions to jointly market to companies, devise proposals, and conduct other initiatives.

# Operating Results

## Individual Insurance and Individual Annuities

The present focus of our sales and service activities is providing optimal, up-to-date insurance through consulting with customers in order to assess needs that differ depending on the customer's age group and other characteristics. In particular, Sumitomo Life has worked to increase sales to middle-aged and elderly customer sectors (customers age 50 and up) by providing medical insurance products for which there is an underlying need. Further efforts were made to develop this market during the term by launching the new product *Senkyaku Banrai* in April 2005, all with a view to boosting earning power.

*Senkyaku Banrai* is a revolutionary product that pays benefits for hospitalization due to a worsening health condition that the policyholder has been receiving treatment for. The policy is available to customers who, amongst other certain criteria, have not been hospitalized nor had surgery in the two years prior to applying. The special characteristics of this product have been duly recognized, and it was awarded a Grand Prize at the Nihon Keizai Shimbun newspaper's 2005 Nikkei Outstanding Product and Service Awards. Annualized premium of new policies, including living benefits insurance and medical insurance based mainly on the middle-aged and elderly customer segments, continued to steadily increase, rising 7.9% over the previous year to ¥64.6 billion. This was thanks mainly to *Senkyaku Banrai*, which developed an underserved market, and to persistently strong sales of *Doctor OK*, a new medical insurance product launched in October 2004.

At the same time, a consultation service was provided to existing policyholders in order to enhance the quality of after-sales service. The consultation offers the chance to review any life stage changes of customer that have taken place and update and optimize the contents of policy along with those changes. We have also expanded the range of online procedure for customer convenience.

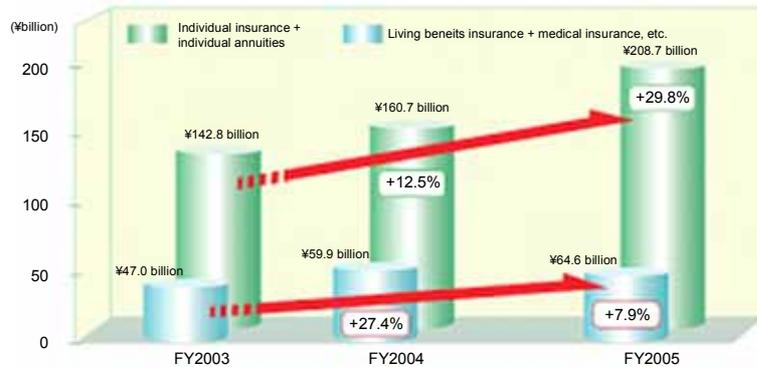
Policy cancellations and lapses in annualized premium have fallen for the second consecutive year: a drop of 6.5% compared to the previous year. One of the reasons for this result, along with our financial soundness, is our effort to improve customer satisfaction through the initiatives mentioned above. As a result of these developments, annualized premium of life insurance in force broke with its downward trend, gaining 2.0% over the end of last year.

### Annualized Premium of New Policies

#### Annualized Premium (Units: ¥100 million, %)

Type of Policy	FY2004	FY2005	YoY
Individual insurance	1,176	1,262	+7.3
Individual annuities	431	824	+91.4
Individual insurance + individual annuities	1,607	2,087	+29.8
Living benefits insurance + medical insurance, etc.	599	646	+7.9

Annualized Premium of New Policies



Annualized premium of new individual insurance policies and new individual annuities increased by 29.8%.

● Policy Cancellations and Lapses in annualized premium

Policy Cancellations and Lapses in annualized premium

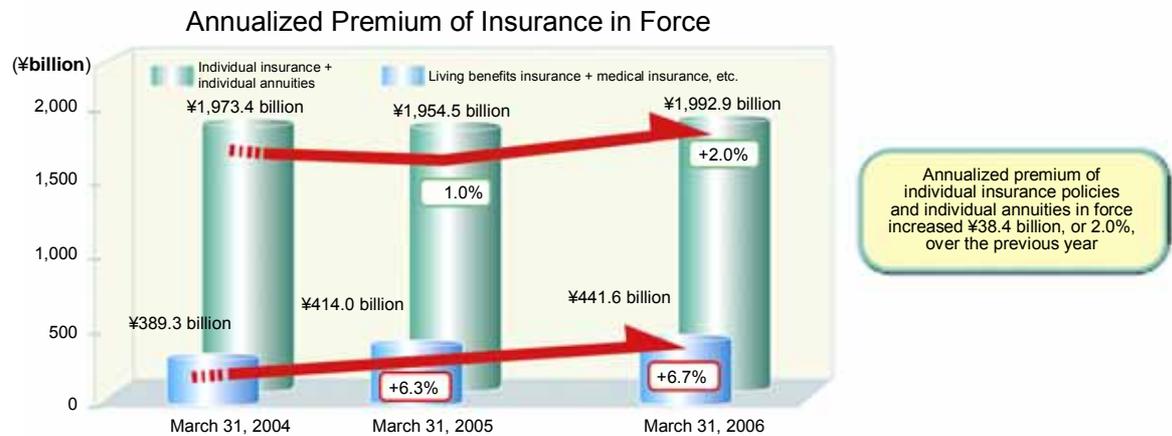


Annualized Premium of Life Insurance in Force  
Annualized Premium (Units: ¥100 million, %)

Type of Policy	March 31, 2005	March 31, 2006	YoY
Individual insurance	15,464	15,175	1.9
Individual annuities	4,080	4,754	+16.5
Individual insurance + individual annuities	19,545	19,929	+2.0
Living benefits insurance + medical insurance, etc.	4,140	4,416	+6.7

Notes: 1. Annualized premium is calculated by multiplying individual premiums by a factor corresponding to their payment schedule and converting them to yearly premium income. For policies with single premium payments, the premium is divided by the coverage period.

2. Annualized premium for living benefits insurance is the total of long-term care insurance, insurance for specific illnesses, insurance for acute chronic diseases, and waiver of premium rider.
3. Annualized premium for medical insurance is the total of medical insurance and individual riders for hospitalization due to an accident, treatment of disease, treatment of adult diseases, treatment of women's illnesses, outpatient treatment, initial benefits for hospitalization, hospital treatment, hospitalization due to cancer, and treatment for disability or injury.
4. Annualized premium for policies that include living benefits insurance and medical insurance together with death and other insurance is calculated based on the portion of the premium corresponding to living benefits insurance and medical insurance.



## Sales through Banking Institutions

Individual annuities and life insurances sold through banking institutions topped approximately 240,000 policies and ¥930.0 billion in premium (single premium format) as of March 31, 2006.

Sumitomo Life has concluded life insurance agency agreements with banks, credit unions and other financial institutions nationwide, and markets individual annuities through them. 314 banking institutions have been contracted, which is among the most in the industry. Individual annuities are handled at convenient locations all around Japan and they have been extremely well received by customers.

(1,000 policies)



## Corporate Insurance

In the area of corporate insurance, dedicated staffs involved in helping companies revamp their qualified pension schemes were increased and deployed around the country to strengthen customer support facilities for insurance-based benefit programs.

Group insurance in force at the end of the fiscal year 2005 decreased 2.7% from the end of the previous year to ¥35,096.9 billion, while group annuities at year-end edged down 0.3% over the previous year to ¥2,870.0 billion.

### Group Insurance & Group Annuities

		March 31, 2006	YoY
Group insurance	In force at year-end	¥35,096.9 billion	2.7%
Group annuities	In force at year-end	¥2,870.0 billion	0.3%

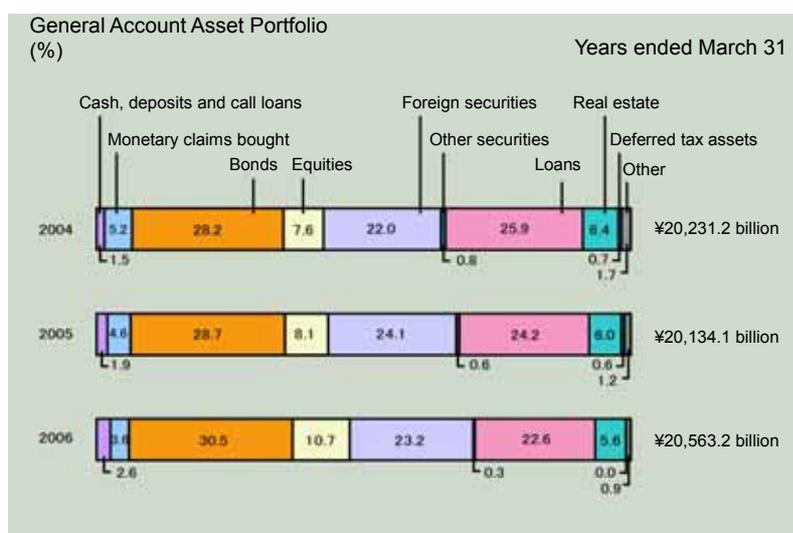
Notes: 1. The amount for group insurance consists primarily of plan benefits.  
2. The amount for group annuities consists of policy reserves.

## Management of General Account Assets

Sumitomo Life managed its asset portfolio in order to secure stable returns over the medium to long term. The basic investment policy was the comprehensive management of assets and liabilities according to the characteristic of life insurance contract liability. Under the circumstances, the company extended the duration of domestic bonds by investing in long-term and ultra long-term instruments for higher returns.

As an alternative to yen-denominated, interest-bearing assets, the company has invested in foreign bonds after hedging currency exchange risk. But in the year under review lower returns due to higher hedging costs, the company reduced its balance of hedged foreign bonds. And, to take advantage of the relatively high interest rates overseas, the company invested in foreign bonds subject to currency exchange risk in anticipation of yen appreciation.

For domestic equities and real estate, the company worked to generate returns while controlling the balance of its holdings using appropriate risk management practices.



### a. Asset Portfolio

(Units: Millions of yen, %)

Asset Type	March 31, 2004		March 31, 2005		March 31, 2006	
	Amount	Portion	Amount	Portion	Amount	Portion
Cash, deposits and call loans	310,264	1.5	386,113	1.9	533,048	2.6
Monetary claims bought	1,059,030	5.2	921,204	4.6	739,621	3.6
Securities	11,859,721	58.6	12,389,605	61.5	13,315,220	64.8
Bonds	5,707,139	28.2	5,783,746	28.7	6,269,599	30.5
Equities	1,539,271	7.6	1,628,345	8.1	2,203,511	10.7
Foreign securities	4,458,038	22.0	4,852,646	24.1	4,776,578	23.2
Bonds	3,824,763	18.9	4,241,158	21.1	4,151,767	20.2
Equities, etc.	633,275	3.1	611,487	3.0	624,811	3.0
Other securities	155,271	0.8	124,867	0.6	65,530	0.3
Loans	5,239,914	25.9	4,868,188	24.2	4,639,698	22.6
Policy loans	598,680	3.0	545,734	2.7	499,154	2.4
General loans	4,641,233	22.9	4,322,453	21.5	4,140,544	20.1
Real estate	1,292,121	6.4	1,215,955	6.0	1,145,630	5.6
Investment real estate	984,477	4.9	925,675	4.6	865,021	4.2

English Translation of the Financial Statements Originally Issued in the Japanese Language

Deferred tax assets	136,450	0.7	114,182	0.6	—	—
Other	347,533	1.7	242,706	1.2	192,094	0.9
Allowance for possible loan losses	13,813	0.1	3,788	0.0	2,047	0.0
General account total	20,231,223	100.0	20,134,167	100.0	20,563,265	100.0
Foreign-denominated assets	2,607,300	12.9	2,947,426	14.6	2,523,609	12.3

Note: "Other securities" are listed at market price.

## Risk Management

Sumitomo Life is putting best effort to be a best trusted company by customers. To achieve this, stable returns must be generated over the long term while appropriately controlling a variety of operating risks. Additionally, to further deepen the trust placed in Sumitomo Life by customers, Sumitomo Life believes it is important to take appropriate steps in accordance with a high standard of corporate ethics to guard against moral hazard risk connected to the insurance business and improprieties caused by wrongdoing outside the company.

### Risk Management System

#### Role of Risk Management Departments

Sumitomo Life has management departments which properly carry out necessary measures for managing risks by formulating risk management rules and other guidelines and monitoring the current status of each type of risk.

#### Role of Corporate Risk Management Department

Sumitomo Life has established the Risk Management Supervisory Office in order to supervise risk management for Sumitomo Life as a whole. The Corporate Risk Management department develops risk management systems by devising overall risk management rules and basic policies, monitors risk across the company, makes reports to the board of directors, identifies new types of risk, considers new management methods, and otherwise engages in planning and coordination for overall risk management at the company.

#### Role of the Board of Directors and the Executive Management Committee

The basic framework for risk management is determined by the board of directors. The board of directors regularly receives reports on various risks, makes necessary decisions, and works to raise the sophistication of risk management in the company. The Executive Management Committee\* also receives regular risk reports.

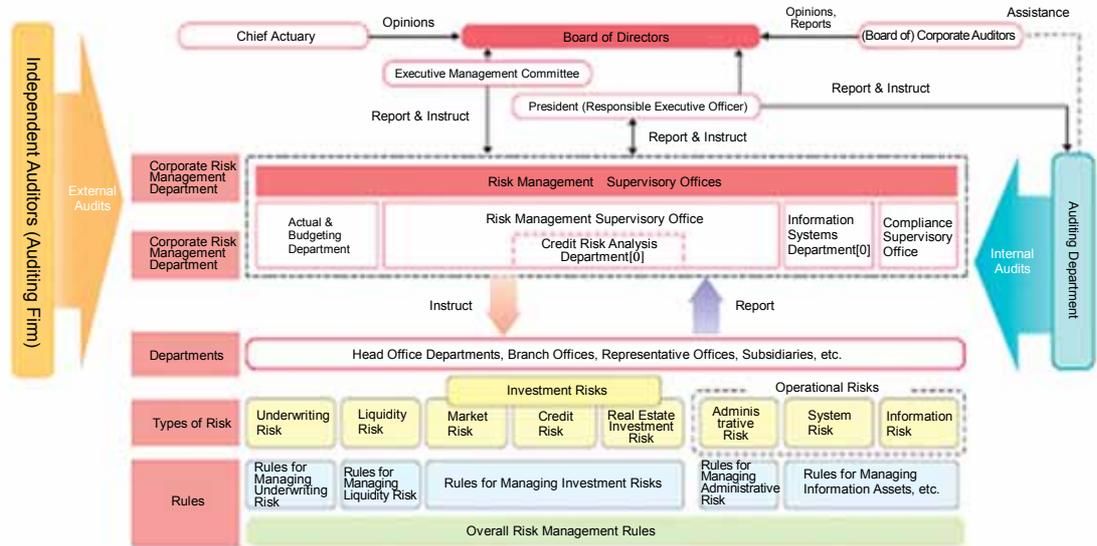
\* The Executive Management Committee: This committee is comprised of directors of the managing director level and above, and, in accordance with basic management policies determined by the board of directors. The committee deliberates and makes decisions on important matters related to the company's management strategy and execution of business.

#### Role of the Auditing Department and Independent Auditors

To ensure the appropriateness and effectiveness of the company's risk management system, internal audits are conducted by the Auditing Department, which is independent of the head office and branches, and external audits are conducted by independent auditors.

Total Risk Management System

Company-Wide Risk Management System Diagram



## Entering the Chinese Life Insurance Market

Procedures for establishing the PICC Life Insurance Company were completed in November 2005, upon which the company began operations. Sumitomo Life had been involved in preparations for the launch of operations in partnership with PICC Holding Company, the largest non-life insurance company in China. The Beijing branch of PICC Life Insurance was opened in March 2006.

### Active progress of Consulting Sales

Sales activities are being developed around individual and group insurance sales by insurance agents, the equivalent of Japan's sales representatives. PICC Life Insurance will emphasize consulting sales and believes it will lead to raise trust and distinguish the company from its competitors. In addition to these traditional sales channels, the company is considering marketing products through banks, taking advantage of the partner Property & Casualty Company's sales locations, and utilizing insurance brokers.

### Full Lineup of Products

PICC Life Insurance offers a full lineup of individual insurance products, including policies with savings accounts (currently the main type of product in the Chinese market), death insurance, accident insurance and critical illness insurance. As for group insurance, the company is developing and marketing term, accident and health insurance along with annuities, of which growth is expected.

### Nationwide Development

In 2006 the company will begin to develop a nationwide sales network and plans to have it cover almost all of China's major cities within five years. In order to take advantage of the growth potential inherent in China's life insurance market, insurance companies from inside and outside China are flooding the country's coastal cities, which are experiencing remarkable economic growth. PICC Life Insurance Company, however, plans not only to develop this region but also to take the lead in moving into regions where high growth is expected in the near future.

### Support for Medical Development

Sumitomo Life jointly founded a scholarship program for medical students in China with PICC Life Insurance in order to support the spread and development of medical practice, which form the base of the life insurance business, throughout China. Around 700 students will receive scholarships annually.

## Financial Review

## Financial Overview for Fiscal 2005

Non-Consolidated		( Unit: Millions of yen )				
Item	FY2001	FY2002	FY2003	FY2004	FY2005	
Ordinary revenue	3,967,552	4,320,635	4,077,568	3,265,371	3,872,557	
Ordinary profit	133,173	15,774	144,355	199,309	137,604	
Core business profit	298,578	300,550	284,258	287,227	266,451	
Net income for the year	73,418	1,320	64,613	83,785	67,603	
Fund	170,000	170,000	229,000	279,000	319,000	
Total assets	22,952,057	21,911,455	21,123,627	21,242,937	22,409,210	
Assets in separate account	1,096,463	809,536	929,179	1,128,948	1,932,173	
Policy reserves	19,636,829	18,744,026	18,193,997	18,236,523	18,975,152	
Loans	6,375,200	5,907,941	5,239,914	4,868,188	4,639,698	
Securities	12,456,758	12,589,006	12,668,484	13,400,091	15,096,402	
Solvency margin	534.0%	498.0%	673.6%	763.2%	949.7%	
Ratio of policyholders' dividend reserves addition to surplus subject to appropriation	61.9%	—	95.5%	66.7%	99.4%	
Number of employees	53,821	50,544	49,436	48,245	49,446	
Number of members (participating policyholders)	8,520,558	8,216,352	7,911,318	7,722,030	7,649,175	
Insurance in force	239,371,532	227,648,353	213,945,139	203,219,226	195,725,534	
Group annuities in force	4,507,169	3,735,405	3,132,720	2,877,352	2,870,019	
Consolidated		( Unit: Millions of yen )				
Item	FY2001	FY2002	FY2003	FY2004	FY2005	
Ordinary revenue	4,069,779	4,423,710	4,169,539	3,331,676	3,920,331	
Ordinary profit	147,378	21,463	155,128	204,468	142,856	
Net income for the year	78,197	1,877	80,097	85,592	71,581	
Total assets	23,083,409	21,985,034	21,202,537	21,274,282	22,454,770	

Notes: 1. "Fund" includes reserves for foundation fund redemption.

2. "The ratio of policyholders' dividend reserves addition to the surplus subject to appropriation" is the ratio of the amounts transferred to policyholders' dividend reserve and policyholders' dividend equalization reserve to the amount calculated pursuant to Article 27 of the Insurance Business Law Enforcement Regulations.

3. The "members" of a mutual company are insurance participating policyholders (excluding policyholders of only insurance that does not entail distribution of surplus)

4. "Insurance in force" refers to the total of individual insurance, group insurance and individual annuities in force.

5. "Group annuities in force" equals the amount of policy reserves.

## Ordinary Profit

On the revenue side, premiums increased 16.8% over the previous year to ¥3,019.1 billion and investment income rose 36.6% to ¥729.1 billion. On the expenditures side, insurance benefits paid dropped 2.9% to ¥2,273.6 billion, investment expenses fell 11.7% to ¥139.7 billion, while operating expenses increased 4.6% to ¥378.7 billion. As a result, ordinary profit declined 31.0% to ¥137.6 billion. After factoring in special gains and losses, net income totaled ¥67.6 billion, a decrease of 19.3%, while unappropriated surplus at year-end amounted to ¥67.0 billion, a decline of 14.9%.

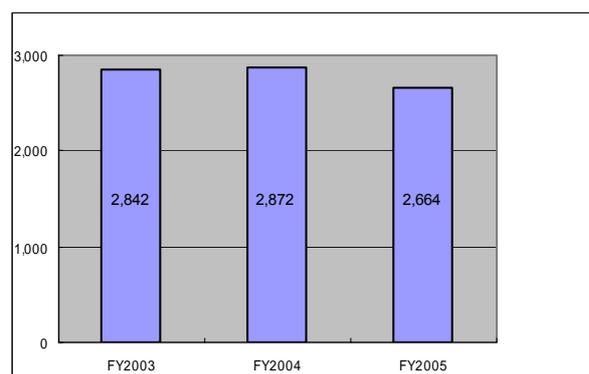
After providing for the negative spread, core business profit, which is an indicator of the basic earning power of a life insurance company, totaled ¥266.4 billion, a decrease of 7.2% compared to the previous year. Sumitomo Life used its core business profit to bolster internal reserves and further shore up its financial soundness.

Total assets at year-end totaled ¥22,409.2 billion, an increase by 5.5% compared to the previous year-end.

### Ordinary Profit (Core Business Profit) Overview (Unit: ¥100 million)

	FY2004	FY2005
Core business profit (A)	2,872	2,664
Insurance premiums and other income	25,856	30,191
Interest and dividend income	4,359	4,397
Benefits and other payments	23,427	22,736
Transfer to policy reserves	50	6,377
Operating expenses	3,622	3,787
Capital gains/losses(B)	503	280
Non-recurring income (C)	375	1,008
Ordinary profit (D=A+B+C)	1,993	1,376
Special gains/losses (E)	900	611
Income before taxes	1,092	764
Corporate and other taxes (F)	222	606
Deferred tax adjustment (F)	32	517
Net income for the year (G=D+E-F)	837	676
Reversal of fund for the promotion of social and policyholder welfare (H)	5	4
Reversal of difference on revaluation of real estate, etc. (H)	55	10
(Unappropriated surplus at year-end (I=G+H))	787	670

### Trends in Core Business Profit (Unit: ¥100 million)



### Reference: Breakdown of Core Business Profit (Three major profit sources)

(Unit: ¥100 million)

Item	FY2004	FY2005
Core business profit	2,872	2,664
Gain on insurance-related differences	4,769	4,375
Mortality gain	3,422	3,550
Expense savings	1,320	853
Negative spread	1,897	1,711

(Unit: ¥100 million, %)

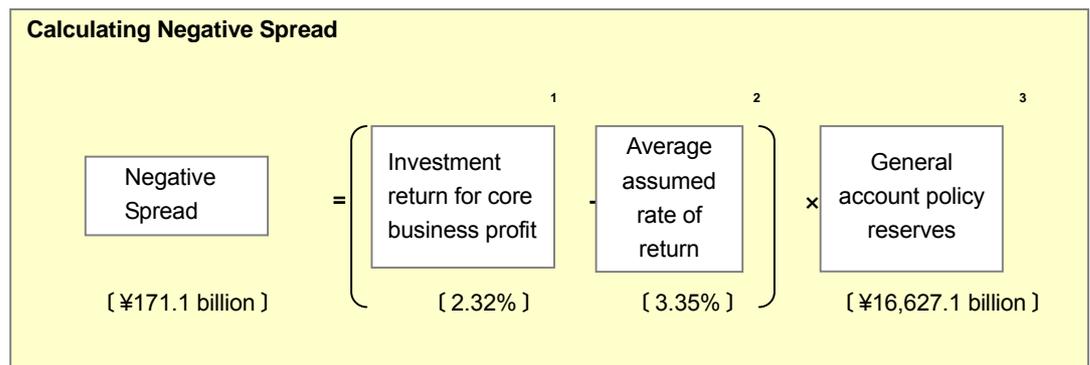
Item	March 31, 2005	March 31, 2006	YoY
Total assets	212,429	224,092	+5.5

## Negative Spread

In determining insurance premiums paid by policyholders, life insurance companies count on securing a certain return on their investments and therefore discount the premiums by that amount when calculating them. This discount rate is called the “assumed rate of return,” and it is set by considering interest rate trends and other information. This means that a life insurance company expects to earn income on its investments that is equivalent to the amount discounted each year.

What is called “negative spread” means to the situation in which actual investment income does not cover the expected amount by which insurance premiums for some policies were discounted. This situation occurs when ultra-low interest rates continue for a prolonged period of time.

Sumitomo Life’s negative spread in fiscal 2005 was ¥171.1 billion, but the spread is offset by gross annual earnings (for a single fiscal year). This can be seen from the fact that the company secured core business profit of ¥266.4 after providing for the negative spread. That is to say, Sumitomo Life’s gross annual earnings far exceed negative spread, so the company is fully prepared for it.



Notes: 1. Investment return on general account policy reserves after deducting the transfer to interest on policyholders’ dividend reserve from general account investment income included in core business profit.

2. Assumed interest rate of return on general account policy reserves.

3. General account policy reserves exclusive of contingency reserve are calculated with the following formula.

(Policy reserves at start of term + Policy reserves at term-end – Assumed interest) × 1/2

## Financial Soundness

### Solvency Margin Ratio

The solvency margin ratio expresses a life insurer's ability to pay insurance benefits and other payments. Sumitomo Life's solvency margin ratio for the year was 949.7%, an increase of 186.5% points over the previous year. This is an adequate, sound level that far exceeds the 200% mark required by regulatory authorities.

#### Trends in Solvency Margin Ratio

#### Enhancements to Ability to Pay Insurance Benefits (Solvency Margin Ratio)

(Unit: ¥million)

Item	March 31, 2004	March 31, 2005	March 31, 2006
Total solvency margin	1,579,630	1,724,494	2,511,162
Total of capital section	402,635	363,064	382,921
Reserve for price fluctuations	64,062	91,062	138,462
Contingency reserve	103,000	140,500	236,500
Allowance for possible loan losses	6,538	820	664
Unrealized gains on securities × 90% (100% when negative)	282,598	337,718	852,217
Land revaluation h × 85% (100% when negative)	76,366	85,106	49,188
Subordinated debt, etc.	395,000	435,000	395,000
Exclusions	—	—	—
Other	402,162	441,434	554,584
Total amount of risk	469,019	451,911	528,801
Amount equivalent to insurance risk R1	163,344	158,789	159,451
Amount equivalent to assumed rate of return risk R2	128,135	124,981	122,155
Amount equivalent to investment risks R3	298,902	285,922	344,452
Amount equivalent to management risk R4	11,807	11,393	12,999
Amount equivalent to minimum guarantee risk R7	—	—	23,929
Solvency margin ratio	673.6%	763.2%	949.7%

Notes: 1. "Total of capital section" refers to the total capital listed on the balance sheet exclusive of unrealized gains and losses on available-for-sale securities and the amount of appropriated surplus.

2. Figures are before exclusion of tax effects.

3. The amount equivalent to minimum guarantee risk is calculated with the standard formula established in Table 6.2 of the 1996 Ministry of Finance Directive No. 50.

4. The figures above are calculated in accordance with Article 130 of the Insurance Business Law, Articles 86 and 87 of the Insurance Business Law Enforcement Regulations and the 1997 Ministry of Finance Directive No. 50.

## Increasing Internal Reserves

Stable core business profit provided the source of funds for increasing internal reserves for the year, including contingency reserve and reserve for price fluctuations, by ¥165.4 billion to bring its balance to ¥730.4 billion.

(Unit: ¥100 million)

Item	March 31, 2005	March 31, 2006	YoY
Internal reserves	5,650	7,304	1,654
(Liabilities section)			
Contingency reserve	1,405	2,365	960
Reserve for price fluctuations	910	1,384	474
(Capital section)			
Fund prepared for price redemption	1,400	1,400	—
Reserves for foundation fund redemption + Reserves for fund redemption	1,935	2,155	220

Note: The capital section lists amounts following surplus appropriation.

## Real Net Assets

In addition to the solvency margin ratio, regulatory authorities also use the difference between real assets and liabilities as an indicator for assessing the soundness of life insurance companies. A company has real net assets when total assets net of unrealized gains or losses on securities and real estate exceeds total liabilities exclusive of contingency reserve, reserve for price fluctuations and certain other reserves. If the figure is negative, the company may be judged to have excessive debt and ordered to suspend its operations or be subjected to other regulatory measures.

The difference between Sumitomo Life's real assets and liabilities totaled ¥2,024.3 billion, an adequate level.

(Unit: ¥100 million)

Item	March 31, 2005	March 31, 2006
Difference between real assets and liabilities	13,172	20,243

## Early Corrective Measures

Early corrective measures are intended to spur companies to make management improvements at an early stage. Regulatory authorities look at the solvency margin ratio and other indicators and then may order necessary corrections. If a company's solvency margin ratio falls below 200%, the following directives are given depending on how far the margin is below this mark.

Classification	Solvency Margin Ratio	Directive
Not subject to directive	200% or more	None
Class 1	100% - 200%	The company must submit and execute an improvement plan that is deemed rational for securing management soundness.
Class 2	0% - 100%	The company must take the following measures to enhance its ability to pay insurance benefits and other payments. 1) It must submit and execute a plan for enhancing its ability to pay insurance benefits and other payments that is deemed rational 2) It either must prohibit or limit the payment of dividends or executive bonuses 3) It must make changes to its method for calculating insurance premiums for new insurance policies
Class 3	Less than 0%	The company must suspend its operations in part or full for a given period of time

## Risk-Managed Loans

As a result of making appropriate write-offs and provisions based on a rigorous self-assessment process, risk-managed loans decreased compared to the previous year both in terms of amount and as a percentage of total loans outstanding in fiscal 2005. Sumitomo Life has secured a high degree of financial soundness in this area.

Loans Outstanding (Unit: ¥100 million)

Item	March 31, 2005	March 31, 2006	YoY
Loans outstanding	48,681	46,396	2,284

Risk-Managed Loans (Unit: ¥100 million)

Classification	March 31, 2005	March 31, 2006	YoY
Loans to bankrupt borrowers (1)	2	3	0
Loans in arrears (2)	126	70	55
Loans in arrears for three months or longer (3)	15	13	2
Loans with eased terms (4)	86	29	56
Total (1+2+3+4) (Percentage of total loans outstanding)	231 (0.48%)	117 (0.25%)	114

## Credit Ratings

Credit Ratings (as of Nov 14, 2006)

Ratings Agency	
Japan Credit Rating Agency ( JCR )	A
Rating and Investment Information ( R&I )	A
Fitch Ratings ( Fitch )	A
Moody's	Baa1
Standard & Poor's ( S&P )	BBB

- Notes: 1. The listed credit ratings are ratings that Sumitomo Life has acquired upon requesting an assessment from each ratings agency.
2. Credit ratings are subject to future change due to changes in economic conditions and other factors.
3. Credit ratings constitute the opinion of the rating agency and do not guarantee the payment of insurance benefits.

## Contributing to Communities

### Helping Sufferers of Senile Dementia

By 2015, an estimated 2.5 million people in Japan are expected to be suffering from Alzheimer's disease and other forms of senile dementia. Some sufferers of these still incurable diseases are subject to prejudice and discrimination, making for a growing problem. Sumitomo Life is actively involved in tackling this problem.

### Sumisei "Humany" Activities

Sumitomo Life has carried out "regional benefit campaigns" through its nationwide branches since fiscal 1989 in order to make an even more significant contribution to local communities. The campaigns consist of social programs, cultural and educational endowments, health promotion and other activities. The campaigns were expanded in fiscal 1992 to include Sumisei "Humany" activities, a program in which employees become directly involved in community service. The activities span a wide range, from visits to care facilities to volunteering at sports competitions for the disabled and providing support for community development projects. In fiscal 2005 a total of approximately 25,000 employees participated in Humany activities.

### Sumisei Environmental Policy

Sumitomo Life considers initiatives to help protect the environment as one of its important management agendas, in light of the company's size, its impact on society and the public nature of its business. Having recently formulated a Corporate Social Responsibility (CSR) Management Vision, the company took the opportunity to organize and enhance its environmental initiatives from a CSR perspective and draw up the Sumisei Environmental Policy, which will serve as a set of guidelines for concrete activities. Based on this policy, Sumitomo Life intends to carry out steady, sustainable environmental conservation initiatives in the midst of its daily activities on a company-wide basis.

### Support for the Training and Widespread Use of Assistant Dogs

"Assistant dog" is a term Sumitomo Life uses to refer to dogs specially trained to provide daily life assistance for the disabled. Assistant dogs include guide dogs for the blind and the hearing-impaired. While assistant dogs play a valuable role, they are still few in number and the public's awareness level is low. Trained assistant dogs are extremely important to the people they help, but they are still not fully recognized in many sectors of society. The Handicapped Persons' Assisting Dog Act of October 2002 forbade public facilities in Japan from denying access to assistant dogs. In October 2003 this was extended to cover all private-sector facilities open to the general public. Nevertheless, people accompanied by assistant dogs are sometimes still not able to enter stores or ride public transportation.

Therefore, more consciousness-raising needs to be done to allow the disabled to freely participate in all aspects of society. Sumitomo Life has created videos and booklets to promote greater understanding of assistant dogs that help the disabled and distributed them to provincial governments, schools and other institutions. The company has also carried out a variety of other initiatives to help the disabled participate in society. In February 2006 it published a picture book, *White, Black and Gray*, to deepen children's understanding of this issue. The book is being donated to public libraries nationwide and, through Sumitomo Life's sales representatives, to elementary schools around the country. The company also provides support for the Asian Guide Dog Breeding Network.

## Presenting Classical Music for the Community

Izumi Hall, Osaka – An 821 seat classical-music concert hall  
December 2005 marked Izumi Hall's 16th year of operation. Izumi Hall is one of Japan's busiest entertainment venues, hosting some 240 concerts every year, and in February 2006 the hall was updated by installing new sound and lighting equipment. The 30 or so concerts sponsored by Sumitomo Life each year have drawn attention for their originality and overall high quality. In particular, the Izumi Hall Opera last year received the Fiscal 2005 Music Critics Club Award. The main attraction for this fiscal year will be the Vienna Music Festival in Osaka 2006, which was planned in partnership with the Musikverein of Vienna, the home of the Vienna Philharmonic. Izumi Hall is also planning and organizing a number of other concerts centering on the ambitious activities of the Izumi Sinfonietta Osaka, Izumi Hall's resident orchestra, and the Bach Concertino Osaka, an ensemble affiliated exclusively with the hall. Starting this fiscal year the hall has also been selected to take part in the Program to Form Hubs of Artistic Activities administered by Japan's Agency for Cultural Affairs. The hall plans to take this opportunity to step up its contribution to local cultural development.

## Charity Concerts throughout Japan

This year marks the 21st anniversary of the charity concert that Sumitomo Life has organized around Japan to provide classical music to every region of the country. Every year, the concerts feature distinguished artists from Japan and abroad. These concerts truly have "the personal touch" as they are entirely produced by company employees, who do everything from arranging venues to managing the actual shows, and they play an important role in linking Sumitomo Life to local communities. A total of over ¥190 million has been raised by the concerts, which goes to a variety of social programs. As of March 2006, 774 charity concerts have been held, drawing some 960,000 concertgoers. Sumitomo Life intends to continue bringing the rich spirit of music to every corner of Japan.

## Children's Picture-Drawing Contest

The 30th Children's Picture-Drawing Contest will be held this year. Sumitomo Life started the contest in 1977 to nurture children's dreams and support their healthy development. The contest attracts a large number of entries from children throughout Japan as well as children living overseas. Over 8.62 million entries have been received since the contest started, making it far and away the largest contest of its kind. Every year the best submissions are exhibited around the country. In 2000, pictures drawn for the contest reached a truly worldwide audience when the Louvre, France's most prestigious museum, exhibited a selection of them. In 2001, the contest was endorsed by Japan's Ministry of Education, Culture, Sports, Science and Technology. Sumitomo Life supports the activities of UNICEF through the contest.



Exhibits from the contest displayed at the Louvre in Paris



28<sup>th</sup> Louvre prize  
"My Stagbeetles"  
Haruki Kobayashi, primary school, second grade

## Sumitomo Life Social Services Foundation

The Sumitomo Life Social Services Foundation was established in 1960 to contribute to the welfare and wellbeing of Japan's communities. The major activities of the foundation include holding Sumisei Sawayaka Care Seminars, which the foundation has cosponsored with a newspaper since 1991 to provide support for care providers, a "scholarship program" for young researchers studying abroad in forefront of medical fields, "community care assistance and promotional support" for non-profit organizations, "free health checkups" for people with hearing impairments, and "concert invitations" for the disabled. As of the end of March 2006, the foundation has also provided complete medical checkups for over 560,000 people, a program that it started in 1972. Moreover, the foundation promotes classical music and culture through its participation in Izumi Hall.

## Sumitomo Life Health Foundation promotes public health

Founded in 1985, the Sumitomo Life Health Foundation conducts forums on healthy living. Three such forums were held in fiscal 2005. In addition, the foundation launched its "Senior Life Seminar" series in four cities around Japan. It also held a new lecture series in three cities to raise the public's basic level of knowledge concerning dementia, and held community forums in seven cities to promote local social activities. Sumisei Ohanashi Plaza is a program for introducing the world of reading aloud to nursery school and kindergarten students through reading picture books to them. Volunteers read stories to children at 105 locations in four regions around Japan in fiscal 2005, and more than 9,600 children were entertained with stories and hand games. In three cities, children and their parents were invited to large auditoriums, where books were read and hand games played on stage.

## Sumitomo Foundation

The Sumitomo Foundation is a multipurpose philanthropic foundation that was established by 20 companies in the Sumitomo Group in September 1991 to help commemorate the 300th anniversary of the Besshi Copper Mine, which served as the foundation for many Sumitomo businesses. As a Sumitomo Group company, Sumitomo Life was one of the founding members of the Foundation.

In fiscal 2005 the Foundation provided support for

- 1) basic scientific research,
- 2) environmental research,
- 3) maintaining and repairing cultural properties,
- 4) maintaining and repairing cultural properties overseas,
- 5) Japan-related research in Asian countries, and
- 6) other fields of endeavor.

It has provided assistance totaling ¥345 million for 243 projects in 15 countries and regions around the world.

## Consolidated Balance Sheets

For Sumitomo Life Insurance Company

March 31, 2006 and 2005	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
<b>Assets</b>			
Cash and Deposits .....	¥ 85,339	¥ 107,741	\$ 726
Call Loans .....	514,100	385,100	4,376
Monetary Claims Bought .....	739,621	921,204	6,296
Securities .....	15,073,069	13,344,889	128,314
Loans .....	4,640,889	4,872,797	39,507
Real Estate and Movable Properties .....	1,190,932	1,257,111	10,138
Due from Insurance Agencies .....	171	174	1
Due from Reinsurers .....	409	483	3
Other Assets .....	207,500	269,570	1,766
Deferred Tax Assets .....	4,664	119,132	39
Deferred Tax Assets on Revaluation of Land .....	—	—	—
Customers' Liabilities for Acceptances and Guarantees .....	260	1	2
Allowance for Possible Loan Losses .....	(2,188)	(3,924)	(18)
<b>Total Assets .....</b>	<b>¥22,454,770</b>	<b>¥21,274,282</b>	<b>\$191,153</b>
<b>Liabilities</b>			
Policy Reserves:			
Reserves for Outstanding Claims .....	¥ 127,397	¥ 127,198	\$ 1,084
Policy Reserves .....	19,008,991	18,269,529	161,819
Policyholders' Dividend Reserves .....	501,670	570,957	4,270
<b>Total Policy Reserves .....</b>	<b>19,638,059</b>	<b>18,967,685</b>	<b>167,175</b>
Due to Reinsurers .....	742	757	6
Other Liabilities:			
Deposits Received under Securities Lending Transactions .....	656,883	801,315	5,591
Other .....	853,531	732,719	7,265
<b>Total Other Liabilities .....</b>	<b>1,510,414</b>	<b>1,534,035</b>	<b>12,857</b>
Accrued Retirement Benefits .....	56,787	54,384	483
Reserve for Price Fluctuations .....	138,715	91,302	1,180
Deferred Tax Liabilities .....	44,171	2,238	376
Deferred Tax Liabilities on Revaluation of Land .....	44,236	657	376
Acceptances and Guarantees .....	260	1	2
<b>Total Liabilities .....</b>	<b>21,433,387</b>	<b>20,651,062</b>	<b>182,458</b>
<b>Minority Interests .....</b>	<b>35</b>	<b>2,113</b>	<b>0</b>
<b>Capital</b>			
Foundation Fund .....	149,000	109,000	1,268
Reserve for Redemption of Foundation Fund .....	170,000	170,000	1,447
Reserve for Revaluation .....	2	2	0
Surplus .....	231,539	203,576	1,971
Revaluation Reserve for Land, Net of Taxes .....	(127,018)	(84,335)	(1,081)
Unrealized Gains on Securities, Net of Taxes .....	604,740	240,038	5,148
Foreign Currency Translation Adjustments .....	(6,916)	(17,175)	(58)
<b>Total Capital .....</b>	<b>1,021,347</b>	<b>621,106</b>	<b>8,694</b>
<b>Total Liabilities, Minority Interests and Capital .....</b>	<b>¥22,454,770</b>	<b>¥21,274,282</b>	<b>\$191,153</b>

The accompanying notes to consolidated financial statements are an integral part of these statements.

# Consolidated Statements of Income

For Sumitomo Life Insurance Company

Years ended March 31, 2006 and 2005	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
<b>Ordinary Income</b>			
Insurance Premiums and Other.....	¥3,054,371	¥2,619,589	\$26,001
Investments Income:.....			
Interest and Dividend Income.....	444,663	439,928	3,785
Gains on Money-Held-in-Trust.....	0	0	0
Gains on Trading Securities.....	1,228	1,274	10
Gains on Sales of Securities.....	54,080	41,941	460
Gains on Redemption of Securities.....	—	304	—
Gains on Foreign Exchange Transactions.....	—	612	—
Gains on Assets in Separate Accounts.....	231,895	49,194	1,974
Other.....	2,105	26,290	17
Total Investment Income.....	733,973	559,546	6,248
Other Ordinary Income.....	131,987	152,540	1,123
Total Ordinary Income.....	3,920,331	3,331,676	33,373
<b>Ordinary Expenses</b>			
Benefits and Other Payments:			
Claims Paid.....	746,153	763,577	6,351
Annuities Paid.....	206,913	188,958	1,761
Benefits Paid.....	431,081	449,975	3,669
Surrenders.....	764,462	689,567	6,507
Other.....	146,508	270,957	1,247
Total Benefits and Other Payments.....	2,295,118	2,363,035	19,537
Provision for Policy Reserves and Other Reserves:			
Provision for Policy Reserve.....	739,522	44,597	6,295
Provision for Interest on Policyholders' Dividend Reserves.....	290	344	2
Total Provision for Policy Reserves and Other Reserves.....	739,812	44,942	6,297
Investment Expenses:			
Interest Expense.....	8,200	7,997	69
Losses on Sales of Securities.....	35,862	43,170	305
Losses on Devaluation of Securities.....	1,782	4,486	15
Losses on Derivatives.....	44,401	47,182	377
Losses on Foreign Exchange Transactions.....	1,011	—	8
Write off of Loans.....	161	216	1
Depreciation of Real Estate for Investment.....	25,283	28,373	215
Other Expenses.....	26,234	49,830	223
Total Investment Expenses.....	142,938	181,258	1,216
Operating Expenses.....	387,017	370,027	3,294
Other Ordinary Expenses.....	212,587	167,943	1,809
Total Ordinary Expenses.....	3,777,475	3,127,208	32,156
Ordinary Profit.....	142,856	204,468	1,216
<b>Special Gains</b>			
Gains on Disposal of Real Estate and Movable Properties.....	25,038	3,486	213
Reversal of Provision for Loss on Land Sales.....	—	5,999	—
Reversal of Allowance for Possible Loan Losses.....	1,261	4,749	10
Other Special Gains.....	85	5	0
Total Special Gains.....	26,385	14,240	224

<b>Special Losses</b>			
Losses on Disposal of Real Estate and Movable Properties .....	<b>36,049</b>	18,876	<b>306</b>
Impairment Losses on Fixed Assets .....	<b>3,237</b>	42,123	<b>27</b>
Provision for Reserve for Price Fluctuations .....	<b>47,413</b>	27,013	<b>403</b>
Advanced Depreciation for Real Estate .....	—	122	—
Payments to Social Responsibility Reserve .....	<b>471</b>	523	<b>4</b>
Amortization of Transition Obligation of Retirement Benefits .....	—	16,926	—
Other Special Losses .....	<b>196</b>	1	<b>1</b>
<b>Total Special Losses.....</b>	<b>87,368</b>	105,587	<b>743</b>
Surplus before Income Taxes and Minority Interests .....	<b>81,874</b>	113,121	<b>696</b>
Income Taxes:			
Current .....	<b>60,772</b>	24,513	<b>517</b>
Deferred .....	<b>(50,507)</b>	2,905	<b>(429)</b>
Minority Interests.....	<b>26</b>	109	<b>0</b>
<b>Net Surplus for the Year .....</b>	<b>¥ 71,581</b>	¥ 85,592	<b>\$ 609</b>

The accompanying notes to consolidated financial statements are an integral part of these statements.

# Consolidated Statements of Surplus

For Sumitomo Life Insurance Company

Years ended March 31, 2006 and 2005	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
<b>Balance at the beginning of the year</b> .....	<b>¥203,576</b>	¥263,300	<b>\$1,733</b>
<b>Additions:</b>			
Net Surplus for the Year .....	<b>71,581</b>	85,592	<b>609</b>
Increase due to Exclusion of a Subsidiary from Scope of Consolidation .....	—	1,112	—
<b>Additions Total</b> .....	<b>71,581</b>	86,704	<b>609</b>
<b>Deductions:</b>			
Reversal of Revaluation Reserve for Land.....	<b>1,046</b>	5,536	<b>8</b>
Provision for Policyholders' Dividend Reserves .....	<b>40,130</b>	38,753	<b>341</b>
Provision for Reserve for Redemption of Fund .....	—	100,000	—
Interest on Fund.....	<b>2,442</b>	1,989	<b>20</b>
Decrease due to Exclusion of a Subsidiary from Scope of Consolidation .....	—	148	—
<b>Deductions Total</b> .....	<b>43,618</b>	146,428	<b>371</b>
<b>Balance at the end of the year</b> .....	<b>¥231,539</b>	¥203,576	<b>\$1,971</b>

The accompanying notes to consolidated financial statements are an integral part of these statements.

## Consolidated Statements of Cash Flows

For Sumitomo Life Insurance Company

Years ended March 31, 2006 and 2005	Millions of Yen		Millions of
	2006	2005	U.S. Dollars
<b>I Cash Flows from Operating Activities:</b>			
Surplus before Income Taxes and Minority Interests.....	¥81,874	¥113,121	\$696
Depreciation of Real Estate for Investment.....	25,283	28,373	215
Depreciation.....	16,338	31,255	139
Impairment Losses on Fixed Assets.....	3,237	42,123	27
Amortization of Goodwill on Consolidation.....	(508)	(145)	(4)
Increase (Decrease) in Reserves for Outstanding Claims.....	198	(1,745)	1
Increase in Policy Reserves.....	739,462	44,597	6,294
Accrued Interest on Policyholders' Dividend Reserves.....	290	344	2
Decrease in Allowance for Possible Loan Losses.....	(1,736)	(8,483)	(14)
Increase in Accrued Retirement Benefits.....	2,403	4,262	20
Decrease in Provision for Loss on Land Sales.....	—	(26,572)	—
Increase in Reserve for Price Fluctuations.....	47,413	27,013	403
Interest and Dividend Income.....	(444,663)	(439,928)	(3,785)
Gains on Securities.....	(277,279)	(73,392)	(2,360)
Interest Expense.....	8,200	7,997	69
Losses (Gains) on Foreign Exchange Transactions.....	556	(612)	4
Losses on Real Estate and Movable Properties.....	11,011	15,512	93
Equity in Income of Affiliates.....	(999)	(985)	(8)
Decrease (Increase) in Due from Insurance Agencies.....	2	(24)	0
Decrease (Increase) in Due from Reinsurers.....	73	(112)	0
Decrease in Other Assets (Excluding Assets for Investing and Financing Activities).....	83,305	103,044	709
(Decrease) Increase Due to Reinsurers.....	(14)	210	0
Increase in Other Liabilities (Excluding Liabilities for Investing and Financing Activities).....	30,556	40,590	260
Other, Net.....	(101,468)	(2,941)	(863)
Sub total.....	223,538	(96,496)	1,902
Interest and Dividend Income Received.....	449,809	487,061	3,829
Interest Expense Paid.....	(8,764)	(7,304)	(74)
Policyholders' Dividends Paid.....	(109,707)	(120,517)	(933)
Other, Net.....	(471)	(523)	(4)
Income Taxes Paid.....	(30,645)	(7,301)	(260)
Net Cash Provided by Operating Activities.....	523,759	254,918	4,458
<b>II Cash Flows from Investing Activities:</b>			
Net Decrease in Deposits.....	22,713	10,367	193
Purchase of Monetary Claims Bought.....	(2,592,370)	(2,037,812)	(22,068)
Proceeds from Sales and Redemption of Monetary Claims Bought.....	2,773,896	2,176,318	23,613
Purchase of Securities.....	(7,453,561)	(6,541,550)	(63,450)
Proceeds from Sales and Redemption of Securities.....	6,792,209	5,911,898	57,820
Loans Made.....	(677,073)	(567,487)	(5,763)
Collection of Loans.....	861,931	878,762	7,337
Other, Net.....	(272,371)	(17,474)	(2,318)
II⊙ Sub total.....	(544,624)	(186,977)	(4,636)
[I+II⊙].....	[(20,865)]	[67,940]	(177)
Purchase of Real Estate and Movable Properties.....	(39,281)	(89,676)	(334)
Proceeds from Sales of Real Estate and Movable Properties.....	60,644	53,682	516

Proceeds from Sales of Investment in Subsidiaries			
Excluded from the Consolidation Scope .....	—	4,167	—
Net Cash Used in Investing Activities .....	<b>(523,261)</b>	(218,803)	<b>(4,454)</b>
<b>III Cash Flows from Financing Activities:</b>			
Proceeds from Issuance of Debt .....	<b>38,094</b>	80,434	<b>324</b>
Repayment of Debt .....	<b>(78,344)</b>	(42,712)	<b>(666)</b>
Increase in Foundation Fund .....	<b>40,000</b>	50,000	<b>340</b>
Decrease in Foundation Fund .....	—	(100,000)	—
Payment of Interest on Foundation Fund .....	<b>(2,442)</b>	(1,989)	<b>(20)</b>
Other, Net .....	<b>(1,277)</b>	(234)	<b>(10)</b>
Net Cash Used in Financing Activities .....	<b>(3,969)</b>	(14,501)	<b>(33)</b>
<b>IV Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents .....</b>	<b>97</b>	(30)	<b>0</b>
<b>V Net (Decrease) Increase in Cash and Cash Equivalents .....</b>	<b>(3,374)</b>	21,583	<b>(28)</b>
<b>VI Cash and Cash Equivalents at the Beginning of the Year .....</b>	<b>43,701</b>	22,495	<b>372</b>
<b>VII Decrease in Cash and Cash Equivalents</b>			
<b>due to Exclusion of Subsidiaries from the Consolidation Scope .....</b>	—	(376)	—
<b>VIII Cash and Cash Equivalents at the End of the Year .....</b>	<b>¥ 40,327</b>	¥ 43,701	<b>\$ 343</b>

The accompanying notes to consolidated financial statements are an integral part of these statements.

# Notes to Consolidated Financial Statements

Financial Years Ended March 31, 2006 and 2005

## I. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of SUMITOMO LIFE INSURANCE COMPANY (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Insurance Business Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles in the respective countries of domicile. In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued for domestic purposes in order to present them in a format which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## II. Principles of Consolidation

### 1. Consolidated Subsidiaries

The consolidated financial statements include the accounts of the Company and six of its subsidiaries as of and for the year ended March 31, 2006 and 2005. The following is the consolidated subsidiaries of the Company: The Sumisei General Insurance Co., Ltd., Sumisei Lease Co., Ltd., Sumisei Computer Service Co., Ltd., Sumisei Card Service Co., Ltd., Sumitomo Life Realty (N.Y.), Inc., Sumitomo Life Insurance Agency America, Inc. and SLR Investments, Inc. and SLR Investments, Inc.

The consolidated financial statements do not include the accounts of Sumisei Insatsu Co., Ltd. and Sumisei Building Management Co., Ltd. as they are considered immaterial, individually and in the aggregate, in terms of total assets, ordinary income, net income and surplus, and excluding these subsidiaries from the consolidation does not prevent reasonable judgment on the consolidated financial position of the Company and its subsidiaries and the consolidated results of their operations.

### 2. Affiliates

Investments in affiliates are accounted for by the equity method. Four affiliated companies were accounted for by equity method for the year ended March 31, 2006 and three affiliated companies for the year ended March 31, 2005. The affiliates accounted for by the equity method are as follows: Office Building Fund Management Japan, Ltd. Sumitomo Mitsui Asset Management Co., Ltd., Japan Pension Navigator Co., Ltd., and PICC Life Insurance Company Limited. PICC Life Insurance Company Limited was established during the year ended March 31, 2006 and was treated as an affiliated company. Izumi Securities Co., Ltd., SUMISEI ABN AMRO Asset Management B.V. and SUMISEI ABN AMRO FUND

MANAGERS (IRELAND) LIMITED are excluded from the scope of the equity method because these companies were no longer the Company's affiliated companies as of March 31, 2006.

The respective and aggregate effects of the non-consolidated subsidiaries and affiliates excluded from the scope of equity method (e.g., Japan Pension Service Co., Ltd.) are considered immaterial to net income and surplus.

3. **Fiscal Year-ends of Consolidated Subsidiaries**  
The fiscal year-end of overseas subsidiaries is December 31. The consolidated financial statements include the accounts of such subsidiaries as of their respective fiscal year-ends after making appropriate adjustments for material transactions occurring between their respective year-ends and the date of the consolidated financial statements.
4. **Valuation of Consolidated Subsidiaries' Assets and Liabilities**  
All assets and liabilities of the consolidated subsidiaries are recorded at fair value on the date of acquisition.
5. **Goodwill on Consolidation**  
Goodwill on consolidation is charged or credited to income in the year of acquisition.
6. **Treatment of Appropriation of Surplus**  
The consolidated statements of surplus are prepared based on the appropriation of surplus approved during the year.

## III. Balance Sheets

### 1. Securities

Securities of the Company are classified and accounted for as follows:

Trading securities are stated at fair market value. Held-to-maturity debt securities are stated at amortized cost and the cost of securities sold is calculated by the moving average method. Amortization is calculated by the straight line method. Debt securities earmarked for policy reserve are stated at amortized cost in accordance with Industry Audit Committee Report No. 21, "Temporary Treatment of Accounting and Auditing Concerning Securities Earmarked for Policy Reserve in the Insurance Industry", issued by the Japanese Institute of Certified Public Accountants. Cost of securities sold is calculated by the moving average method and amortization is calculated by the straight line method. Investments in non-consolidated subsidiaries and affiliated companies (defined in Article 110 Clause 2 of the Insurance Business Law) are stated at cost. Equity securities with readily determinable market values classified as available-for-sale securities are stated at fair market value which is determined as the average of the market value during the month of fiscal year-end. Other available-for-sale securities with readily determinable market values are stated at fair market value at the end of the financial year. Available-for-sale securities without readily determinable market values are stated at amortized cost for debt securities whose premium or discount represents the interest rate adjustment and at cost for other securities. Cost of these securities sold is calculated by the moving average method.

Certain deposits, monetary claims bought and securities in money-held-in-trusts deemed equivalent to investment

in securities are stated in the same methods described in the above.

Unrealized gains and losses of available-for-sale securities are reported net of applicable income taxes, as a separate component of Capital in the consolidated balance sheets.

2. Derivatives  
Derivatives are stated at fair value.
3. Revaluation of Land  
The Company revalued its Land for operating use as of March 31, 2001, as permitted by the Land Revaluation Law (the "Law"). The difference in value before and after revaluation is directly included in Capital and presented as Revaluation Reserve for Land, net of applicable income taxes which is presented as Deferred Tax Liabilities on Revaluation of Land in the consolidated balance sheets. Revaluation method is stipulated in Article 3 Clause 3 of the Law. Pursuant to the provision of the Law, the Company used the publicly announced appraisal value with certain adjustments (detailed in Article 2 Paragraph 1 of the Enforcement Ordinance of the Land Revaluation Law (the "Ordinance") (Government Ordinance No. 119 on March 31, 1998) and appraisal value (detailed in Article 2 Paragraph 5 of the Ordinance) for the revaluation.  
Under the Law and related ordinances, the revaluation is a one-time event and subsequent changes in fair value of land are not reflected in the consolidated financial statements. But the Company shall disclose the decline in the fair value in the subsequent years pursuant to Article 10 of the Law. The excess of the total book value of the land after the revaluation over the total fair value of land for business operating use at the balance sheet date was ¥30,327 million (U.S.\$ 258 million) and ¥66,112 million as of March 31, 2006 and 2005, respectively.
4. Real Estate and Movable Properties  
Real estate of the Company is depreciated using the straight-line method, and movable properties are depreciated using the declining balance method.
5. Foreign Currency Translation  
Assets and liabilities denominated in foreign currencies, except for investments in non-consolidated subsidiaries and affiliates are translated at the exchange rates prevailing on the balance sheet date. Investments in non-consolidated subsidiaries and affiliates are translated at the exchange rates at the time of acquisition.
6. Allowance for Possible Loan Losses  
The Company's allowance for possible loan losses is provided pursuant to its standards for self-assessment of asset quality and internal rules for write-offs of loans and allowance for possible loan losses. For loans to borrowers that are legally bankrupt (hereafter, "bankrupt borrowers") and for loans to borrowers that are not yet legally bankrupt but virtually bankrupt (hereafter, "borrowers virtually bankrupt"), an allowance is provided based on the total amount of the loans after deduction of charge-offs and any amounts expected to be collected through the disposal of collateral and the execution of guarantees. For loans to borrowers that are likely to become bankrupt (hereafter, "borrowers likely to become bankrupt"), an allowance is provided at the amount deemed necessary based on an overall solvency assessment, net of the expected collection by disposing of collateral and by executing guarantees. For other loans, an allowance is provided by

multiplying the claim amount by an anticipated default rate calculated based on the Company's actual default experience for a certain period in the past.

All loans are assessed based on its standards for the self-assessment of asset quality and the assessment is reviewed by a department independent of the department that performs and is responsible for the self-assessment. The allowance for possible loan losses is provided on the basis of the results.

For loans to bankrupt borrowers and borrowers virtually bankrupt, the amount of loans exceeding the value of estimated recovery through disposal of collateral or execution of guarantees is deemed uncollectible and written-off. The amount of loans written-off for the year ended March 31, 2006 and 2005 amounted to ¥ 4,417 million (U.S.\$ 37 million) and ¥ 4,604 million, respectively, out of which ¥ 3,037 million (U.S.\$ 25 million) and ¥ 3,834 million were write-off of loans with collateral or guarantees at March 31, 2006 and 2005, respectively.

An allowance for possible loan losses of the consolidated subsidiaries is provided pursuant to their standards for self-assessment of asset quality and internal rules for write-offs of loans and allowance for possible loan losses which each consolidated subsidiary sets and maintains consistently with those of the Company.

7. Accrued Retirement Benefits

The following table sets forth funded status of accrued retirement allowances for the Company's defined benefit plan at March 31, 2006 and 2005:

	Millions of Yen	Millions of U.S.Dollars
	2006	2005
Projected Benefit Obligation .....	¥(339,159)	¥(334,268)
Plan Assets at Fair Value .....	307,199	221,959
[ Plan Assets Held in Retirement Benefit Trust (Included in the Above Plan Assets)] .....	[173,903]	[100,002]
Net Projected Benefit Obligation .....	(31,960)	(112,309)
Unrecognized Actuarial Differences .....	(24,144)	58,560
Unrecognized Prior Service Cost .....	[—]	[—]
Accrued Retirement Allowances .....	¥ (56,104)	¥ (53,748)
	<b>\$(2,887)</b>	<b>2,615</b>
		<b>[1,480]</b>
		<b>(272)</b>
		<b>205</b>
		<b>[(477)]</b>

Assumptions used in the accounting for the defined benefit plans for the years ended March 31, 2006 and 2005 are as follows:

Method of attributing benefit to period of service: straight-line basis

	2006	2005
Discount Rate .....	2.0%	2.0%
Long-term Rates of Return on Plan Assets:		
Tax Qualified Retirement Pension Plan .....	1.9%	2.0%
Retirement Benefit Trust .....	0.0%	0.0%
Amortization Period for Transition Obligation .....	—	5 years
Amortization Period for Actuarial Differences (Commencing in the Following Year) .....	8 years	8 years
Amortization Period for Prior Service Cost .....	—	3 years

8. Reserve for Price Fluctuations

Reserve for price fluctuations is calculated pursuant to the provisions of Article 115 of the Insurance Business Law.

9. Hedge Accounting

The Company is exposed to foreign currency exposures arising from foreign currency investment in securities. The Company uses foreign exchange related derivatives to effectively manage those foreign currency exposures. The

Company applies fair value hedge method of accounting to the hedging financial instruments and the corresponding hedged items. Hedge effectiveness is evaluated by comparing the cumulative changes in cash flows from hedged items to those from the hedging instruments.

10. **Leases**  
Where finance leases do not transfer ownership of the leased properties to the lessee, the leased properties are not capitalized and the related lease expenses are charged to income for the year in which they are incurred.
11. **Accounting for Consumption Taxes**  
Consumption taxes that the Company receives and pays are not included in income and expenses, and net payments (or receipts) of consumption taxes are recorded as asset (or liability) in the consolidated balance sheets. The consumption taxes paid on purchases of certain assets, which are not deductible from the consumption taxes received, are deferred as prepaid expense (included in Other Assets in the consolidated balance sheets) and amortized over a five-year period on a straight-line basis pursuant to the Corporation Tax Law. Consumption taxes paid on other than the purchases of assets are charged to income as incurred.
12. **Policy Reserves**  
Policy reserves of the Company are provided pursuant to Article 116 of the Insurance Business Law. Premium Reserves, a main component of Policy Reserves, is calculated according to the following method:  
(1) For policies that are subject to the standard liability reserve requirements, policy reserve is calculated pursuant to the method stipulated by the Prime Minister and the Minister of Finance (Ministry of Finance Notification No. 48, in 1996).  
(2) For policies that are not subject to the standard liability reserve requirements, policy reserve is calculated by the net level premium method.
13. **Software**  
Certain software of the Company for internal use is capitalized and amortized over the estimated useful life by the straight line method.
14. **Loans Receivable**  
The aggregate amount of risk-monitored loans, which are comprised of (1) loans to bankrupt borrowers, (2) loans in arrears, (3) loans in arrears for three months or longer, and (4) restructured loans, was ¥ 11,919 million (U.S.\$ 101 million) and ¥ 23,310 million at March 31, 2006 and 2005, respectively. The aggregate amount of loans to bankrupt borrowers was ¥ 322 million (U.S.\$ 2 million) and ¥ 244 million, and loans in arrears was ¥ 7,178 million (U.S.\$ 61 million) and ¥ 12,758 million at March 31, 2006 and 2005, respectively. The amount of loans deemed uncollectible and directly deducted from the loans in the consolidated balance sheets as March 31, 2006 and 2005 was ¥1,482 million (U.S.\$12 million) and ¥107 million for loans to bankrupt loans, and ¥2,973 million (U.S.\$ 25 million) and ¥ 4,551 million for loans in arrears, respectively. Loans to bankrupt borrowers represent the loans on which interests are not accrued due to unlikelihood of repayment of principal or interest resulted from delinquency of principal or interest for a certain period or other reasons ("non-accrual loans") and also meet the conditions stipulated in Article 96 Clause 1 Paragraph 3 and Paragraph 4 of Enforcement Ordinance

of Corporation Tax Law (Government Ordinance No. 97 in 1965).

Loans in arrears represent non-accrual loans excluding the loans to bankrupt borrowers (defined in the above) and loans of which interest payments are postponed in order to support these borrowers recovering from financial difficulties. Loans in arrears also include the non-accrual loans to borrowers classified as "borrowers virtually bankrupt" or "borrowers likely to become bankrupt" in the self-assessment of asset quality.

The amount of loans in arrears for three months or longer was ¥ 1,462 million (U.S.\$ 12 million) and ¥ 1,664 million at March 31, 2006 and 2005, respectively. Loans in arrears for three months or longer represent the loans on which payments of principal or interest are past due over three months from the day following the contractual due date. Loans in arrears do not include loans classified as loans to bankrupt borrowers or loans in arrears.

The amount of restructuring loans was ¥ 2,956 million (U.S.\$ 25 million) and ¥ 8,642 million at March 31, 2006 and 2005, respectively. Restructuring loans represent the loans which have been restructured to provide relief to the borrowers by reducing or waiving interest payments, by rescheduling repayments of principal or payments of interest, or by waiving claims for borrowers in order to support their recovery from financial difficulties. Restructuring loans do not include loans classified as loans in arrears for three months or longer, loans in arrears or loans to bankrupt borrowers.

15. **Accumulated Depreciation**  
Accumulated depreciation of real estate and movable properties amounted to ¥ 456,610 million (U.S.\$ 3,887 million) and ¥ 458,706 million at March 31, 2006 and 2005, respectively.
16. **Separate Accounts**  
The amount of assets held in separate accounts defined in Article 118 of the Insurance Business Law was ¥ 1,932,173 million (U.S.\$ 16,448 million) and ¥1,128,948 million at March 31, 2006 and 2005, respectively.
17. **Leases**  
In addition to movable properties capitalized in the consolidated balance sheets, the Company and the consolidated subsidiaries use computers and peripherals under lease agreements.
18. **Policyholders' Dividend Reserves**  
A reconciliation of the policyholders' dividend reserves for the years ended March 31, 2006 and 2005 is as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Reserves, Beginning of Year .....	<b>¥570,957</b>	¥652,375	<b>\$4,860</b>
Transfer from Surplus .....	<b>40,130</b>	38,753	<b>341</b>
Dividend Payments to Policyholders during the Year.....	<b>(109,707)</b>	(120,517)	<b>(933)</b>
Interest Accrued during the Year.....	<b>290</b>	344	<b>2</b>
Reserves, End of Year .....	<b>¥501,670</b>	¥570,957	<b>\$4,270</b>

19. **Pledged Assets**  
Assets pledged as collateral amounted to ¥ 578,006 million (U.S.\$ 4,920 million) and ¥ 583,816 million, and secured debts amounted to ¥ 7,903 million (U.S.\$ 67 million) and ¥ 7,903 million at March 31, 2006 and 2005,

respectively.

20. **Foundation Fund**  
The Company increased the foundation fund in capital of ¥40,000 million (U.S.\$340 million) and ¥50,000 million in accordance with Article 60 of the Insurance Business Law for the years ended March 31, 2006 and 2005, respectively.

21. **Reserve for Redemption of Foundation Fund**  
The Company redeemed ¥100,000 million (U.S.\$851 million) of foundation fund for the year ended March 31, 2005. In accordance with Article 56 of the Insurance Business Law, the Company provided the same amount of reserve for redemption of foundation fund (¥100,000 million) at the time of redemption. The provision for reserve for redemption of foundation fund was recorded by reclassifying from surplus to the reserve directly.

22. **Securities Lending**  
Securities loaned under security lending agreement amounted to ¥ 733,948 million (U.S.\$ 6,247 million) and ¥ 867,050 million at March 31, 2006 and 2005, respectively.

23. **Loan Commitments**  
Outstanding loan commitments were ¥ 27,506 million (U.S.\$ 234 million) and ¥ 32,831 million at March 31, 2006 and 2005, respectively.

24. **Subordinated Debt**  
Other Liabilities in the consolidated balance sheets include ¥ 395,000 million (U.S.\$ 3,362 million) and ¥ 435,000 million of borrowings whose repayment is subordinated to other obligations at March 31, 2006 and 2005, respectively.

25. **Obligations to Former Insurance Policyholder Protection Fund**  
The Company estimated future obligations to the former Insurance Policyholders Protection Fund, which was taken over by the Life Insurance Policyholders Protection Corporation under Article 140 Clause 5 of the Supplementary Provision of Laws Related to Reform of the Financial System, at ¥ 3,849 million (U.S.\$ 32 million) and ¥ 6,552 million at March 31, 2006 and 2005, respectively. These obligations are recognized as operating expenses when the contributions are made.

26. **Obligations to Life Insurance Policyholders Protection Corporation**  
The Company estimated future obligations to the Life Insurance Policyholders Protection Corporation at ¥ 51,960 million (U.S.\$ 442 million) and ¥ 36,868 million at March 31, 2006 and 2005, respectively, as stipulated by Article 259 of the Insurance Business Law.  
These obligations are recognized as operating expenses when the contributions are made.

27. **Deferred Taxes**  
Gross deferred tax assets at March 31, 2006 and 2005 totaled ¥ 324,479 million (U.S.\$ 2,762 million) and ¥ 272,763 million, respectively, and gross deferred tax liabilities at March 31, 2006 and 2005 totaled ¥ 356,928 million (U.S.\$ 3,038 million) and ¥ 147,241 million, respectively. Valuation allowances which are deducted from deferred tax assets amounted to ¥ 7,057 million (U.S.\$ 60 million) and ¥ 8,627 million at March 31, 2006 and 2005, respectively.

The main components of deferred tax assets were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Losses on Devaluation of Securities .....	<b>¥77,050</b>	¥88,369	<b>\$655</b>
Policy Reserves .....	<b>104,979</b>	69,188	<b>893</b>
Accrued Retirement Allowances .....	<b>49,303</b>	46,724	<b>419</b>
Reserve for Price Fluctuations .....	<b>50,145</b>	33,005	<b>426</b>

The main components of deferred tax liabilities were as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Unrealized Gains on Securities .....	<b>¥342,385</b>	¥ 135,925	<b>\$2,914</b>

The statutory tax rate was 36.15% in the years ended March 31, 2006 and 2005, which is different from the effective tax rates of 12.5% and 24.2% in the years ended March 31, 2006 and 2005, respectively. The principal reason for the difference was the provision for the reserves for policyholders' dividends, which accounted for a decrease in the effective tax rate by 18.0% and 12.8% in the years ended March 31, 2006 and 2005, respectively.

#### IV. Income Statements

28. **Securities**  
The components of the Company's gains on sales of securities were ¥ 8,040 million (U.S.\$ 68 million) and ¥ 7,712 million from government and other bonds, ¥ 41,959 million (U.S.\$ 357 million) and ¥ 34,387 million from stocks and the equivalent securities, and ¥ 4,077 million (U.S.\$ 34 million) and ¥ 457 million from foreign securities for the years ended March 31, 2006 and 2005, respectively.  
The components of losses on sales of securities of the Company were ¥ 9,925 million (U.S.\$ 84 million) and ¥ 6,574 million from government and other bonds, ¥ 6,509 (U.S.\$ 55 million) and ¥ 9,808 million from stocks and equivalent securities, and ¥ 19,422 million (U.S.\$ 165 million) and ¥ 26,761 million from foreign securities for the years ended March 31, 2006 and 2005, respectively.  
The components of losses on devaluation of securities of the Company were ¥ 1,816 million (U.S.\$ 15 million) and ¥ 3,787 million from stocks and equivalent securities, and ¥ 226 million (U.S.\$ 1 million) and ¥ 699 million from foreign securities for the years ended March 31, 2006 and 2005, respectively.
29. **Trading Securities**  
Gains on Trading Securities are comprised of interest and dividend income, gains and losses on sales of trading securities, valuation gains and losses. Interest and dividend income on trading securities of the Company were ¥ 7 million (U.S.\$ 0 million) and ¥ 16 million for the years ended March 31, 2006 and 2005, respectively. Gains on sales of trading securities, net of losses on sales, were ¥ 1,224 million (U.S.\$ 10 million) and ¥687 million for the year ended March 31, 2006 and 2005, respectively. Devaluation losses, net of valuation gains, were ¥ 3 million (U.S.\$ 0 million) for the year ended March 31, 2006, and valuation gains, net of devaluation losses, were ¥ 571

million for the year ended March 31, 2005.

30. **Derivatives**  
The Company's devaluation losses of ¥6,542 million (U.S.\$ 55 million) and ¥4,668 million are included in Losses on Derivatives in the consolidated statements of income for the years ended March 31, 2006 and 2005, respectively.
31. **Retirement Benefit Expenses**  
Severance and retirement benefit expenses of the Company for the years ended March 31, 2006 and 2005 are comprised of the following:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Service Costs.....	¥12,980	¥11,930	\$110
Interest Cost on Projected Benefit Obligation .....	6,685	8,174	56
Return on Plan Assets .....	(2,317)	(2,280)	(19)
Amortization of Net Transition Obligation ...		16,926	
Amortization of Actuarial Differences .....	10,794	6,254	91
Amortization of Prior Service Cost .....		(8,596)	
Severance and Retirement Benefit Expenses .....	¥28,143	¥32,409	\$239

32. **Impairment of Fixed Assets**  
Effective the year ended March 31, 2005, the Company and its consolidated domestic subsidiaries adopted early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the Implementation Guidance for Accounting Standard for Impairment of Fixed Assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). As a result of this adoption, surplus before taxes and minority interest decreased by ¥ 42,123 million (U.S.\$ 392 million )for the year ended March 31, 2005.

The impairment losses were directly deducted from the respective asset in the consolidated balance sheets.

The method of measurement and recognition of the impairment loss on fixed assets of the Company is as follows:

a. **Grouping of fixed assets**

The Company groups all the fixed assets held and utilized for the Company's insurance business as one asset group for the measurement and recognition of the impairment losses. For real estate for investment and other idle assets, each asset is treated as an independent unit for the impairment test.

- b. **Description of impairment losses recognized**  
For the years ended March 31, 2006 and 2005, the Company recognized impairment losses on real estate for investment that experienced the deterioration of profitability and on the idle assets that experienced the decline in fair value. For these assets, the Company reduced the carrying amount to a recoverable amount, and recognized impairment losses as special losses in the consolidated statements of income.

c. **Details of fixed assets causing impairment losses**

Group	Type	Millions of Yen		Millions of U.S. Dollars
		2006	2005	2006
Real estate for investment	Land and buildings	¥ 2,885	¥ 39,539	\$ 24
Idle real estate	Land and buildings	¥ 351	¥ 2,584	\$ 2
	Total	¥ 3,237	¥ 42,123	\$ 27

d. **The recoverable amount**

The recoverable amounts of real estate for investment are determined at net realizable value or value in use. The recoverable amounts for idle assets are net realizable value.

Net realizable value are calculated based on an estimated value of asset on sale, appraisal value based on Real Estate Appraisal Standards, or publicly announced value used as tax basis.

Value in use is determined as the estimated net future cash flow discounted at 5.0%.

**V. Statements of Cash Flows**

33. **Cash and Cash Equivalents**  
For the purpose of the consolidated statements of cash flows, cash and cash equivalents are comprised of cash on hand and bank deposits bearing no interest.
34. **Reconciliations of Cash and Cash Equivalents**  
A reconciliation of Cash and Deposits in the consolidated balance sheets with Cash and Cash Equivalents in the consolidated statements of cash flows at March 31, 2006 and 2005 is as follows:

	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Cash and Deposits.....	¥85,339	¥107,741	\$726
Deposits Bearing Interest.....	(45,011)	(64,040)	(383)
Cash and Cash Equivalents.....	¥40,327	¥43,701	\$343

# International Network

(As of Nov 2006)

## **New York Representative Office**

Develops business relationships in the United States and carries out research and analysis on the North American financial market; established in 2001  
600 Lexington Avenue, 2F,  
New York, NY 10022, U.S.A.  
Tel:(212)521-8340 Fax:(212) 750-7930

## **London Representative Office**

Develops business relationships in Europe and carries out research and analysis on the European financial market; established in 2001  
6F, 12-15 Finsbury Circus, London EC2M 7BT, U. K.  
Tel:(20) 7256-7630 Fax:(20)7256-7624

## **Beijing Representative Office**

Carries out research and analysis on the Chinese financial market; established in 1991  
1205, Beijing CR Building, 12F  
A8 Jianguomen-North Street, Beijing,  
People's Republic of China 100005  
Tel: (10) 8519-2501 Fax: (10) 8519-2503

## **Sumitomo Life Realty (N.Y.), Inc.**

Makes real estate investments and manages real estate properties in principal U.S. cities; incorporated in 1982  
600 Lexington Avenue, 2F,  
New York, NY 10022, U.S.A.  
Tel:(212)521-8370 Fax:(212) 750-7931

## **Sumitomo Life Insurance Agency America, Inc.**

Engages in brokerage services for insurance products related to employee welfare systems, including corporate health insurance, dental insurance, and life insurance products; incorporated in 1986  
600 Lexington Avenue, 2F,  
New York, NY 10022, U.S.A.  
Tel:(212)521-8300 Fax:(212)980-4008

## **PICC Life Insurance Company**

Offers a full lineup of individual insurance products and group insurance in China; established in 2005  
7 F Chuangjing Building, 38 Shouti South Road, Haidian District,  
Beijing, People's Republic of China 100037  
Tel:(10)5889-2738

# Directors, Corporate Auditors, and Executive officers

(As of Nov 2006)

## *Directors*

### *Chairman*

Yasuo Yoshino

### *President and*

### *Chief Executive Officer*

Shinichi Yokoyama

### *Deputy Presidents*

Shinichiro Satake

Hiroshi Kadota

### *Senior Managing*

### *Director*

Eiichi Shibao

## *Managing Directors*

Hitoshi Kawashima

Yoshio Sato

Koji Hanaoka

Ikunori Kato

Norio Takamatsu

## *Directors*

Akio Kosai

Taketoshi Yamamoto

## *Corporate Auditors*

Takashi Nakagawa

Masaaki Kamohara

Tadayoshi Ota

Takemochi Ishii

Eiko Shinotsuka

## *Senior Executive*

### *Officers*

Hideo Nemoto

## *Managing Executive*

### *Officers*

Fumio Tokubutsu

Takanobu Takimoto

Noriaki Yajima

Arata Ito

## *Executive Officers*

Tsutomu Yasukawa

Yutaka Amino

Koichi Suzuki

Hiroshi Okazaki

Haruo Urata

Toru Nakamura

Kazuhiko Tsutsumi

Mitsutoshi Mise

Hiroshi Yamaguchi

Shinji Haruhara

Yoshiteru Saito

Michihisa Tanimoto

Masahiro Hashimoto

Hiroaki Sunagawa



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