



NEWS RELEASE

Jul 12, 2010

R&I Assigns A- Prelim: Sumitomo Life Fund Securitization

Rating and Investment Information, Inc. (R&I) has assigned the following preliminary rating.

It should be noted that this preliminary rating was generated on the basis of information current as of July 12, 2010. At the time the bonds are issued, R&I will conduct a final review of various points, including the content of agreements entered into, and issue its formal rating.

OUTLINE OF THE ISSUE:

The preliminary rating is for the asset-backed securities (ABS) to be issued backed by 70.0 billion yen in *kikin* raised by Sumitomo Life Insurance Company (Sumisei).

ISSUER:	Sumitomo Life Fund Securitization Special Purpose Company III
INSTRUMENT NAME:	Specified Bonds Series 1
AMOUNT:	Yen 70,000,000,000
COUPON RATE:	To be confirmed
ISSUE DATE:	Aug 05, 2010
REDEMPTION DATE:	Aug 05, 2015
REDEMPTION METHOD:	Lump-sum redemption at maturity
UNDERLYING ASSETS:	Sumitomo Life Insurance Company <i>kikin</i> claims
LIQUIDITY ENHANCEMENT:	An agreement with Sumitomo Life Insurance Company for the establishment of a line of credit
ARRANGER:	Nomura Securities Co., Ltd.
SECURITIES TRUSTEE:	The Sumitomo Trust and Banking Co., Ltd.

R&I RATING: A- (Preliminary)

NOTE: The rating is an assessment of the probability that the principal of the specified bonds will be paid in full by the specific redemption date and the interest will be paid timely.

RATING METHODOLOGY:

The primary rating methodologies applied to this rating are:

April 2009

Rating Methodology for Single-Asset Securitized Products

July 2009

R&I's Analytical Approach to Hybrid Securities and Financial Institutions

The reports are available at R&I's website together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/sf/about/methodology/index.html>

<http://www.r-i.co.jp/jpn/sf/about/methodology/index.html>

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MECHANISM OF THE ISSUE:

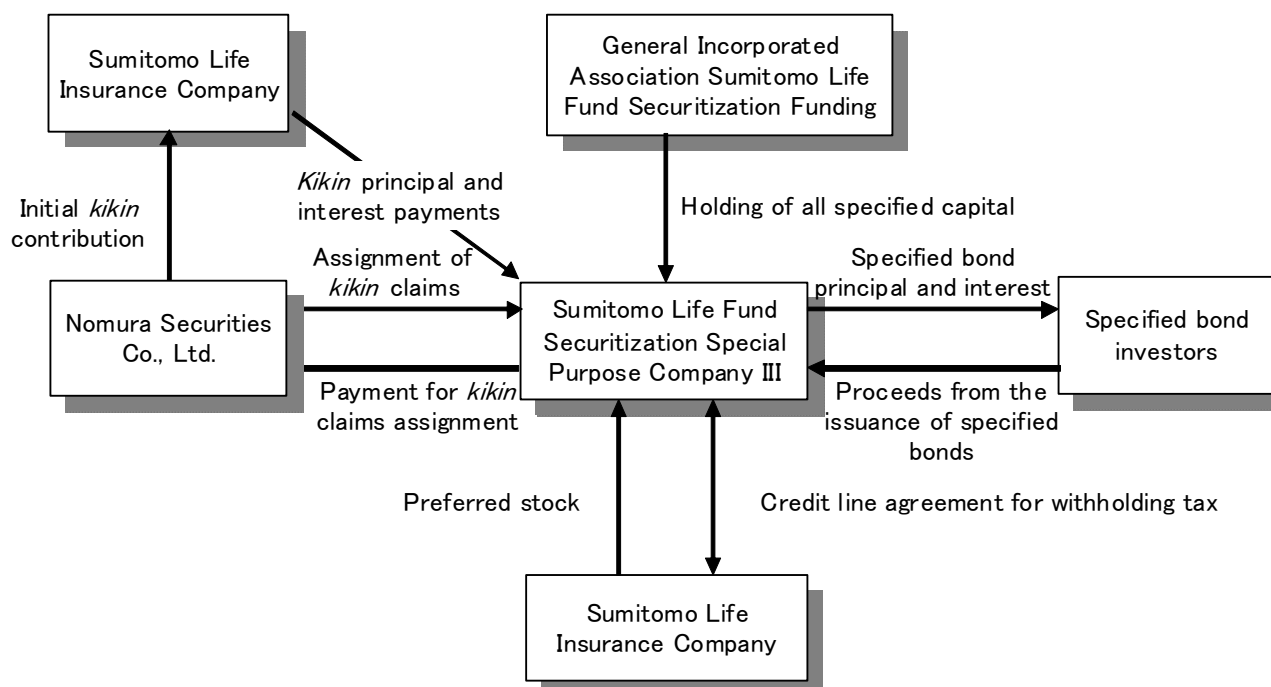
1. Sumitomo Life Fund Securitization Special Purpose Company III (Sumitomo Fund) is a tokutei mokuteki kaisha (special purpose company) established in Japan in accordance with the Law Regarding Securitization of Specified Assets by a Special Purpose Company (SPC Law). Its tokutei shusshi (specified capital) will be held by general incorporated association Sumitomo Life Fund Securitization Funding.
2. Nomura Securities Co., Ltd. (Nomura Securities) will contribute funds (*kikin*) of 70.0 billion yen to Sumitomo Life Insurance Company (Sumisei) on August 5 in accordance with a *kikin* contribution agreement.
3. On the day of the contribution, Nomura Securities will assign the claims on the aforementioned *kikin* to Sumitomo Fund in accordance with a *kikin* claims assignment agreement. At that time, the assignment will be perfected as against the obligor and any third party by obtaining unconditional written consent of Sumisei (the obligor with respect to the *kikin* claims) with a certified date of assignment of the *kikin* claims.
4. Sumitomo Fund will issue the Specified Bonds Series 1 (70.0 billion yen) with the *kikin* claims as underlying asset. Nomura Securities will receive the specified bond issuance proceeds as payment for assignment of the *kikin* claims.
5. Sumisei will pay interest on the *kikin* that constitutes the underlying asset once each year in August, and the principal will be redeemed in a lump sum at the end of the fifth year. Sumisei will make the principal and interest payments on the *kikin* claims three bank business days prior to the specified bond principal and interest payment dates. Sumisei's payment of the *kikin* principal and interest will be made by direct remittance to a deposit account in the name of Sumitomo Fund.
6. In accordance with the provisions of Article 55 of Japan's Insurance Business Law, it will be possible to defer the payment of *kikin* principal and interest. If the payment of *kikin* principal and interest is postponed, there will be a shortage of *kikin* for the payment of specified bond principal and interest, and an event of default on the specified bonds will occur after a designated period.
7. The *kikin* interest earned by Sumitomo Fund will be subject to withholding tax. Consequently, even in an instance when the payment of *kikin* interest has not been deferred, there could potentially be a shortfall in resources for timely payment of the specified bond interest on a particular coupon payment date. To mitigate the risk associated with this withholding tax, initial cash reserves are set, and Sumitomo Fund will enter into an agreement with Sumisei for the establishment of a line of credit.
8. In cases where Sumisei decides to demutualize into a joint-stock company and makes a request for early redemption of the *kikin* claims, Sumitomo Fund will consent to the early redemption of the *kikin* claims only when the Securities Trustee determines that resources for payment of a total of the designated redemption amount (no less than the outstanding principal balance) and accrued interest will be secured. In this case, Sumitomo Fund will make early redemption of the specified bonds.

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SCHEME DIAGRAM:



RATIONALE:

Based on its overall evaluation of the following points, R&I has assigned a preliminary rating of A- (single A minus) to the Specified Bonds Series 1.

1) Rating Assigned to Sumisei's *Kikin*

R&I currently evaluates the Insurance Claims Paying Ability of Sumisei as sufficient for a rating of A. Sumisei is one of the key members of the Sumitomo Group and among the four major life insurers in Japan, with more than 7 million policyholders. In addition to death protection, Sumisei has long focused on highly profitable living benefits products, such as nursing care insurance and medical care insurance. The company is working to shift away from major insurers' traditional business model by, for example, introducing a personnel evaluation system that emphasizes higher policy persistency rates and sales personnel retention rates, gaining more middle-aged and older customers, and promoting insurance sales through banks. Compared with other major insurers, Sumisei has a low stock holdings risk, and other asset management risks have also remained low. Furthermore, thanks to the accumulation of retained earnings from periodic profits, Sumisei has a risk resilience that satisfies the requirements for its rating.

A mutual company's *kikins* consist of funds from contributors as prescribed by the Insurance Business Law. These funds correspond to part of capital of a joint-stock company. For a mutual company, they are very similar to operational funds at the business start-ups. *Kikin* contributors are not entitled to participate in the management of operations. They earn interest, just as if they had made a loan, and the principal is returned to them on designated dates.

The recovery position for contributors' *kikins* ranks subordinate to that of policyholders' claims and all other obligations, not only in the event of mutual company's liquidation but also even in such circumstances as bankruptcy or corporate reorganization proceedings. Such *kikins* are shown as capital on a balance sheet. Although the *kikins* have an equity-like quality in this and other respects, from an economic perspective they are closer to being fixed-term debt at a designated rate of interest. Under Article 56 of the Insurance Business Law, when a mutual company repays any *kikin* contributions, it is also obligated to set aside an equivalent amount in a reserve for redemption of *kikin*. (This can be reversed according to the resolution of the General meeting of members.)

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According to the provisions of Article 55 of the Insurance Business Law, *kikin* interest payments and principal redemption cannot exceed a certain sum and will be deferred in the event of a shortfall. This maximum sum is equivalent to the amount remaining after the total amount of the *kikins* and other designated items, including net unrealized gains on securities, have been subtracted from the value of net assets. Nevertheless, in the case of mutual companies whose creditworthiness is relatively high, R&I evaluates their earnings capacity and solvency margin required for *kikin* interest payments and principal redemption will be assured. There are also other incentives to avoid deferral, considering its impact on future capital procurement and insurance policies. R&I accordingly believes the probability such mutual companies would defer interest payments and principal redemption is negligible.

A *kikin* rating is an assessment of the probability of the repayment of *kikin* principal on the date stipulated in the *kikin* contribution agreement and the timely payment of *kikin* interest. In light of the above mentioned characteristics of the *kikin*, R&I has confirmed the rating of the *kikin* Sumisei will procure in connection with this issue should be A-, a notch below the company's Insurance Claims Paying Ability. The down-notching may increase, however, if the rating of this insurer's claims paying ability slips to the BBB category or lower. R&I would make this adjustment to reflect such factors as the subordinated status of the *kikin* or the lien which the insurance debt has.

2) Mechanisms for Handling Withholding Tax Levied on *Kikin* Interest

The *kikin* interest earned by Sumitomo Fund will be subject to withholding tax. Consequently, even in an instance when the payment of *kikin* interest has not been deferred, there could potentially be a shortfall in resources for a timely specified bond coupon payment on a particular coupon payment date, thereby preventing the timely specified bond coupon payment that is defined for the rating.

The following mechanism will be adopted to counter the risk associated with this withholding tax. Prior to issuing a formal rating for this issue, R&I will receive and confirm Sumitomo Fund's tax advisor's written opinion.

a) Mechanism in connection with the first year's specified bond coupon payment

This structure is designed with the idea that any withholding tax deducted from *kikin* interest will be refunded, thereby resulting in zero taxable income each year for Sumitomo Fund, the special purpose company. However, the date on which tax withheld on *kikin* interest earned during the first year is refunded will come after the first year's specified bond coupon payment date.

The mechanism is such that a cash reserve set aside at the time of issuance will basically cover any shortfall in resources for the first year's specified bond coupon payment.

b) Mechanism in connection with specified bond coupon payments in the second and subsequent years

Kikin interest earned in the second year will be subject to the same rate of withholding tax as during the first year. However, the tax refund for the amount withheld from the first year's interest income is scheduled to be carried out prior to the second year's specified bond coupon payment date. Accordingly, it will be possible for not only the net *kikin* interest earned in the second year but also the refund of tax withheld during the first year to be allocated as resources to cover the second year's specified bond coupon payment. The same arrangement will also apply to specified bond coupon payments in the third and subsequent years.

By utilizing a mechanism that employs the previous year's tax refund as the source of funds for the next year's specified bond coupon payment, the availability of resources to cover specified bond coupon payments in the second and subsequent years is assured.

c) Agreement entered into with Sumisei for the establishment of a line of credit

The mechanism explained above in b) is based on various assumptions: (1) Sumitomo Fund's taxable income will always be zero and the amount of tax withheld will be fully refunded. (2) Tax refunds will be properly implemented and refunding of each year's withholding tax will be carried out prior to the date of the following year's specified bond coupon payment. (3) The rate of withholding tax will remain at the present level throughout the period prior to the issue's redemption. If these assumptions are not satisfied, there could potentially be a shortfall in resources for specified bond coupon payments.

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To counter such risk, Sumitomo Fund will enter into an agreement with Sumisei for the establishment of a line of credit. Usage of the funds covered by this agreement will be limited to two applications: covering a shortfall in resources to pay specified bond coupon because of the aforementioned withholding tax, and refinancing within this agreement for the establishment of a line of credit. Repayment of funds borrowed on the basis of this agreement will be subordinate to the specified bond principal and interest.

3) Arrangements for Covering Sumitomo Fund's Expenses

Sumitomo Fund's initial expenses will be covered by the preferred stock from Sumisei. Expenses during the term of the facility will be covered by using the spread between *kikin* interest and the specified bond interest.

4) Collection of fund principal and interest, and Deposit Account for Capital

Sumisei will remit *kikin* principal and interest payments by direct transfer to a deposit account in the name of Sumitomo Fund.

Sumitomo Fund's deposit account will initially be opened at The Sumitomo Trust and Banking Co., Ltd. (R&I Issuer Rating: A+), and thereafter will also be set up so that it meets requirements under R&I's rating methodologies.*

* For further details, please refer to "Eligible Deposit Accounts and Eligible Investment Instruments" (December 22, 2008).

5) Assignment of *Kikin* Claims

Nomura Securities will assign the *kikin* claims to Sumitomo Fund in accordance with an agreement for the assignment of the *kikin* claims. At that time, the assignment will be perfected as against the obligor and any third party by obtaining unconditional written consent of Sumisei with a certified date of assignment of the *kikin* claims.

6) Bankruptcy remoteness of Sumitomo Fund

Primarily for the reasons given below, R&I has evaluated the probability of a petition for bankruptcy in connection with Sumitomo Fund is low.

- a) Sumitomo Fund is a special purpose company established in Japan under the SPC Law, and its specified capital is wholly owned by the general incorporated association (holding corporation). The operation of the general incorporated association (holding corporation) is limited to the acquisition of interest in an SPC, etc., and the association is subject to the following (b) and (c).
- b) Directors of Sumitomo Fund are dispatched from Recolte.
- c) Parties to the scheme having a direct contractual relationship with Sumitomo Fund have waived their right to compulsory execution against any of the assets of Sumitomo Fund (excluding limited recourse loans subject to the rating) and pledged that they will not apply for bankruptcy against Sumitomo Fund.
- d) The operation of Sumitomo Fund is limited to those related to the issuance of the rated ABS.
- e) Sumitomo Fund will not bear any debts other than those related to this scheme.

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