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**MITSUI SUMITOMO INSURANCE COMPANY LIMITED - NEW ZEALAND BRANCH**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2010**

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**mitsui sumitomo insurance company limited - new zealand branch**  
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**FOR THE YEAR ENDED 31 MARCH 2010**

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**The Board of Directors is pleased to present the financial statements of Mitsui Sumitomo Insurance Company Limited - New Zealand Branch, incorporating the auditor's report for the year ended 31 March 2010.**

Mitsui Sumitomo Insurance Company Limited - New Zealand Branch  
**Income Statement**  
For the year ended 31 March 2010

	Notes	2010 \$	2009 \$
<b>Total Revenue</b>	1	<u>9,142,189</u>	<u>8,133,170</u>
Gross earned premium	2a	8,115,265	6,802,207
Reinsurance expense	3	<u>(2,101,230)</u>	<u>(2,257,196)</u>
<b>Net Premium Revenue</b>		<b>6,014,035</b>	<b>4,545,011</b>
<b>Claims Expense</b>	5	<b>(1,389,521)</b>	<b>(1,871,193)</b>
<b>Reinsurance and Other Recoveries</b>		<b>483,324</b>	<b>559,856</b>
<b>Net Claims Expense</b>		<u><b>(906,197)</b></u>	<u><b>(1,311,337)</b></u>
Commissions		(365,744)	(303,337)
Reinsurance commission income		<u>326,609</u>	<u>290,419</u>
<b>Net Acquisition Costs</b>		<b>(39,135)</b>	<b>(12,918)</b>
<b>Underwriting Result</b>		<u><b>5,068,703</b></u>	<u><b>3,220,756</b></u>
<b>Operating Expenses</b>	4	<b>(1,120,201)</b>	<b>(1,036,800)</b>
Investment income	2b	216,685	480,241
Sundry income		<u>306</u>	<u>446</u>
<b>Net Surplus Before Tax</b>		<b>4,165,493</b>	<b>2,664,643</b>
Taxation expense	6	<u>(1,309,533)</u>	<u>(800,143)</u>
<b>Profit for the Period</b>		<u><b>2,855,960</b></u>	<u><b>1,864,500</b></u>
Other comprehensive income for the period		-	-
<b>Total Comprehensive Income for the Period</b>		<u><b>2,855,960</b></u>	<u><b>1,864,500</b></u>

The above Income Statement should be read in conjunction with the accompanying notes.

Mitsui Sumitomo Insurance Company Limited - New Zealand Branch  
**Statement of Movement in Head Office Account**  
For the year ended 31 March 2010

	2010 \$	2009 \$
<b>Opening Head Office Balance</b>	<b><u>5,249,906</u></b>	<b><u>3,385,406</u></b>
Profit for the period	<u>2,855,960</u>	<u>1,864,500</u>
<b>Total comprehensive income for the period</b>	<b><u>2,855,960</u></b>	<b><u>1,864,500</u></b>
Repatriation of surplus funds to Head Office	<u>(1,200,000)</u>	<u>-</u>
<b>Closing Head Office Balance</b>	<b><u>6,905,866</u></b>	<b><u>5,249,906</u></b>

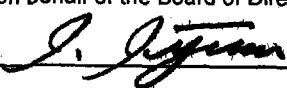
The above Statement of Movement in Head Office Account should be read in conjunction with the accompanying notes.

Mitsui Sumitomo Insurance Company Limited - New Zealand Branch  
**Balance Sheet**  
As at 31 March 2010

	Notes	2010 \$	2009 \$
<b>Assets</b>			
Cash and Cash Equivalents		8,676,875	6,660,867
Investment in Government Stock	8	517,463	525,925
Premium Receivables		1,450,624	1,879,682
Taxation Receivable		-	67,444
Reinsurance Recoveries	19	199,438	703,265
Other Current Assets	7	405,826	397,375
Deferred Tax Asset	14	-	67,267
Property, Plant and Equipment	9	19,590	30,245
<b>Total Assets</b>		<b>11,269,816</b>	<b>10,332,070</b>
<b>Liabilities</b>			
Accounts Payable	12	293,764	421,815
Reinsurance Payable		160,073	116,202
Other Current Liabilities	13	91,933	143,341
Outstanding Claims Liability	10	1,069,257	2,388,400
Unearned Premium Reserve	11	2,047,330	1,947,095
Taxation Payable		460,049	-
Due to Related Parties	17	214,254	65,311
Deferred Tax Liability	14	27,290	-
<b>Total Liabilities</b>		<b>4,363,950</b>	<b>5,082,164</b>
<b>Net Assets</b>		<b>6,905,866</b>	<b>5,249,906</b>
<b>Head Office Account</b>		<b>6,905,866</b>	<b>5,249,906</b>

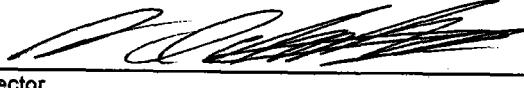
The above Balance Sheet should be read in conjunction with the accompanying notes.

For and on behalf of the Board of Directors

  
Director

30 AUG 2010

Date

  
Director

30 AUG 2010

Date

## Reporting Entity

The financial statements are for Mitsui Sumitomo Insurance Company Limited - New Zealand Branch. The Branch's ultimate parent company is MS & AD Insurance Group Holdings, Inc. The "Branch" is a branch of Mitsui Sumitomo Insurance Company Limited "the Company", a company incorporated in Japan and an overseas company registered under the Companies Act 1993. The Branch provides insurance both directly to other entities and through reinsurance arrangements. The Branch's principal place of business is Vero Centre, 48 Shortland Street, Auckland, New Zealand. These Branch financial statements should be read in conjunction with the full financial statements of the overseas company.

The financial statements of the Branch are for the year ended 31 March 2010. The financial statements were authorised for issue by the Directors on the 30<sup>th</sup> of August 2010.

## Basis of Preparation

### Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate to profit-oriented entities that qualify for and apply differential reporting concessions. The Branch is a profit-orientated entity. The Branch is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

The Branch qualifies for differential reporting exemptions as it has no public accountability, and the Branch is governed by its head office. All available reporting exemptions allowed under the Framework for Differential Reporting have been adopted except as stated below.

### NZ IAS 12 Income Taxes

### Changes in Accounting Standards

The Accounting policies adopted are consistent with those of the previous reporting period:

The Branch has adopted the following new and amended NZ IFRS interpretations as of 1 April 2009:

- Revised NZ IAS 1: Presentation of Financial Statements
- NZ IFRS 7 Amendment: Financial Instruments Disclosures
- NZ IFRS 4: Insurance Contracts and consequential amendments to the Differential Reporting Framework

Adoption of these revised standards did not have any material effect on the financial performance or position of the Branch. They did however give rise to additional disclosures as noted below.

The principal effects of these changes are as follows:

**Revised NZ IAS 1: Presentation of Financial Statements** separated owner and non-owner changes in equity requiring all owner changes in equity to be presented in a statement of changes in equity, and all non-owner changes either in one statement of comprehensive income or in two separate statements, which are an income statement and a statement of comprehensive income. The previous standard required components of comprehensive income to be presented in the statement of changes in equity. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed.

The Branch has elected to present comprehensive income in one separate statement of comprehensive income.

**NZ IFRS 7 Amendment: Financial Instruments Disclosures** requires an entity to provide a quantitative and qualitative analysis of those instruments recognised at fair value based on a three-level measurement hierarchy and additional disclosures regarding significant transfers between the fair value hierarchy categories.

In accordance with the Amendments to NZ IFRS 4 "Insurance Contracts - The scope of insurance activities and differential reporting concessions" (NZ IFRS 4) which are effective for annual periods beginning on or after 1 January 2009, these financial statements include disclosures for the first time, including disclosures on credit risk, liquidity risk and market risk. The adoption of the amendments to NZ IFRS 4 resulted in additional disclosures, there being no change to amounts recorded in the financial statements either in the current or prior period.

#### **Critical Accounting Estimates**

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Branch's accounting policies. The areas involving a higher degree of judgment or complexity, or in areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 24. The Branch makes estimates and assumptions in respect to certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### **Basis of Measurement**

The financial statements have been prepared on the historical cost basis, as modified by certain exceptions noted in the financial statements, with the principal exception being the measurement of investments at fair value and the measurement of the outstanding claims liability and related reinsurance recoveries as set out below.

#### **Presentation and Functional Currency**

The Branch's functional currency is New Zealand dollars (\$). These financial statements are presented in New Zealand dollars (\$).

#### **Changes in Accounting Policies**

The accounting policies have been consistently applied to all periods presented in these financial statements.

#### **Insurance Contracts**

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain insured event adversely affects the policyholder. The insurance activities of the Branch all arise from general insurance contracts.

#### **Premium Revenue**

Direct premium comprises amounts charged to the policyholders and reinsurance premium comprises amounts charged to other insurers (inward reinsurance) net of fire service and earthquake levies collected on behalf of the Government. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium is earned from the date of attachment of risk, over the contract period based on the pattern of risks underwritten. Unearned premium is determined using the 365ths method.

#### **Outwards Reinsurance Expense**

Premium ceded on reinsurance is recognised as an expense from the date of attachment of risk over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. A portion of outwards reinsurance premium is treated as deferred reinsurance premium and recognised over the period of reinsurance cover.

Reinsurance premium expense on catastrophe and single risk reinsurance is determined on a straight line basis over the financial year based upon a predetermined level of cover, which is periodically adjusted to reflect the actual level of cover.

### **Reinsurance Commission Income**

Reinsurance commission income is earned on business ceded to reinsurers. Commission income is recognised as the service is performed.

### **Claims Expense**

Claims expense represents payments made on claims and the movement in the outstanding claims liability as described below.

### **Outstanding Claims Liability**

The central estimate of outstanding claims liabilities is the best estimate of the present value of future projected claims payments and associated claim handling costs in respect of claims reported but not yet paid, claims incurred but not reported ("IBNR") and claims incurred but not enough reported ("IBNER").

Standard actuarial methods are applied to all classes of business to assess the central estimate of outstanding claims liabilities. Features and trends of claims experience including claim frequencies, average claim sizes and individual claim estimates are analysed and assumptions about the future are selected.

A risk margin is added to the central estimate in determining the outstanding claims liabilities. The risk margin is designed to increase the probability of the outstanding claims liabilities proving ultimately to be adequate.

### **Liability Adequacy Testing**

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

A liability adequacy test is performed at each balance sheet date to assess whether there are any deficiencies in the unearned premium reserve due to expected future claims and claims costs. The amount of these expected future claims is estimated using the present value of future claims and expenses plus an additional risk margin to reflect the inherent uncertainty in those estimated cashflows. This is compared to the unearned premium reserve and deferred acquisition costs. Any deficiency is recognised in the Income Statement after first writing down any deferred acquisition costs. Any shortfall after having written down acquisition costs is then recognised in the Income Statement with the corresponding amount recognised in the Balance Sheet as an unexpired risk liability.

The liability adequacy test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio. No deficiency was identified as at 31 March 2010 (2009: Nil).

### **Reinsurance Recoveries**

Reinsurance recoveries are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to initial recognition, reinsurance recoveries are measured at amortised cost less impairment. A reinsurance asset is impaired if there is objective evidence as a result of an event that occurred after initial recognition of the asset that the amounts due may not be received and the amount can be reliably measured. Any impairment is recognised in the Income Statement.

### **Acquisition Costs**

Acquisition costs incurred in obtaining and recording insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in the Income Statement in subsequent reporting periods. Deferred acquisition costs are measured at the lower of cost and recoverable amount. Deferred acquisition costs are amortised in accordance with the expected pattern of incidence of risk under the insurance contract to which they relate.

## Tax

Income tax expense comprises current and deferred tax and is recognised in the Income Statement. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## Goods and Services Tax (GST)

The Income Statement has been prepared so that all components are stated exclusive of GST. All items in the Balance Sheet are stated exclusive of GST, with the exception of receivables and payables, which include GST invoiced.

## Foreign Currency Transactions

Transactions in foreign currencies that are settled in the accounting period are translated at the settlement rate. Transactions in foreign currency that are not settled in the accounting period, resulting in monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated to NZD at the foreign exchange rate ruling at that date. Foreign exchange differences arising on their translation are recognised in the Income Statement.

## Cash and Cash Equivalents

Cash and cash equivalents comprises cash balances on call at bank and cash deposits with an original maturity of ninety days or less.

## Financial Assets

Financial assets have been classified as follows;

Asset	NZ IAS 39 Classification	Measurement basis
Investments	Designated Fair Value through Profit or Loss	Measured at fair value with changes recognised through profit or loss
Premium receivable	Loans and receivables	Amortised cost less impairment
Reinsurance recoveries	Loans and receivables	Amortised cost less impairment
Due from related parties	Loans and receivables	Amortised cost less impairment
Cash and cash equivalents	Loans and receivables	Amortised cost less impairment
Other current assets	Loans and receivables	Amortised cost less impairment

Financial instruments are recognised when the Branch becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Branch's contractual rights to the cash flows from the financial assets expire or if the Branch transfers the financial assets to another party without retaining control or substantially all risks and rewards of the asset.

Financial assets are recognised initially at fair value plus, for assets not at fair value through profit or loss, any directly attributable transaction costs.

Government stock has been designated at fair value through profit and loss as it is held to match the average duration of a corresponding insurance liability as assets backing general insurance liabilities. The fair value of government stock is established by reference to quoted bid prices. Interest income is recognised in the Income Statement using the effective interest rate method.

The Branch also has term deposits which back general insurance liabilities. Term deposits are included in cash and cash equivalents, and measured at amortised cost less impairment, which is a reasonable approximation of fair value due to their short-term nature. Term deposits have a carrying value at year end of \$7,200,000 (2009: \$6,100,000).

#### **Property, Plant and Equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Depreciation is charged to the Income Statement and is recognised on a straight line basis over the useful life of the asset at the following rates:

Motor vehicles	22%
Office equipment	36%

The carrying value of assets are assessed annually for indications of impairment.

#### **Premium Receivables**

Premium receivables are recognised in the Balance Sheet at their estimated realisable value after providing for non-payment of premiums in respect of those policies expected to lapse. The collectability of debtors is assessed and provision is made with regard to past experience.

#### **Financial Liabilities**

Financial Liabilities comprise trade and other payables. Financial liabilities are measured at amortised cost.

#### **Impairment**

The carrying amounts of the Branch's assets are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the Income Statement. The estimated recoverable amount of receivables is the present value of estimated future cash flows discounted at the original effective interest rate.

Estimated recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### **Head Office Account**

The Branch equity in the form of a Head Office Account represents accumulated retained earnings. As a Branch there are no externally imposed capital restrictions to which the Branch must adhere.

	2010	2009
	\$	\$
<b>1 Total Revenue</b>		
This comprises:		
Gross written premium	8,215,500	7,447,081
Change in unearned premium provision	(100,235)	(644,874)
<b>Gross Earned Premium</b>	<b>8,115,265</b>	<b>6,802,207</b>
Reinsurance commission income	326,609	290,419
Reinsurance and other recoveries	483,324	559,857
<b>Reinsurance Income</b>	<b>809,933</b>	<b>850,276</b>
Investment income	216,685	480,241
Sundry income	306	446
<b>Total Revenue</b>	<b>9,142,189</b>	<b>8,133,170</b>
<b>2(a) Premium Revenue</b>	<b>\$</b>	<b>\$</b>
Direct	7,987,813	6,223,839
Reinsurance	127,452	578,368
<b>Total Gross Earned Premium</b>	<b>8,115,265</b>	<b>6,802,207</b>
<b>2(b) Investment Income</b>		
Financial assets at fair value through profit or loss (designated upon initial recognition)		
Interest income	30,000	30,000
Change in fair value	(8,463)	32,743
Cash and cash equivalents interest income	195,148	417,498
<b>Total Investment Income</b>	<b>216,685</b>	<b>480,241</b>
<b>3 Reinsurance Expense</b>	<b>\$</b>	<b>\$</b>
Outward reinsurance premium expense	(2,119,623)	(2,069,121)
Change in unearned reinsurance premium provision	18,393	(188,075)
	<b>(2,101,230)</b>	<b>(2,257,196)</b>
<b>4 Operating Expenses</b>	<b>\$</b>	<b>\$</b>
Management fee	723,899	653,679
Fees paid to auditors:		
audit	36,000	32,500
audit related	4,100	4,100
tax	12,941	5,965
Depreciation	10,963	8,287
Other expenses	332,298	332,270
<b>Total operating expenses</b>	<b>1,120,201</b>	<b>1,036,800</b>

	2010 \$	2009 \$
<b>5 Claims Expense</b>		
Direct	1,389,402	1,869,963
Reinsurance	119	1,230
	<u>1,389,521</u>	<u>1,871,193</u>

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial years.

	Current Year \$	Prior Years \$	Total \$
<b>2010</b>			
Gross claims incurred	1,648,800	(259,279)	1,389,521
Reinsurance and other recoveries	(342,000)	(141,324)	(483,324)
Net claims incurred	<u>1,306,800</u>	<u>(400,603)</u>	<u>906,197</u>

	Current Year \$	Prior Years \$	Total \$
<b>2009</b>			
Gross claims incurred	1,264,000	607,193	1,871,193
Reinsurance and other recoveries	(254,000)	(305,856)	(559,856)
Net claims incurred	<u>1,010,000</u>	<u>301,337</u>	<u>1,311,337</u>

	2010 \$	2009 \$
Outstanding claims liability at 1 April	2,388,400	1,272,984
Claims reassessed	(259,279)	607,193
Claims paid	(2,708,664)	(693,779)
New claims	<u>1,648,800</u>	<u>1,202,002</u>
Outstanding claims liability at 31 March	<u>1,069,257</u>	<u>2,388,400</u>

The outstanding claims liability is based on best available information at the time the financial statements are signed. Subsequent information or action can affect the amount ultimately settled on a claim.

The amount and timing of claims payments is typically resolved within one year. The prior year's assessment shown above relates predominately to claims occurring in the immediately preceding financial year.

The reassessment of prior years claims in 2009 and 2010 resulted in a net debit to the Income Statement.

	2010	2009
	\$	\$
<b>6 Taxation Expense</b>		
<b>Current tax expense</b>		
Current period	1,214,976	851,534
<b>Deferred tax expense</b>		
Origination and reversal of timing differences	94,557	(51,391)
<b>Total Income Tax Expense</b>	<b>1,309,533</b>	<b>800,143</b>

**Reconciliation of effective tax rate**

Profit before tax	4,165,493	2,664,643
Income tax at Branch tax rate (30%)	1,249,648	799,393
Non deductible expenses	885	750
Prior period under provision	16,500	-
Other	42,500	-
<b>Total Income Tax Expense</b>	<b>1,309,533</b>	<b>800,143</b>

	2010	2009
	\$	\$
<b>7 Other Current Assets</b>		
Accrued income	28,167	36,315
Deferred acquisition costs	146,966	148,775
Prepaid reinsurance premium	210,658	192,265
Prepaid expenses	20,035	20,020
	<b>405,826</b>	<b>397,375</b>

	2010	2009
	\$	\$
Deferred acquisition costs at 1 April	148,775	97,080
Acquisition costs deferred	363,935	355,032
Amortisation charged to Income Statement	(365,744)	(303,337)
Deferred acquisition costs at 31 March	<b>146,966</b>	<b>148,775</b>

	2010	2009
	\$	\$
<b>8 Investments in Government Stock</b>		
Fixed income securities - New Zealand Government Stock	<b>517,463</b>	<b>525,925</b>

**9 Property, Plant and Equipment**

Cost	Motor vehicles \$	Office equipment \$	Total \$
Balance at 1 April 2008	32,589	4,930	37,519
Additions	-	30,215	30,215
Balance at 31 March 2009	<b>32,589</b>	<b>35,145</b>	<b>67,734</b>
Balance at 1 April 2009	32,589	35,145	67,734
Additions	-	308	308
Balance at 31 March 2010	<b>32,589</b>	<b>35,453</b>	<b>68,042</b>

	<b>Motor vehicles \$</b>	<b>Office equipment \$</b>	<b>Total \$</b>
<b>Accumulated depreciation</b>			
Balance at 1 April 2008	26,983	2,219	29,202
Charge for the year	5,606	2,681	8,287
Balance at 31 March 2009	32,589	4,900	37,489
Balance at 1 April 2009	32,589	4,900	37,489
Charge for the year	-	10,963	10,963
<b>Balance at 31 March 2010</b>	<b>32,589</b>	<b>15,863</b>	<b>48,452</b>

**Carrying amounts**

At 1 April 2008	5,606	2,711	8,317
At 31 March 2009	-	30,245	30,245
At 1 April 2009	-	30,245	30,245
<b>At 31 March 2010</b>	<b>-</b>	<b>19,590</b>	<b>19,590</b>

	<b>2010 \$</b>	<b>2009 \$</b>
<b>10 Outstanding Claims Liability</b>		
Central estimate of outstanding claims liabilities	877,257	1,978,400
Risk margin	136,000	319,000
Claims handling expense	56,000	91,000
	<b>1,069,257</b>	<b>2,388,400</b>

No discounting has been applied as the weighted average expected term to settlement of outstanding claims is estimated to be less than one year.

The risk margin takes into account uncertainty within the estimates of outstanding claims for each type of risk insured and applying an allowance for diversification across the portfolio. The percentage risk margin adopted is 23% (2009: 16%).

**Insurance contract assumptions**

The risk margin adopted in determining the outstanding claims liability is \$136,000.00 (2009: \$319,000.00). This is intended to achieve a provision which will have a 75% probability of adequacy (2009: 75%).

	<b>2010 \$</b>	<b>2009 \$</b>
<b>11 Unearned Premium Reserve</b>		
Unearned premium liability	2,047,330	1,947,095
	<b>2010 \$</b>	<b>2009 \$</b>
Unearned premium liability at 1 April	1,947,095	1,302,221
Deferral of premium on contracts written at year end	2,047,330	1,947,095
Prior year premium earned	(1,947,095)	(1,302,221)
<b>Unearned premium liability at 31 March</b>	<b>2,047,330</b>	<b>1,947,095</b>

### Liability adequacy test

A liability adequacy test was performed as at 31 March 2010 and 31 March 2009. Both tests identified a surplus. The tests were based on the following assumptions:

	2010 \$	2009 \$
Premium available to meet expected claims cost	1,621,000	1,390,000
Expected claims cost	727,000	781,000
Component of present value of expected future cash flows relating to the risk margin	85,000	73,000
The percentage risk margin adopted in determining the present value of expected future cashflows (%)	12%	9%
The probability of adequacy intended to be achieved through adoption of the risk margin (%)	75%	75%

The risk margin takes into account uncertainty within the estimates of outstanding claims for each type of risk insured and applying an allowance for diversification across the portfolio.

12 Accounts Payable	2010 \$	2009 \$
GST payable	61,300	98,976
Trade creditors and accruals	180,560	182,521
Government levies	51,904	140,319
	293,764	421,816

13 Other Current Liabilities	2010 \$	2009 \$
Unearned reinsurance commission	40,993	40,051
Non-resident withholding tax	50,940	103,290
	91,933	143,341

### 14 Deferred Tax

Deferred tax assets and liabilities are attributable to the following:

2010	Assets \$	Liabilities \$	Total \$
Provisions	16,800	-	16,800
Other items	-	(44,090)	(44,090)
Total	16,800	(44,090)	(27,290)
2009	Assets \$	Liabilities \$	Total \$
Provisions	147,900	(36,000)	111,900
Other items	-	(44,633)	(44,633)
Total	147,900	(80,633)	67,267

All deferred tax is recognised in the Income Statement.  
There are no deferred tax assets that have not been recognised.

## 15 Financial Reporting by Segments

The branch operates as a fire and general insurer and reinsurer within New Zealand.

## 16 Capital Commitments

There are no capital commitments at balance date (2009: Nil).

## 17 Related Party Information

The Branch has a related party relationship with its parent entity, other group entities and its directors and executive officers. The Branch has had a number of transactions during the year with the Head Office of the Company. These transactions relate to the outward reinsurance of certain business written in New Zealand, including reinsurance premiums, reinsurance claims and reinsurance commission earned.

	2010 \$	2009 \$
Transactions with Head Office:		
Reinsurance premiums	426,931	177,542
Reinsurance recoveries	(105,998)	(12,842)
Reinsurance commission earned	(127,751)	(52,831)
Other expense paid/ recharged	(12,805)	(4,400)
	<u>180,377</u>	<u>107,469</u>

Outstanding balance with Head Office:

Due to related parties	214,254	65,311
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All the related party outstanding balances are not secured and are repayable on demand. The balances are non-interest bearing.

## 18 Credit Rating

Mitsui Sumitomo Insurance Company Limited – New Zealand Branch has received an AA- credit rating from Standard and Poor's dated 26 March 2010. The credit rating is an indication of the Branch's current and future claims paying ability.

## 19 Reinsurance Recoveries

	2010 \$	2009 \$
Reinsurance recoveries arising from claims	<u>199,438</u>	<u>703,265</u>
	<u>199,438</u>	<u>703,265</u>

	2010 \$	2009 \$
Reinsurance and other recoveries receivable at 1 April	703,265	314,534
Recoveries on claims reassessed	141,324	305,856
Recoveries received	(987,151)	(109,126)
Recoveries on new claims	<u>342,000</u>	<u>192,001</u>
Reinsurance and other recoveries receivable at 31 March	<u>199,438</u>	<u>703,265</u>

Reinsurance is purchased to make the Branch's results more predictable by reducing the effect that individual large claims, and catastrophic events that lead to multiple claims, have on results. The majority of reinsurance is arranged using a combination of facultative or excess of loss treaty arrangements.

## 20 Solvency

The Branch retains a level of funds which enables it to maintain a solvency margin sufficient to retain a 'very strong' claims paying ability.

## 21 Events Occurring After Reporting Date

There are no matters past Balance Sheet date that has significantly affected, or may significantly affect the Branch's operations, the results of these operations for the year ended 31 March 2010 or the Branch's financial position as at 31 March 2010.

Since 31 March 2010 the Government has announced that the company tax rate will reduce from 30% to 28% effective for years beginning on or after 1 April 2011. This has no financial effect in the financial statements for the year ended 31 March 2010.

## 22 Financial Risk Management

The Branch's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The Branch's overall risk management program is based on the defined risk appetite of the Branch. Further, the Branch seeks to optimise the risk/return profile of its assets and liabilities taking into account market fluctuations. The Branch invests in government stocks, term deposits and it holds a call account. The Branch regularly monitors the performance and compliance of the investment portfolio. The Branch's exposure to credit risk, liquidity risk and market risk are detailed below:

### (a) Credit risk

Credit risk is the risk of loss from a counterparty failing to meet their obligations. The Branch's credit risk arises predominantly from investment activities, reinsurance activities and dealings with intermediaries. The maximum exposure to credit risk is the fair value of individual financial assets. The Branch does not hold collateral.

Management limits fixed income credit risk by setting high requirements on the credit worthiness of debtors. The Branch has a credit risk procedure in place to manage the exposure to insurance contract related credit risk which is monitored on an ongoing basis. It is the Branch's practice not to place insurance with reinsurers valued below a Standard & Poors A rating. The credit terms for the settlement of premiums in New Zealand is 90 days.

This year and in the prior year, the Branch has a concentration of credit risk with ANZ National Bank Limited, which represents all cash and cash equivalents held.

The table below provides information regarding the credit risk exposure of the Branch by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. These credit ratings are grouped in accordance with the specifications outlined by the Standard & Poor's Ratings Services.

	Credit Rating				Total
	AAA	AA	A	Not Rated	
2010	\$	\$	\$	\$	\$
Cash and Cash Equivalents	-	8,676,875	-	-	8,676,875
Premium Receivables	-	-	-	1,450,624	1,450,624
Reinsurance Recoveries	-	-	199,438	-	199,438
Investment in Government Stock	517,463	-	-	-	517,463
Other Current Assets - Accrued Income	11,096	17,071	-	-	28,167
<b>Total</b>	<b>528,559</b>	<b>8,693,946</b>	<b>199,438</b>	<b>1,450,624</b>	<b>10,872,567</b>

Mitsui Sumitomo Insurance Company Limited - New Zealand Branch  
**Notes to the Financial Statements**  
For the year ended 31 March 2010

	AAA	AA	A	Not Rated	Total
	\$	\$	\$	\$	\$
<b>2009</b>					
Cash and Cash Equivalents	-	6,660,867	-	-	6,660,867
Premium Receivables	-	-	-	1,879,682	1,879,682
Reinsurance Recoveries	-	-	703,265	-	703,265
Investment in Government Stock	525,925	-	-	-	525,925
Other Current Assets - Accrued Income	11,096	25,219	-	-	36,315
<b>Total</b>	<b>537,021</b>	<b>6,686,086</b>	<b>703,265</b>	<b>1,879,682</b>	<b>9,806,054</b>

As at 31 March 2010 there are no assets that are past due or impaired (2009: Nil).

(b) Liquidity risk

The Branch has processes in place to monitor and forecast the liquidity position. The Branch aims to maintain sufficient funds at all times to meet the needs of the Branch's operations. In addition to treasury cash held for working capital requirements the Branch may hold additional liquid, term deposits to ensure there are sufficient funds available to meet obligations.

The table below analyses the Branch's financial assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal carrying balances, as the impact of discounting is not significant.

	Maturing in:				Total
	0 - 1 Year	1 - 2 Years	2 - 3 Years	No Term	\$
	\$	\$	\$	\$	\$
<b>2010</b>					
<b>Financial Assets</b>					
Cash and Cash Equivalents	8,676,875	-	-	-	8,676,875
Premium Receivables	1,450,624	-	-	-	1,450,624
Reinsurance Recoveries	199,438	-	-	-	199,438
Investment in Government Stock	18,904	518,750	-	-	537,654
Other Current Assets - Accrued Income	28,167	-	-	-	28,167
<b>Total</b>	<b>10,374,008</b>	<b>518,750</b>	<b>-</b>	<b>-</b>	<b>10,892,758</b>

<b>Financial Liabilities</b>					
Outstanding Claims Liability	1,069,257	-	-	-	1,069,257
Due to Related Parties	-	-	-	214,254	214,254
Reinsurance Payable	160,073	-	-	-	160,073
Accounts Payable - Trade Creditors and Accruals	180,560	-	-	-	180,560
<b>Total</b>	<b>1,409,890</b>	<b>-</b>	<b>-</b>	<b>214,254</b>	<b>1,624,144</b>

	Maturing in:				Total
	0 - 1 Year	1 - 2 Years	2 - 3 Years	No Term	\$
	\$	\$	\$	\$	\$
<b>2009</b>					
<b>Financial Assets</b>					
Cash and Cash Equivalents	6,660,867	-	-	-	6,660,867
Premium Receivables	1,879,682	-	-	-	1,879,682
Reinsurance Recoveries	703,265	-	-	-	703,265
Investment in Government Stock	18,904	30,000	518,750	-	567,654
Other Current Assets - Accrued Income	36,315	-	-	-	36,315
<b>Total</b>	<b>9,299,033</b>	<b>30,000</b>	<b>518,750</b>	<b>-</b>	<b>9,847,783</b>

**Financial Liabilities**

Outstanding Claims Liability	2,388,400	-	-	-	2,388,400
Due to Related Parties	-	-	-	65,311	65,311
Reinsurance Payable	116,202	-	-	-	116,202
Accounts Payable - Trade Creditors and Accruals	182,521	-	-	-	182,521
<b>Total</b>	<b>2,687,123</b>	<b>-</b>	<b>-</b>	<b>65,311</b>	<b>2,752,434</b>

(c) Market risk

Market risk is the risk that the fair value or future cash flows of the Branch's income will fluctuate because of changes in market factors. Market risk comprises three types of risk: currency risk (due to fluctuations in foreign exchange rates), interest rate risk (due to fluctuations in market interest rates) and price risk (due to fluctuations of market prices).

(i) Currency risk

Currency risk is the risk of cash flow uncertainty that may arise from a movement in foreign exchange rates to which the Branch may be exposed. The Branch is not exposed to currency risk as its transactions are in New Zealand dollars.

(ii) Price risk

The Branch does not hold any securities that expose the Branch to price risk, or commodity price risk.

(iii) Interest rate risk

The exposure to interest rate risk results from the holding of financial assets in the normal course of business. Fixed interest rate assets create exposure to fair value interest rate risk which is market risk. Financial assets with floating interest rates create exposure to cashflow interest rate risk. The Branch does not discount its liability for outstanding claims given the short-tail nature of the business written, and therefore outstanding claims are not exposed to interest rate risk. Movements in market interest rates affect the value of fixed interest rate assets.

The following summarises the sensitivity of the Branch's interest bearing financial assets and financial liabilities to interest rate risks.

**Cashflow Sensitivity Analysis for Floating Rate Instruments**

	Interest Rate Risk		
		-1%	+1%
2010	Carrying Amount \$	Profit/Equity \$	Profit/Equity \$
<b>Financial Assets</b>			
Cash and Cash Equivalents	8,676,875	(86,769)	86,769
<b>Total Financial Assets</b>	<b>8,676,875</b>	<b>(86,769)</b>	<b>86,769</b>
<b>Net Financial Assets</b>	<b>8,676,875</b>	<b>(86,769)</b>	<b>86,769</b>

	Carrying Amount \$	Profit/Equity \$	Profit/Equity \$
<b>2009</b>			
<b>Financial Assets</b>			
Cash and Cash Equivalents	6,660,867	(66,609)	66,609
Total Financial Assets	6,660,867	(66,609)	66,609
<b>Net Financial Assets</b>	6,660,867	(66,609)	66,609

**Fair Value Sensitivity Analysis for Fixed Rate Instruments**

		Interest Rate Risk	
		-1%	+1%
	Carrying Amount	Profit/Equity	Profit/Equity
	\$	\$	\$
2010			
Financial Assets			
Investment in Government Stock	517,463	(5,175)	5,175
Total Financial Assets	517,463	(5,175)	5,175
Net Financial Assets	517,463	(5,175)	5,175

	Carrying Amount \$	Profit/Equity \$	Profit/Equity \$
<b>2009</b>			
<b>Financial Assets</b>			
Investment in Government Stock	525,925	(5,259)	5,259
Total Financial Assets	525,925	(5,259)	5,259
<b>Net Financial Assets</b>	525,925	(5,259)	5,259

**Analysis of Financial Assets/Liabilities**

The analysis of financial assets and liabilities into their categories and classes are set out in the following table.

	Total \$	Loans and Receivables \$	Fair Value through Profit and Loss \$
<b>2010</b>			
<b>Financial Assets</b>			
Cash and Cash Equivalents	8,676,875	8,676,875	-
Premium Receivables	1,450,624	1,450,624	-
Reinsurance Recoveries	199,438	199,438	-
Investment in Government Stock	517,463	-	517,463
Other Current Assets - Accrued Income	28,167	28,167	-
<b>Total</b>	<b>10,872,567</b>	<b>10,355,104</b>	<b>517,463</b>

	<b>Total</b>	<b>Fair Value through Profit and Loss</b>	<b>Financial Liabilities at amortised cost</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial Liabilities</b>			
Reinsurance Payable	160,073	-	160,073
Due to Related Parties	214,254	-	214,254
Outstanding Claims Liability	1,069,257	-	1,069,257
Accounts Payable - Trade Creditors and Accruals	180,560	-	180,560
<b>Total</b>	<b>1,624,144</b>	<b>-</b>	<b>1,624,144</b>

	<b>Total</b>	<b>Loans and Receivables</b>	<b>Fair Value through Profit and Loss</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2009</b>			
<b>Financial Assets</b>			
Cash and Cash Equivalents	6,660,867	6,660,867	-
Premium Receivables	1,879,682	1,879,682	-
Reinsurance Recoveries	703,265	703,265	-
Investment in Government Stock	525,925	-	525,925
Other Current Assets - Accrued Income	36,315	36,315	-
<b>Total</b>	<b>9,806,054</b>	<b>9,280,129</b>	<b>525,925</b>

	<b>Total</b>	<b>Fair Value through Profit and Loss</b>	<b>Financial Liabilities at amortised cost</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial Liabilities</b>			
Reinsurance Payable	116,202	-	116,202
Due to Related Parties	65,311	-	65,311
Outstanding Claims Liability	2,388,400	-	2,388,400
Accounts Payable - Trade Creditors and Accruals	182,521	-	182,521
<b>Total</b>	<b>2,752,434</b>	<b>-</b>	<b>2,752,434</b>

Government Stock relates to \$500,000 held by the Public Trust as an Insurance security deposit (2009: \$500,000).

#### **Fair Value of Financial Instruments**

**Determination of fair value of financial instruments carried at fair value**

Fair values are determined according to the following hierarchy:

##### **Level 1 - quoted market price**

Financial instruments with quoted prices for identical instruments in active markets.

##### **Level 2 - valuation technique using observable inputs**

Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 - valuation technique with significant unobservable inputs

Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

The fair value measurement of the investment in Government Stock is classified as level 1 one the above hierarchy. After other financial assets and liabilities are not measured at fair value through profit or loss, however, due to their short-term nature their carrying amount is a reasonable approximation of fair value.

## 23 Insurance Risk

The Branch has insurance contracts which transfer insurance risk from the policyholder to the Branch.

The insurance risk taken on by the Branch is the possibility that an insured event occurs, when that event will occur and the uncertainty surrounding the amount of any resulting claim. These risks are unpredictable. The Branch has estimated in these financial statements the likely amounts which are expected to be paid out both in respect of claims incurred and expected future claims. The Branch is therefore at risk that the carrying amounts of insurance liabilities and assets recognised in the financial statements will be exceeded by the amount of the actual claim. This could occur when there are more claims than expected or where a claim is of a greater severity than expected.

The Branch has an underwriting process in place with set approval limits. The process is reviewed constantly.

The profit and loss is not sensitive to changes in the weighted average term to settlement, inflation rate, nor discount rate due to the short term nature of the business written. If the length of the average term to settlement was longer this would have an effect on the results.

### (a) Concentration of insurance risk

The Branch's exposure is throughout New Zealand market. Specific processes for monitoring identified concentrations are set out below:

Risk	Source of concentration	Risk management measures
Inclusion of multiple classes of insurance business in the one event	Response by a multitude of the Branch's policies to the one event, material damage and business interruption.	Ensure appropriate levels of reinsurance are maintained at all times.
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, risk accumulation processes including survey data base.
An accumulation of risks arising from a natural peril	Insured property/stock concentrations in a centralised area	Accumulation risk modelling, reinsurance protection

## 24 Actuarial Assumptions and Methods

### (a) Incurred claim settlement patterns

The outstanding claims liability has been determined using the Bornhuetter-Fergusson (incurred claims) methodology. It has been assumed that incurred claims patterns for each group of business will continue to follow observed historic patterns.

Overall, the average weighted term to settlement of claims (of all types, net of reinsurance) is about 5 months (2009: 6 months).

(b) Inflation and discount rates

Insurance costs are subject to inflationary pressures over time. However, the period between the valuation date and the settlement of most claims is short, and the valuation implicitly allows for past levels of inflation to continue in the future. Therefore, the impact on outstanding claims due to increases in claims costs as a result of inflation is limited. Also due to the short settlement periods the effect of discounting expected future payments is also limited and therefore the estimates are not discounted for the time value of money.

(c) Reinsurance

Outstanding claims estimates have been calculated on both a gross and net of reinsurance basis.

(d) Expense allowance

The estimates of outstanding claims liabilities incorporate an allowance for both the future direct and indirect costs associated with those claims. Policy administration expenses are based on an analysis of recent experience.

(e) Risk margin

The overall risk margins for both outstanding claims and liability adequacy testing have been determined using stochastic techniques and have been determined allowing for diversification between groups of business and having regard to the inherent variation observed in claims development in each group of business. The undiversified risk margins for each group of business are applied to the net central estimates and the results aggregated, allowing for diversification, in order to arrive at an overall net provision that is intended to provide a probability of sufficiency of 75% (2009: 75%).

(f) Actuarial information

Craig Lough (Actuary, Melville Jessup Weaver) is the actuary that completed the Insurance Liability Valuation Report. He is a Fellow of the New Zealand Society of Actuaries. The actuarial calculations were completed in accordance with New Zealand Society of Actuaries Professional Standard No.4. The effective date of the actuary's report is 31 March 2010.

The actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability, and there were no qualifications contained in the actuarial report. The key assumptions used in the compilation of the reserves as at 31 March 2010 are outlined in the note listed above.

The actuary has no financial interest in the Branch.



## Audit report

### **To the Directors of Mitsui Sumitomo Insurance Company Limited – New Zealand Branch**

We have audited the financial statements on pages 2 to 22. The financial statements provide information about the past financial performance of the New Zealand branch and its financial position as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 5 to 9.

#### **Directors' responsibilities**

The Directors of the company are responsible for the preparation of financial statements which give a true and fair view of the financial position of the branch as at 31 March 2010 and the results of its operations for the year ended on that date.

#### **Auditors' responsibilities**

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

#### **Basis of opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors of the company in the preparation of the financial statements;
- whether the accounting policies are appropriate to the branch's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the branch in relation to taxation and general accounting services. Partners and employees of our firm may also deal with the branch on normal terms within the ordinary course of trading activities of the business of the branch. These matters have not impaired our independence as auditors of the branch. The firm has no other relationship with, or interest in, the branch.

**Unqualified opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the branch as far as appears from our examination of those records;
- the financial statements on pages 2 to 22:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the branch as at 31 March 2010 and the results of its operations for the year ended on that date.

Our audit was completed on 1 September 2010 and our unqualified opinion is expressed as at that date.

KPMG

Auckland

MITSUI SUMITOMO INSURANCE  
COMPANY, LIMITED

Financial Statements - March 31, 2009 and 2010

(With Independent Auditors' Report Thereon)

BUSINESS & REGISTRIES  
BRANCH, AUCKLAND.

23 SEP 2010

RECEIVED



Independent Auditors' Report

The Board of Directors  
Mitsui Sumitomo Insurance Company, Limited

We have audited the accompanying balance sheets of Mitsui Sumitomo Insurance Company, Limited as of March 31, 2009 and 2010, the related statements of income and changes in net assets for the years then ended, expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mitsui Sumitomo Insurance Company, Limited as of March 31, 2009 and 2010, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in Japan.

*KPMG AZSA & Co.*

Tokyo, Japan  
May 18, 2010

Ichiro Iijima  
Director, Senior Executive Officer  
Mitsui Sumitomo Insurance Company, Limited

Susumu Ichihara  
Director, Managing Executive Officer  
Mitsui Sumitomo Insurance Company, Limited

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Balance Sheets

As of March 31, 2009 and 2010

	2009	2010
	(Yen in millions)	
<u>Assets</u>		
Cash, deposits and savings:		
Cash on hand	¥ 435	333
Deposits in banks	<u>243,432</u>	<u>183,053</u>
Total cash, deposits and savings	243,868	183,387
Call loans	31,900	33,700
Receivables under resale agreements	-	15,998
Monetary claims bought	122,658	102,027
Money trusts	14,421	10,524
Investments in securities:		
Government bonds	359,394	469,539
Municipal bonds	127,410	114,421
Corporate bonds	1,131,864	1,072,879
Stocks	1,379,633	1,723,919
Foreign securities	1,037,482	900,478
Other investments in securities	<u>59,534</u>	<u>46,138</u>
Total investments in securities	4,095,321	4,327,376
Loans:		
Policy loans	14,542	13,440
General loans	<u>740,103</u>	<u>705,147</u>
Total loans	754,645	718,587
Tangible fixed assets:		
Land	96,642	94,567
Buildings	128,593	123,153
Construction in progress	1,356	4,410
Other tangible fixed assets	<u>21,033</u>	<u>17,204</u>
Total tangible fixed assets	247,624	239,336
Intangible fixed assets	3,535	7,465

See accompanying notes to financial statements.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Balance Sheets (Continued)

	2009	2010
	(Yen in millions)	
Other assets:		
Premiums receivable	¥ 2,596	3,448
Due from agents	73,073	82,707
Due from foreign agents	49	2
Co-insurance business receivable	8,754	7,898
Reinsurance business receivable	49,564	50,970
Foreign reinsurance business receivable	15,751	14,705
Agent business receivable	749	359
Other receivables	11,795	15,120
Accrued income	13,578	10,936
Guarantee deposits	19,988	19,185
Deposits with the Japan Earthquake Reinsurance Company	72,307	76,556
Suspense payments	36,543	40,585
Guarantee deposits for futures trading	0	-
Assets related to derivative transactions	24,850	13,839
Other assets	<u>690</u>	<u>690</u>
Total other assets	330,293	337,004
Deferred tax assets	133,081	-
Customers' liabilities under acceptances and guarantees	5,527	4,577
Bad debt reserve	<u>(5,531)</u>	<u>(8,004)</u>
Total assets	¥ <u>5,977,347</u>	<u>5,971,982</u>

See accompanying notes to financial statements.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Balance Sheets (Continued)

	2009	2010
	(Yen in millions)	
<u>Liabilities and Net Assets</u>		
Underwriting funds:		
Outstanding claims	¥ 559,493	540,188
Underwriting reserve	<u>3,949,481</u>	<u>3,845,876</u>
Total underwriting funds	4,508,974	4,386,065
Bonds issued	164,960	94,969
Other liabilities:		
Co-insurance business payable	9,114	10,141
Reinsurance business payable	34,498	36,161
Foreign reinsurance business payable	14,562	12,037
Agent business payable	111	162
Payables under securities lending transactions	60,508	-
Income taxes payable	23,278	9,969
Guarantee money	32,585	23,683
Advance received	103	77
Other payables	25,889	29,822
Suspense receipts	17,478	16,186
Liabilities related to derivative transactions	42,031	16,372
Lease obligations	1,232	964
Other liabilities	<u>1</u>	<u>1</u>
Total other liabilities	261,397	155,581
Reserve for pension and retirement benefits	79,553	81,009
Reserve for retirement benefits for officers	2,311	2,003
Accrued bonuses for employees	10,317	10,375
Reserves under the special laws:		
Reserve for price fluctuation	<u>2,871</u>	<u>2,689</u>
Total reserves under the special laws	2,871	2,689
Deferred tax liabilities	-	29,397
Liabilities under acceptances and guarantees	<u>5,527</u>	<u>4,577</u>
Total liabilities	<u>5,035,915</u>	<u>4,766,667</u>

See accompanying notes to financial statements.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Balance Sheets (Continued)

	2009	2010
	(Yen in millions)	
Common stock	¥ 139,595	139,595
Capital surplus:		
Additional paid-in capital	<u>93,107</u>	<u>93,107</u>
Total capital surplus	93,107	93,107
Retained earnings:		
Legal earned reserve	46,487	46,487
Other retained earnings:		
Special reserve	283,400	283,400
Reserve for overseas investment loss	0	-
Reserve for advanced depreciation	7,503	8,304
Reserve for special account for advanced depreciation	547	1,269
Retained earnings brought forward	<u>76,871</u>	<u>63,430</u>
Total other retained earnings	<u>368,321</u>	<u>356,405</u>
Total retained earnings	414,809	402,893
Total stockholders' equity	647,512	635,596
Unrealized gains on investments	284,248	567,580
Deferred profits/losses on hedge accounting for derivatives	<u>9,671</u>	<u>2,138</u>
Total valuation and translation adjustments	<u>293,919</u>	<u>569,718</u>
Total net assets	<u>941,431</u>	<u>1,205,315</u>
Total liabilities and net assets	¥ <u>5,977,347</u>	<u>5,971,982</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statements of Income

For the years ended March 31, 2009 and 2010

	2009	2010
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,234,011	1,203,007
Deposit premiums from policyholders	165,464	145,026
Investment income on deposit premiums from policyholders	52,862	54,064
Reversal of outstanding claims	30,489	19,304
Reversal of underwriting reserve	115,955	103,605
Other underwriting income	118	122
Total underwriting income	1,598,901	1,525,130
Investment income:		
Interest and dividends received	137,877	117,477
Investment gains on money trusts	118	675
Gains on sale of securities	72,585	15,354
Gains on redemption of securities	3,448	2,352
Gains on derivative transactions	-	25,238
Other investment income	253	605
Transfer of investment income on deposit premiums from policyholders	(52,862)	(54,064)
Total investment income	161,420	107,640
Other ordinary income	5,675	4,163
Total ordinary income	1,765,998	1,636,934
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	784,803	771,996
Loss adjustment expenses	76,143	74,487
Commissions and collection expenses	207,902	207,128
Maturity refunds to policyholders	283,405	278,423
Dividends to policyholders	507	1,062
Foreign exchange losses	1,270	343
Other underwriting expenses	232	288
Total underwriting expenses	1,354,265	1,333,731
Investment expenses:		
Investment losses on money trusts	2,661	21
Losses on sale of securities	12,343	15,128
Losses on devaluation of securities	109,537	4,877
Losses on redemption of securities	9,160	4,459
Losses on derivative transactions	774	-
Foreign exchange losses	9,505	190
Other investment expenses	11,768	17,695

See accompanying notes to financial statements.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Statements of Income (Continued)

	2009	2010
	(Yen in millions)	
Total investment expenses	<u>155,750</u>	<u>42,373</u>
Operating expenses and general and administrative expenses	¥ 225,994	218,916
Other ordinary expenses:		
Interest expenses	1,625	2,133
Provision for bad debt reserve	1,459	2,566
Loss on bad debts	141	17
Other ordinary expenses	<u>1,228</u>	<u>1,408</u>
Total other ordinary expenses	<u>4,454</u>	<u>6,126</u>
Total ordinary expenses	<u>1,740,465</u>	<u>1,601,148</u>
Ordinary profit	25,532	35,786
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sale of fixed assets	1,361	3,103
Reversal of reserves under the special laws:		
Reserve for price fluctuation	<u>25,947</u>	<u>182</u>
Total reversal of reserves under the special laws	<u>25,947</u>	<u>182</u>
Total extraordinary income	27,308	3,285
Extraordinary losses:		
Losses on sale of fixed assets	2,608	2,502
Impairment losses on fixed assets	1,043	3,431
Total extraordinary losses	<u>3,651</u>	<u>5,933</u>
Income before income taxes	49,190	33,138
Income taxes-current	29,264	14,961
Reversal of prior period's income taxes	(7,303)	(13,947)
Income taxes-deferred	<u>(19,347)</u>	<u>6,666</u>
Total income taxes	<u>2,609</u>	<u>7,680</u>
Net income	¥ <u>46,580</u>	<u>25,458</u>

See accompanying notes to financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statement of Changes in Net Assets

For the year ended March 31, 2009

(Yen in millions)

Stockholders' equity:

Common stock:

Ending balance as of March 31, 2008	¥	<u>139,595</u>
Ending balance as of March 31, 2009		<u>139,595</u>

Capital surplus:

Additional paid-in capital:

Ending balance as of March 31, 2008	<u>93,107</u>
Ending balance as of March 31, 2009	<u>93,107</u>

Retained earnings:

Legal earned reserve:

Ending balance as of March 31, 2008	46,487
Ending balance as of March 31, 2009	<u>46,487</u>

Other retained earnings:

Special reserve:

Ending balance as of March 31, 2008	183,400
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Changes for the year:

Provision for special reserve	<u>100,000</u>
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Total changes for the year	<u>100,000</u>
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Ending balance as of March 31, 2009	<u>283,400</u>
-------------------------------------	----------------

Reserve for dividends:

Ending balance as of March 31, 2008	77,200
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Changes for the year:

Reversal of reserve for dividends	<u>(77,200)</u>
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Total changes for the year	<u>(77,200)</u>
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Ending balance as of March 31, 2009	<u>-</u>
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Special reserve for policyholders:

Ending balance as of March 31, 2008	193,900
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Changes for the year:

Reversal of special reserve for policyholders	<u>(193,900)</u>
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Total changes for the year	<u>(193,900)</u>
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Ending balance as of March 31, 2009	<u>-</u>
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Reserve for overseas investment loss:

Ending balance as of March 31, 2008	0
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Changes for the year:

Reversal of reserve for overseas investment loss	<u>(0)</u>
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Total changes for the year	<u>(0)</u>
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Ending balance as of March 31, 2009	<u>0</u>
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## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Statement of Changes in Net Assets (Continued)

(Yen in millions)

Reserve for advanced depreciation:		
Ending balance as of March 31, 2008	¥	7,452
Changes for the year:		
Provision for reserve for advanced depreciation		86
Reversal of reserve for advanced depreciation		<u>(35)</u>
Total changes for the year		<u>50</u>
Ending balance as of March 31, 2009		<u>7,503</u>
Reserve for special account for advanced depreciation:		
Ending balance as of March 31, 2008		-
Changes for the year:		
Provision for reserve for special account for advanced depreciation		<u>547</u>
Total changes for the year		<u>547</u>
Ending balance as of March 31, 2009		<u>547</u>
Retained earnings brought forward:		
Ending balance as of March 31, 2008		5,271
Changes for the year:		
Provision for special reserve		(100,000)
Reversal of reserve for dividends		77,200
Reversal of reserve for policyholders		193,900
Reversal of reserve for overseas investment loss		0
Provision for reserve for advanced depreciation		(86)
Reversal of reserve for advanced depreciation		35
Provision of reserve for special account for advanced depreciation		(547)
Dividends paid		(145,482)
Net income		<u>46,580</u>
Total changes for the year		<u>71,600</u>
Ending balance as of March 31, 2009		<u>76,871</u>
Total stockholders' equity:		
Ending balance as of March 31, 2008		746,414
Changes for the year:		
Dividends paid		(145,482)
Net income		<u>46,580</u>
Total changes for the year		<u>(98,902)</u>
Ending balance as of March 31, 2009		<u>647,512</u>

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Statement of Changes in Net Assets (Continued)

(Yen in millions)

## Valuation and translation adjustments:

## Unrealized gain on investments:

Ending balance as of March 31, 2008	¥	862,121
Changes for the year:		
Net changes of items other than stockholders' equity		<u>(577,873)</u>
Total changes for the year		<u>(577,873)</u>
Ending balance as of March 31, 2009		<u>284,248</u>

## Deferred profits/losses on hedge accounting for derivatives:

Ending balance as of March 31, 2008		528
Changes for the year:		
Net changes of items other than stockholders' equity		<u>9,142</u>
Total changes for the year		<u>9,142</u>
Ending balance as of March 31, 2009		<u>9,671</u>

## Total net assets:

Ending balance as of March 31, 2008		1,609,065
Changes for the year:		
Dividend paid		(145,482)
Net income		46,580
Net changes of items other than stockholders' equity		<u>(568,731)</u>
Total changes for the year		<u>(667,633)</u>
Ending balance as of March 31, 2009	¥	<u>941,431</u>

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Statement of Changes in Net Assets

For the year ended March 31, 2010

(Yen in millions)

Stockholders' equity:

Common stock:

Ending balance as of March 31, 2009	¥	<u>139,595</u>
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Ending balance as of March 31, 2010		<u>139,595</u>
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Capital surplus:

Additional paid-in capital:

Ending balance as of March 31, 2009		<u>93,107</u>
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Ending balance as of March 31, 2010		<u>93,107</u>
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Retained earnings:

Legal earned reserve:

Ending balance as of March 31, 2009		46,487
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Ending balance as of March 31, 2010		<u>46,487</u>
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Other retained earnings:

Special reserve:

Ending balance as of March 31, 2009		283,400
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Ending balance as of March 31, 2010		<u>283,400</u>
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Reserve for overseas investment loss:

Ending balance as of March 31, 2009		0
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Changes for the year:

Reversal of reserve for overseas investment loss		<u>(0)</u>
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Total changes for the year		<u>(0)</u>
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Ending balance as of March 31, 2010		<u>-</u>
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## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Statement of Changes in Net Assets (Continued)

(Yen in millions)

Reserve for advanced depreciation:		
Ending balance as of March 31, 2009	¥	7,503
Changes for the year:		
Provision for reserve for advanced depreciation		851
Reversal of reserve for advanced depreciation		<u>(50)</u>
Total changes for the year		<u>800</u>
Ending balance as of March 31, 2010		<u>8,304</u>
Reserve for special account for advanced depreciation:		
Ending balance as of March 31, 2009		547
Changes for the year:		
Provision for reserve for special account for advanced depreciation		1,269
Reversal of reserve for special account for advanced depreciation		<u>(547)</u>
Total changes for the year		<u>722</u>
Ending balance as of March 31, 2010		<u>1,269</u>
Retained earnings brought forward:		
Ending balance as of March 31, 2009		76,871
Changes for the year:		
Reversal of reserve for overseas investment loss		0
Provision for reserve for advanced depreciation		(851)
Reversal of reserve for advanced depreciation		50
Provision of reserve for special account for advanced depreciation		(1,269)
Reversal of reserve for special account for advanced depreciation		547
Dividends paid		(37,375)
Net income		<u>25,458</u>
Total changes for the year		<u>(13,440)</u>
Ending balance as of March 31, 2010		<u>63,430</u>
Total stockholders' equity:		
Ending balance as of March 31, 2009		647,512
Changes for the year:		
Dividends paid		(37,375)
Net income		<u>25,458</u>
Total changes for the year		<u>(11,916)</u>
Ending balance as of March 31, 2010		<u>635,596</u>

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Statement of Changes in Net Assets (Continued)

(Yen in millions)

## Valuation and translation adjustments:

## Unrealized gain on investments:

Ending balance as of March 31, 2009	¥	284,248
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## Changes for the year:

Net changes of items other than stockholders' equity		<u>283,332</u>
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Total changes for the year		<u>283,332</u>
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Ending balance as of March 31, 2010		<u>567,580</u>
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## Deferred profits/losses on hedge accounting for derivatives:

Ending balance as of March 31, 2009		9,671
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## Changes for the year:

Net changes of items other than stockholders' equity		<u>(7,532)</u>
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Total changes for the year		<u>(7,532)</u>
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Ending balance as of March 31, 2010		<u>2,138</u>
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## Total net assets:

Ending balance as of March 31, 2009		941,431
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## Changes for the year:

Dividend paid		(37,375)
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Net income		25,458
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Net changes of items other than stockholders' equity		<u>275,799</u>
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Total changes for the year		<u>263,883</u>
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Ending balance as of March 31, 2010	¥	<u>1,205,315</u>
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# MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation

As of and for the years ended March 31, 2009 and 2010

March 31, 2009

### 1. Basis of presentation

The accompanying non-consolidated financial statements have been translated from the non-consolidated financial statements of Mitsui Sumitomo Insurance Company, Limited ("the Company") prepared in accordance with the provisions set forth in the Corporate Accounting Regulations, the Enforcement Regulations of the Japanese Insurance Business Law and related rules and regulations applicable to the non-life insurance industry in general and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

### 2. Accounting policies

#### (1) Valuation policies and methods of securities and money trusts

- (i) Securities held to maturity are valued at amortized cost.
- (ii) Stocks of subsidiaries and affiliates are valued at cost determined by the moving average method.
- (iii) Available for sale securities for which fair value is available are valued at fair value as of March 31, 2009. Net unrealized gains or losses are reported as a separate component of net assets, and cost of sale is calculated using the moving average method.
- (iv) Available for sale securities for which fair value is not available are valued at cost determined by the moving average method or amortized cost.
- (v) Securities managed as a major component of trust assets in the money trust are valued at fair value.

March 31, 2010

### 1. Basis of presentation

The accompanying non-consolidated financial statements have been translated from the non-consolidated financial statements of Mitsui Sumitomo Insurance Company, Limited ("the Company") prepared in accordance with the provisions set forth in the Corporate Accounting Regulations, the Enforcement Regulations of the Japanese Insurance Business Law and related rules and regulations applicable to the non-life insurance industry in general and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

### 2. Accounting policies

#### (1) Valuation policies and methods of securities and money trusts

- (i) Securities held to maturity are valued at amortized cost.
- (ii) Stocks of subsidiaries and affiliates are valued at cost determined by the moving average method.
- (iii) Available for sale securities for which fair value is available are valued at fair value as of March 31, 2010. Net unrealized gains or losses are reported as a separate component of net assets, and cost of sale is calculated using the moving average method.
- (iv) Available for sale securities for which fair value is deemed to be extremely difficult to determine are valued at cost determined by the moving average method.
- (v) Securities managed as a major component of trust assets in the money trust are valued at fair value.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009March 31, 2010

(Changes in accounting principles or accounting procedures)

Adoption of "Accounting Standard for Financial Instruments"

The Company has adopted "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, March 10, 2008) from the fiscal year ended March 31, 2010.

As a result, the scope of securities measured at fair value has been changed.

The effect of this adoption on the financial statements is immaterial.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009March 31, 2010

## (2) Valuation policies and methods of derivatives

Derivative financial instruments are valued at fair value. Foreign exchange contracts and interest rate swaps that meet certain criteria are accounted for under exceptional methods, as permitted in the related accounting standards, as if the foreign exchange rates or the interest rates under those contracts were originally applied to the underlying financial instruments.

## (3) Depreciation of tangible fixed assets

Depreciation of tangible fixed assets is computed using the declining-balance method, except for buildings (excluding fixtures) acquired on or after April 1, 1998, to which the straight-line method is applied.

## (4) Translation of foreign currency assets and liabilities

Translation of foreign currency assets and liabilities into Japanese yen complies with the provisions of the Accounting Standard for Foreign Currency Transactions.

## (5) Accounting policies for reserves

## (i) Bad debt reserve

The bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision to provide for future loan loss.

A reserve for bad debts for loans to debtors who are legally deemed to be experiencing financial difficulties such as bankruptcy, special liquidation or whose notes are under suspension at

## (2) Valuation policies and methods of derivatives

Derivative financial instruments are valued at fair value. Foreign exchange contracts and interest rate swaps that meet certain criteria are accounted for under exceptional methods, as permitted in the related accounting standards, as if the foreign exchange rates or the interest rates under those contracts were originally applied to the underlying financial instruments.

## (3) Depreciation of tangible fixed assets

Depreciation of tangible fixed assets is computed using the declining-balance method, except for buildings (excluding fixtures) acquired on or after April 1, 1998, to which the straight-line method is applied.

## (4) Depreciation of intangible fixed assets

Capitalized software for internal use is amortized by using the straight-line method based on estimated useful lives.

## (5) Translation of foreign currency assets and liabilities

Translation of foreign currency assets and liabilities into Japanese yen complies with the provisions of the Accounting Standard for Foreign Currency Transactions.

## (6) Accounting policies for reserves

## (i) Bad debt reserve

The bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision to provide for future loan loss.

A reserve for bad debts for loans to debtors who are legally deemed to be experiencing financial difficulties such as bankruptcy, special liquidation or whose notes are under suspension at

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009

clearing houses, and loans for debtors who are substantially deemed to be experiencing financial difficulties are provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible through guarantees. A bad debt reserve for loans to debtors who likely experience financial difficulties in the future is provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible from guarantees considering the debtor's ability to repay the entire outstanding debt.

For loans other than those described above, a bad debt reserve is calculated at an amount of the outstanding balances multiplied by actual historical bad debt ratios.

All loans and receivables are provided for based on the assessment under the internal asset self-assessment standard. The assessment was performed by the departments which are responsible for respective assets. The independent internal audit department reviewed those results.

(ii) Reserve for pension and retirement benefits

Reserve for pension and retirement benefits is established to provide for future retirement benefits based on the estimated retirement benefit obligation and plan assets as of March 31, 2009.

Prior service costs are amortized using the straight-line method over certain periods within the estimated average remaining service years of employees.

Actuarial gains and losses are amortized from the year following the year in which those gains and losses arise using

March 31, 2010

clearing houses, and loans for debtors who are substantially deemed to be experiencing financial difficulties are provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible through guarantees. A bad debt reserve for loans to debtors who likely experience financial difficulties in the future is provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible from guarantees considering the debtor's ability to repay the entire outstanding debt.

For loans other than those described above, a bad debt reserve is calculated at an amount of the outstanding balances multiplied by actual historical bad debt ratios.

All loans and receivables are provided for based on the assessment under the internal asset self-assessment standard. The assessment was performed by the departments which are responsible for respective assets. The independent internal audit department reviewed those results.

(ii) Reserve for pension and retirement benefits

Reserve for pension and retirement benefits is established to provide for future retirement benefits based on the estimated retirement benefit obligation and plan assets as of March 31, 2010.

Prior service costs are amortized using the straight-line method over certain periods within the estimated average remaining service years of employees.

Actuarial gains and losses are amortized from the year following the year in which those gains and losses arise using

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

the <u>March 31, 2009</u>	the <u>March 31, 2010</u>
straight-line method over certain periods within the estimated average remaining service years of employees.	straight-line method over certain periods within the estimated average remaining service years of employees.
	(Changes in accounting principles or accounting procedures)
	Adoption of "Partial Amendments to Accounting Standard for Retirement Benefits"
	The Company adopted "Partial Amendments to Accounting Standard for Retirement Benefits (ASBJ Statement No.19, July 31, 2008)" in the fiscal year ended March 31, 2010.
	The adoption had no effect on the financial statements, because it resulted in the use of the same discounted rates as before.
(iii) Reserve for retirement benefit for officers	(iii) Reserve for retirement benefit for officers
Reserve for retirement benefits that covers the cost for services rendered through the year ended March 31, 2005 when the retirement benefits for officers were terminated is established to provide for future retirement benefits (including pension) for officers and operating officers.	Reserve for retirement benefits that covers the cost for services rendered through the year ended March 31, 2005 when the retirement benefits for officers were terminated is established to provide for future retirement benefits (including pension) for officers and operating officers.
(iv) Accrued bonuses for employees	(iv) Accrued bonuses for employees
Accrued bonuses for employees are based on estimated amounts to be paid at the end of the year.	Accrued bonuses for employees are based on estimated amounts to be paid at the end of the year.
(v) Reserve for price fluctuation	(v) Reserve for price fluctuation
Reserve for price fluctuation is recognized under Article 115 of the Insurance Business Law to provide for possible losses arising from price fluctuations of investment securities.	Reserve for price fluctuation is recognized under Article 115 of the Insurance Business Law to provide for possible losses arising from price fluctuations of investment securities.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009March 31, 2010

## (6) Accounting for lease transactions

Finance lease transactions that do not transfer ownership with the commencement date prior to April 1, 2008 are accounted for as operating leases similar to the rental of property.

(Changes in accounting principles)

Application of "Accounting Standard for Lease Transactions"

The Accounting Standards Board of Japan ("ASBJ") released "Accounting Standard for Lease Transactions" (Statement No.13) and "Guidance on Accounting Standard for Lease Transactions" (Guidance No.16) on March 30, 2007. These Standard and Guideline shall be applied for annual periods beginning on or after April 1, 2008. As a result of the change in the accounting standard, finance lease transactions that do not transfer ownership with the commencement date on or after April 1, 2008 are accounted for in a manner similar to the accounting for ordinary sale and purchase transactions.

The adoption did not have a material effect on the financial statements.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009

## (7) Hedge accounting

Profits and losses on equity forward contracts used for hedging risks of variability in fair value of stocks are accounted for under the deferred hedged accounting method. Profits and losses on currency swap contracts used for hedging risks of variability in foreign currency of foreign currency bonds are accounted for under the deferred hedge accounting method. Also, certain of the forward exchange contracts used for the hedging are accounted for under the fair value hedge accounting method or the allocation method. Interest rate swap contracts for hedging risks of variability in cash flows of loans or bonds arising from fluctuations in interest rates are accounted for using the deferred hedge accounting method or the exceptional method when they meet certain criteria, as mentioned in this note 2 (2).

Hedge effectiveness is assessed quarterly by comparing cumulative fluctuations of the fair value or cash flows of the hedged items and the hedging instruments during the periods from the respective start dates of the hedges to the assessment dates. When hedged items and hedging instruments are highly and clearly interrelated or when interest rate swap transactions meet the criteria for applying the exceptional method, assessment of hedge effectiveness is not performed.

Interest rate swap contracts used in the ALM (Asset and Liability Management) for the purpose of adequate control of risks of interest rate variability are accounted for as deferred hedge and their hedge effectiveness is tested in accordance with Industry Audit Committee Report No.26 "Accounting and Auditing Treatment of Application of Accounting Standard for Financial Instruments in Insurance Industry" (issued by The Japanese Institute of Certified Public Accountants on September 3, 2002). The

March 31, 2010

## (7) Hedge accounting

Profits and losses on equity forward contracts used for hedging risks of variability in fair value of stocks are accounted for under the deferred hedged accounting method. Profits and losses on currency swap contracts used for hedging risks of variability in foreign currency of foreign currency bonds are accounted for under the deferred hedge accounting method. Also, certain of the forward exchange contracts used for the hedging are accounted for under the fair value hedge accounting method or the allocation method. Interest rate swap contracts for hedging risks of variability in cash flows of loans or bonds arising from fluctuations in interest rates are accounted for using the deferred hedge accounting method or the exceptional method when they meet certain criteria, as mentioned in this note 2 (2).

Hedge effectiveness is assessed quarterly by comparing cumulative fluctuations of the fair value or cash flows of the hedged items and the hedging instruments during the periods from the respective start dates of the hedges to the assessment dates. When hedged items and hedging instruments are highly and clearly interrelated or when interest rate swap transactions meet the criteria for applying the exceptional method, assessment of hedge effectiveness is not performed.

Interest rate swap contracts used in the ALM (Asset and Liability Management) for the purpose of adequate control of risks of interest rate variability are accounted for as deferred hedge and their hedge effectiveness is tested in accordance with Industry Audit Committee Report No.26 "Accounting and Auditing Treatment of Application of Accounting Standard for Financial Instruments in Insurance Industry" (issued by The Japanese Institute of Certified Public Accountants on September 3, 2002). The

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2009

hedge effectiveness testing is performed by assessing interest rate fluctuations that may affect pricing of the theoretical values of the hedging instrument and the hedged item.

(8) Accounting for consumption taxes

Consumption taxes are accounted for under the "Zei Nuki" (tax exclusive) method except for those relating to loss adjustment expenses, operating expenses and general and administrative expenses, which are accounted for under the "Zei Komi" (tax inclusive) method. Non-deductible consumption taxes relating to assets are included in suspense payments and amortized in equal installments over a period of five years.

3. Changes in presentation

Reserve for retirement benefits for officers previously included in "Reserve for pension and retirement benefits" has been presented separately as "Reserve for retirement benefits for officers" effective from the year ended March 31, 2008.

March 31, 2010

hedge effectiveness testing is performed by assessing interest rate fluctuations that may affect pricing of the theoretical values of the hedging instrument and the hedged item.

(8) Accounting for consumption taxes

Consumption taxes are accounted for under the "Zei Nuki" (tax exclusive) method except for those relating to loss adjustment expenses, operating expenses and general and administrative expenses, which are accounted for under the "Zei Komi" (tax inclusive) method. Non-deductible consumption taxes relating to assets are included in suspense payments and amortized in equal installments over a period of five years.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Balance Sheets

As of March 31, 2009 and 2010

March 31, 2009

1. Government bonds, stocks and foreign securities include those which were loaned under securities lending agreements in the amount of ¥88,481 million
2. The amount of loans to financially impaired parties, overdue loans, loans overdue for 3 months or more and restructured loans are as follows:
  - (1) Loans to financially impaired parties and overdue loans amounted to ¥13 million and ¥2,609 million, respectively.

Loans to financially impaired parties represent those loans, excluding the portion of the loans that were written off, on which accrued interest receivable is not recognized because repayments of principal or interest were overdue for considerable periods and they are regarded uncollectible and which meet the conditions prescribed in Article 96, Section 1-3 and 1-4 of the Corporation Tax Law Enforcement Ordinance (1965 Cabinet Order No.97). Hereafter, this last category is referred to as "Loans not accruing interest".

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

March 31, 2010

1. Government bonds, stocks and foreign securities include those which were loaned under securities lending agreements in the amount of ¥39,791 million.
2. The amount of loans to financially impaired parties, overdue loans, loans overdue for 3 months or more and restructured loans are as follows:
  - (1) Loans to financially impaired parties and overdue loans amounted to ¥1,441 million and ¥2,426 million, respectively.

Loans to financially impaired parties represent those loans, excluding the portion of the loans that were written off, on which accrued interest receivable is not recognized because repayments of principal or interest were overdue for considerable periods and they are regarded uncollectible and which meet the conditions prescribed in Article 96, Section 1-3 and 1-4 of the Corporation Tax Law Enforcement Ordinance (1965 Cabinet Order No.97). Hereafter, this last category is referred to as "Loans not accruing interest".

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

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Balance Sheets (Continued)

March 31, 2009

- (2) Loans overdue for 3 months or more amounted to ¥817 million.

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

- (3) Restructured loans amounted to ¥845 million.

Restructured loans are those loans which have granted favorable terms for the benefit of debtors such as interest exemption or reduction, grace on interest payments, grace on principal repayments, or forgiveness of debts for the purpose of restructuring of or support to the debtors in financial difficulty. Loans to financially impaired parties, overdue loans and loans overdue for 3 months or more are excluded from this category.

- (4) The total of loans to financially impaired parties, overdue loans, loans overdue for 3 months or more, and restructured loans amounted to ¥4,285 million.

3. Accumulated depreciation of tangible fixed assets amounted to ¥265,924 million. The acquisition costs of certain properties were reduced by ¥18,885 million representing deferred profit on sales of other properties.

4. The total amounts receivable from and payable to subsidiaries amounted to ¥37,780 million and ¥18,680 million, respectively.

March 31, 2010

- (2) Loans overdue for 3 months or more amounted to ¥855 million.

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

- (3) Restructured loans amounted to ¥2,043 million.

Restructured loans are those loans which have granted favorable terms for the benefit of debtors such as interest exemption or reduction, grace on interest payments, grace on principal repayments, or forgiveness of debts for the purpose of restructuring of or support to the debtors in financial difficulty. Loans to financially impaired parties, overdue loans and loans overdue for 3 months or more are excluded from this category.

- (4) The total of loans to financially impaired parties, overdue loans, loans overdue for 3 months or more, and restructured loans amounted to ¥6,766 million.

3. Accumulated depreciation of tangible fixed assets amounted to ¥275,257 million. The acquisition costs of certain properties were reduced by ¥18,713 million representing deferred profit on sales of other properties.

4. The total amounts receivable from and payable to subsidiaries amounted to ¥8,483 million and ¥17,398 million, respectively.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Balance Sheets (Continued)

March 31, 2009

5. Significant components of deferred tax assets and liabilities as of March 31, 2009 are as follows (Yen in millions):

Deferred tax assets:		
Underwriting reserve	¥	170,246
Investments in securities		48,895
Reserve for pension and retirement benefits		28,718
Software		18,512
Outstanding claims		17,126
Others		<u>39,348</u>
Total gross deferred tax assets		322,849
Less valuation allowance		<u>(17,542)</u>
Total net deferred tax assets		<u>305,307</u>
Deferred tax liabilities:		
Unrealized gain on investments		(160,584)
Others		<u>(11,641)</u>
Total gross deferred tax liabilities		<u>(172,225)</u>
Total deferred tax assets net of deferred tax liabilities	¥	<u>133,081</u>

6. Guarantees and similar arrangements for subsidiaries are as follows:

## (1) Guarantees

The Company guarantees insurance-related liabilities of its subsidiary, MSI corporate Capital Limited in the amount of ¥35,112 million.

## (2) Arrangements similar to guarantee

The Company executes net worth maintenance agreements on behalf of Mitsui Sumitomo

March 31, 2009

MetLife Insurance Co., Ltd. ("MSML") and five other foreign subsidiaries. MSML is an affiliated company of Mitsui Sumitomo Insurance Group Holdings, Inc. ("MSIGH") which is the Parent of the Company. Under these agreements, the Company's funding and other obligations are triggered if each of these companies falls under a situation that its net worth falls short of a predetermined level or it does not maintain adequate liquidity for payment for its obligations.

March 31, 2010

5. Significant components of deferred tax assets and liabilities as of March 31, 2010 are as follows (Yen in millions):

Deferred tax assets:		
Underwriting reserve	¥	180,141
Investments in securities		40,480
Reserve for pension and retirement benefits		29,244
Software		18,292
Outstanding claims		20,057
Others		<u>29,352</u>
Total gross deferred tax assets		317,568
Less valuation allowance		<u>(18,008)</u>
Total net deferred tax assets		<u>299,560</u>
Deferred tax liabilities:		
Unrealized gain on investments		(320,652)
Others		<u>(8,305)</u>
Total gross deferred tax liabilities		<u>(328,957)</u>
Total deferred tax assets net of deferred tax liabilities	¥	<u>(29,397)</u>

6. Guarantees and similar arrangements for subsidiaries are as follows:

## (1) Guarantees

The Company guarantees insurance-related liabilities of its subsidiary, MSI corporate Capital Limited in the amount of ¥36,784 million.

## (2) Arrangements similar to guarantee

The Company executes net worth maintenance agreements on behalf of Mitsui Sumitomo

March 31, 2010

MetLife Insurance Co., Ltd. ("MSML") and four other foreign subsidiaries. MSML is an affiliated company of Mitsui Sumitomo Insurance Group Holdings, Inc. ("MSIGH") (current company name: MS&AD Insurance Group Holdings, Inc.) which is the Parent of the Company. Under these agreements, the Company's funding and other obligations are triggered if each of these companies falls under a situation that its net worth falls short of a predetermined level or it

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Balance Sheets (Continued)

The Company and MSIGH are jointly obligated for the agreement for MSML. The aggregated amount of liabilities and assets of the affiliated company and subsidiaries as of March 31, 2009 were ¥2,675,289 million (including underwriting funds in the amount of ¥2,608,339 million) and ¥2,847,374 million, respectively.

None of these companies were in a triggering situation mentioned above as of March 31, 2009.

7. The carrying values of the investments in equity and capital of affiliated companies amounted to ¥274,155 million and ¥15,624 million, respectively.

8. Intangible assets mainly consist of leasehold interests in the amount of ¥3,472 million.

9. Securities of ¥53,851 million are pledged as collateral primarily for overseas operations and Real Time Gross Settlement system of current account at the Bank of Japan.

10. Details of outstanding claims and underwriting reserve (Yen in millions)

(1) Details of outstanding claims:

Gross outstanding claims (except for (a))	¥	564,259
Reinsurance recoverable on unpaid losses		<u>(53,979)</u>
Net		510,280
Outstanding claims relating to earthquake and compulsory automobile liability insurance (a)		<u>49,212</u>
Total	¥	<u>559,493</u>

(2) Details of underwriting reserve:

Gross ordinary underwriting reserves	¥	1,032,808
Reinsurance recoverable on underwriting reserves		<u>(36,837)</u>
Net		995,970
Refund reserve		2,049,266
Reinsurance recoverable on refund		<u>(12)</u>

does not maintain adequate liquidity for payment for its obligations.

The Company and MSIGH are jointly obligated for the agreement for MSML. The aggregated amount of liabilities and assets of the affiliated company and subsidiaries as of March 31, 2010 were ¥3,268,884 million (including underwriting funds in the amount of ¥3,171,800 million) and ¥3,428,452 million, respectively.

None of these companies were in a triggering situation mentioned above as of March 31, 2010.

7. The carrying values of the investments in equity and capital of affiliated companies amounted to ¥283,642 million and ¥15,193 million, respectively.

8. Securities of ¥61,341 million are pledged as collateral primarily for overseas operations and Real Time Gross Settlement system of current account at the Bank of Japan.

9. Details of outstanding claims and underwriting reserve (Yen in millions)

(1) Details of outstanding claims:

Gross outstanding claims (except for (a))	¥	542,274
Reinsurance recoverable on unpaid losses		<u>(50,319)</u>
Net		491,954
Outstanding claims relating to earthquake and compulsory automobile liability insurance (a)		<u>48,233</u>
Total	¥	<u>540,188</u>

(2) Details of underwriting reserve:

Gross ordinary underwriting reserves	¥	1,032,161
Reinsurance recoverable on underwriting reserves		<u>(37,575)</u>
Net		994,585
Refund reserve		1,959,385
Reinsurance recoverable on refund		<u>(11)</u>

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Balance Sheets (Continued)

reserve			reserve		
Net	2,049,253		Net	1,959,373	
Other underwriting reserves	<u>904,256</u>		Other underwriting reserves	<u>891,917</u>	
Total	¥ <u>3,949,481</u>		Total	¥ <u>3,845,876</u>	

11. Net assets per share as of March 31, 2009 were ¥670.34. No deductions from net assets were applicable in its computation. Outstanding common shares as of March 31, 2009 were 1,404,402 thousand shares.

12. There have been no events occurring subsequent to the balance sheet date which would have a material effect on the financial position or the results of operations of the Company for the future periods.

13. Matters regarding retirement benefits are as follows (Yen in millions):

## (1) Details of retirement benefit obligation:

Projected retirement benefit obligation	¥ 260,283
Plan assets	<u>(137,486)</u>
Unfunded obligation	122,796
Unrecognized actuarial losses	<u>(43,242)</u>
Reserve for pension and retirement benefits	¥ <u>79,553</u>

10. Net assets per share as of March 31, 2010 were ¥858.24. No deductions from net assets were applicable in its computation. Outstanding common shares as of March 31, 2010 were 1,404,402 thousand shares.

11. There have been no events occurring subsequent to the balance sheet date which would have a material effect on the financial position or the results of operations of the Company for the future periods.

12. Matters regarding retirement benefits are as follows (Yen in millions):

## (1) Details of retirement benefit obligation:

Projected retirement benefit obligation	¥ 264,730
Plan assets	<u>(152,095)</u>
Unfunded obligation	112,634
Unrecognized actuarial losses	<u>(31,625)</u>
Reserve for pension and retirement benefits	¥ <u>81,009</u>

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Balance Sheets (Continued)

March 31, 2009March 31, 2010

## (2) Actuarial assumptions for calculation of retirement benefit obligation, etc.

Attribution method of retirement benefits over service period	The benefit/years of service method
Discount rate	2.00 %
Expected rate of return on plan assets	3.00 %
Amortization period for prior service costs	4 years
Amortization period for actuarial gains and losses:	
Defined benefit pension plan and termination allowance plan	10 years
Tax qualified defined benefit pension plan	4 years

The Company transferred its tax qualified defined benefit pension plan to defined benefit pension plan on April 1, 2006.

## (2) Actuarial assumptions for calculation of retirement benefit obligation, etc.

Attribution method of retirement benefits over service period	The benefit/years of service method
Discount rate	2.00 %
Expected rate of return on plan assets	3.00 %
Amortization period for prior service costs	4 years
Amortization period for actuarial gains and losses:	
Defined benefit pension plan and termination allowance plan	10 years
Tax qualified defined benefit pension plan	4 years

The Company transferred its tax qualified defined benefit pension plan to defined benefit pension plan on April 1, 2006.

14. The Company provides guarantees to the transactions of a limited partnership entity. Aggregate net present value of those transactions was ¥296,290 million in the negative amount. This amount was not included in Customers' liabilities under acceptances and guarantees and Liabilities under acceptances and guarantees since there is no substantial exposure.

15. Unutilized portion of commitment lines given to third parties amounted to ¥3,164 million.

16. "Subsidiary" and "affiliated company" appearing elsewhere in this balance sheet and notes thereto refer to those defined in Article 2 of the Corporate Accounting Regulations.

17. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

13. The Company provides guarantees to the transactions of a limited partnership entity. Aggregate net present value of those transactions was ¥177,933 million in the negative amount. This amount was not included in Customers' liabilities under acceptances and guarantees and Liabilities under acceptances and guarantees since there is no substantial exposure.

14. Unutilized portion of commitment lines given to third parties amounted to ¥1,856 million.

15. "Subsidiary" and "affiliated company" appearing elsewhere in this balance sheet and notes thereto refer to those defined in Article 2 of the Corporate Accounting Regulations.

16. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statements of Income

For the years ended March 31, 2009 and 2010

March 31, 2009

March 31, 2010

1. The aggregate amounts of income and expenses resulting from transactions with affiliated companies amounted to ¥38,057 million and ¥70,153 million, respectively.

1. The aggregate amounts of income and expenses resulting from transactions with affiliated companies amounted to ¥40,110 million and ¥63,343 million, respectively.

2.

(1) Details of net premiums written are as follows (Yen in millions):

Gross premiums written	¥	1,452,970
Reinsurance premiums ceded		<u>218,958</u>
Net	¥	<u>1,234,011</u>

2.

(1) Details of net premiums written are as follows (Yen in millions):

Gross premiums written	¥	1,415,948
Reinsurance premiums ceded		<u>212,940</u>
Net	¥	<u>1,203,007</u>

(2) Details of net claims paid are as follows (Yen in millions):

Gross claims paid	¥	951,462
Claim recoveries from ceded reinsurance		<u>166,658</u>
Net	¥	<u>784,803</u>

(2) Details of net claims paid are as follows (Yen in millions):

Gross claims paid	¥	934,849
Claim recoveries from ceded reinsurance		<u>162,852</u>
Net	¥	<u>771,996</u>

(3) Details of commissions and collection expenses are as follows (Yen in millions):

Commissions and collection expenses paid	¥	228,057
Reinsurance commissions received		<u>20,154</u>
Net	¥	<u>207,902</u>

(3) Details of commissions and collection expenses are as follows (Yen in millions):

Commissions and collection expenses paid	¥	227,020
Reinsurance commissions received		<u>19,892</u>
Net	¥	<u>207,128</u>

(4) Details of provision for outstanding claims are as follows (Yen in millions):

Gross provision for outstanding claims (except for (a))	¥	(36,552)
Less reinsurance recoverable on unpaid losses		<u>6,638</u>
Net		(29,914)
Provision for outstanding claims relating to earthquake and compulsory automobile liability insurance (a)		<u>(575)</u>
Total	¥	<u>(30,489)</u>

(4) Details of provision for outstanding claims are as follows (Yen in millions):

Gross provision for outstanding claims (except for (a))	¥	(21,984)
Less reinsurance recoverable on unpaid losses		<u>3,659</u>
Net		(18,325)
Provision for outstanding claims relating to earthquake and compulsory automobile liability insurance (a)		<u>(978)</u>
Total	¥	<u>(19,304)</u>

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Statements of Income (Continued)

March 31, 2009March 31, 2010

(5) Details of provision for underwriting reserve are as follows (Yen in millions):

Gross provision for ordinary underwriting reserves	¥	(9,502)
Less reinsurance recoverable on underwriting reserves		<u>3,189</u>
Net		(6,312)
Reversal of refund reserve		(78,091)
Less reinsurance recoverable on refund reserve		<u>3</u>
Net		(78,087)
Provision for other underwriting reserves		<u>(31,554)</u>
Total	¥	<u><u>(115,955)</u></u>

(5) Details of provision for underwriting reserve are as follows (Yen in millions):

Gross provision for ordinary underwriting reserves	¥	(647)
Less reinsurance recoverable on underwriting reserves		<u>(738)</u>
Net		(1,385)
Reversal of refund reserve		(89,881)
Less reinsurance recoverable on refund reserve		<u>0</u>
Net		(89,880)
Provision for other underwriting reserves		<u>(12,339)</u>
Total	¥	<u><u>(103,605)</u></u>

(6) Details of interest and dividends received are as follows (Yen in millions):

Interest on deposits and savings	¥	4,431
Interest on call loans		80
Interest on securities purchased under resale agreements		22
Interest on monetary claims bought		2,031
Interest and dividends on investments in securities		108,023
Interest on loans		15,490
Rental income on properties		7,165
Other interest		<u>631</u>
Total	¥	<u><u>137,877</u></u>

(6) Details of interest and dividends received are as follows (Yen in millions):

Interest on deposits and savings	¥	2,475
Interest on call loans		28
Interest on securities purchased under resale agreements		23
Interest on monetary claims bought		1,821
Interest and dividends on investments in securities		90,385
Interest on loans		14,330
Rental income on properties		7,460
Other interest		<u>951</u>
Total	¥	<u><u>117,477</u></u>

3. The total of valuation gains and losses included in the investment gains and losses on money trusts is a gain in the amount of ¥788 million. The total of valuation gains and losses included in the losses on derivative transactions is a loss in the amount of ¥8,052 million.

3. The total of valuation gains and losses included in the investment gains and losses on money trusts is a gain in the amount of ¥1,406 million. The total of valuation gains and losses included in the gains and losses on derivative transactions is a gain in the amount of ¥26,900 million.

4. Net income per share for the year ended March 31, 2009 was ¥33.16.

4. Net income per share for the year ended March 31, 2010 was ¥18.12.

Net income per share is computed based on

Net income per share is computed based on

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Statements of Income (Continued)

March 31, 2009

the following figures: Net income and net income available to common stockholders, ¥46,580 million; and Average outstanding common shares during the year, 1,404,402 thousand shares. Earnings per share after adjustment for dilutive effect of shares is not presented as no dilutive securities exist.

5. Costs for retirement benefits included in loss adjustment expenses, operating expenses and general and administrative expenses are as follows (Yen in millions):

Service costs	¥	10,081
Interest cost		5,105
Expected return on plan assets		(4,635)
Amortization of actuarial losses		<u>3,303</u>
Net periodic pension cost		13,855
Contributions paid to defined contribution plan		<u>1,540</u>
Total	¥	<u>15,395</u>

6. A reconciliation of the significant difference between normal income tax rate and the effective tax rate after application of deferred tax accounting is as follows:

Normal income tax rate (Reconciliation)	36.1%
Tax credit for dividends received	(16.6%)
Deemed loss on asset transfer due to dividend in kind	(16.5%)
Entertainment and other expenses not deductible for tax purposes	2.0%
Others	<u>0.3%</u>
Effective income tax rate	<u>5.3%</u>

March 31, 2010

the following figures: Net income and net income available to common stockholders, ¥25,458 million; and Average outstanding common shares during the year, 1,404,402 thousand shares. Earnings per share after adjustment for dilutive effect of shares is not presented as no dilutive securities exist.

5. Costs for retirement benefits included in loss adjustment expenses, operating expenses and general and administrative expenses are as follows (Yen in millions):

Service costs	¥	10,496
Interest cost		5,202
Expected return on plan assets		(4,124)
Amortization of actuarial losses		<u>5,581</u>
Net periodic pension cost		17,156
Contributions paid to defined contribution plan		<u>1,590</u>
Total	¥	<u>18,746</u>

6. A reconciliation of the significant difference between normal income tax rate and the effective tax rate after application of deferred tax accounting is as follows:

Normal income tax rate (Reconciliation)	36.1%
Tax credit for dividends received	(14.6%)
Deduction for foreign taxes	(3.0%)
Entertainment and other expenses not deductible for tax purposes	2.3%
Others	<u>2.4%</u>
Effective income tax rate	<u>23.2%</u>

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Statements of Income (Continued)

March 31, 2009

7. Impairment losses were recognized for the following assets (Yen in millions):

Use	Asset category	Description of assets	Impairment losses	
Rental properties	Land and buildings	Buildings for rent in Gunma	Land	¥ 104
			Buildings	267
			Total	¥ 371
Idle real estate and real estate for sale	Land and buildings	7 properties, including office buildings in Niigata	Land	¥ 157
			Buildings	514
			Total	¥ 671

Properties used for insurance operations are grouped as a single asset group for the entire insurance operations. Rental properties, idle real estate and real estate for sale constitute asset groups by their own. Carrying amounts of the above mentioned assets were reduced to their realizable values in view of falling property values or idle real estate and the resulting decreases in the carrying amounts were recorded as an impairment loss in the aggregate amount of ¥1,043 million in the extraordinary losses.

The realizable values of the assets concerned are determined at the higher of the net sale values or the potential values in continued use. The net sale values are computed based on the appraisal values by independent appraisers and the potential values in continued use are computed by discounting the future cash flows at the discount rate of 5.4%.

March 31, 2010

7. Impairment losses were recognized for the following assets (Yen in millions):

Use	Asset category	Description of assets	Impairment losses	
Rental properties	Land and buildings	2 properties, including buildings for rent in Aichi	Land	¥ 526
			Buildings	831
			Total	¥ 1,358
Idle real estate and real estate for sale	Land and buildings	3 properties, including company residences in Chiba	Land	¥ 1,882
			Buildings	190
			Total	¥ 2,073

Properties used for insurance operations are grouped as a single asset group for the entire insurance operations. Rental properties, idle real estate and real estate for sale constitute asset groups by their own. Carrying amounts of the above mentioned assets were reduced to their realizable values in view of falling property values or real estate for sale and the resulting decreases in the carrying amounts were recorded as an impairment loss in the aggregate amount of ¥3,431 million in the extraordinary losses.

The realizable values of the assets concerned are determined at the higher of the net sale values or the potential values in continued use. The net sale values are computed based on the appraisal values by independent appraisers and the potential values in continued use are computed by discounting the future cash flows at the discount rate of 5.5%.

8. Related party transactions are as follows

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Statements of Income (Continued)

March 31, 2009

(Yen in millions):

<u>Category</u>	<u>Name of related party</u>	<u>Ownership</u>	<u>Business relationship</u>
subsidiaries	MITSUI SUMITOMO INSURANCE Loan Service Co., Ltd.	As a owner Direct 50% Indirect 50%	Concurrent officer positions Providing credit guarantees on the Company's consumer loans Administration of the Company's guarantee insurance

<u>Description of transactions</u>	<u>Transaction amount</u>	<u>Account</u>	<u>Ending Balances</u>
Guarantees of third-party liabilities related to the transactions with the third parties	¥113,877	-	-

The Company has been provided with guarantees on its mortgage loans and other loans to third parties by MITSUI SUMITOMO INSURANCE Loan Service Co., Ltd. Transaction amount represents guaranteed amount of liabilities outstanding as of March 31, 2009.

Terms and conditions of transactions and the determination policies are as follows:

The Company entered into a comprehensive guarantee agreement with MITSUI SUMITOMO INSURANCE Loan Service Co., Ltd., which sets out terms and conditions by loan categories. The Company has been provided with guarantees based on the agreement.

March 31, 2010

(Yen in millions):

<u>Category</u>	<u>Name of related party</u>	<u>Ownership</u>	<u>Business relationship</u>
subsidiaries	MITSUI SUMITOMO INSURANCE Loan Service Co., Ltd.	As a owner Direct 20% Indirect 80%	Dispatching officer positions Providing credit guarantees on the Company's consumer loans Administration of the Company's guarantee insurance

<u>Description of transactions</u>	<u>Transaction amount</u>	<u>Account</u>	<u>Ending Balances</u>
Guarantees of third-party liabilities related to the transactions with the third parties	¥117,359	-	-

The Company has been provided with guarantees on its mortgage loans and other loans to third parties by MITSUI SUMITOMO INSURANCE Loan Service Co., Ltd. Transaction amount represents guaranteed amount of liabilities outstanding as of March 31, 2010.

Terms and conditions of transactions and the determination policies are as follows:

The Company entered into a comprehensive guarantee agreement with MITSUI SUMITOMO INSURANCE Loan Service Co., Ltd., which sets out terms and conditions by loan categories. The Company has been provided with guarantees based on the agreement.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Statements of Income (Continued)

March 31, 2009

9. "Subsidiary" and "affiliated company" appearing elsewhere in this statement of income and notes thereto refer to those defined in Article 2 of the Corporate Accounting Regulations.

10. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

March 31, 2010

9. "Subsidiary" and "affiliated company" appearing elsewhere in this statement of income and notes thereto refer to those defined in Article 2 of the Corporate Accounting Regulations.

10. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Statement of Changes in Net Assets

For the years ended March 31, 2009 and 2010

March 31, 2009

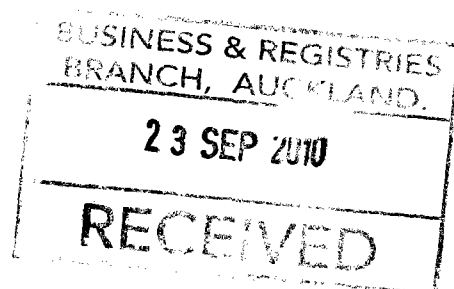
1. There is no treasury stock requiring disclosure of type and number thereof.
2. Since the Company prepares the statement of changes in net assets, the notes regarding type and number of shares issued and dividend are omitted herein. These notes are presented in the notes to the statement of changes in net assets as included in the financial statements.
3. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

March 31, 2010

1. There is no treasury stock requiring disclosure of type and number thereof.
2. Since the Company prepares the statement of changes in net assets, the notes regarding type and number of shares issued and dividend are omitted herein. These notes are presented in the notes to the statement of changes in net assets as included in the financial statements.
3. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

MITSUI SUMITOMO INSURANCE  
COMPANY, LIMITED

Consolidated Financial Statements - March 31, 2009 and 2010  
(With Independent Auditors' Report Thereon)





Independent Auditors' Report

The Board of Directors  
Mitsui Sumitomo Insurance Company, Limited

We have audited the accompanying consolidated balance sheets of Mitsui Sumitomo Insurance Company, Limited and consolidated subsidiaries as of March 31, 2009 and 2010, the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui Sumitomo Insurance Company, Limited and consolidated subsidiaries as of March 31, 2009 and 2010, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

KPMG AZSA & Co.

Tokyo, Japan  
May 18, 2010

Ichiro Iijima

Director, Senior Executive Officer  
Mitsui Sumitomo Insurance Company, Limited

Susumu Ichihara

Director, Managing Executive Officer  
Mitsui Sumitomo Insurance Company, Limited

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Balance Sheets

As of March 31, 2009 and 2010

	2009	2010
	(Yen in millions)	
<u>Assets</u>		
Cash, deposits and savings	¥ 435,496	297,098
Call loans	31,900	33,700
Receivables under resale agreements	-	15,998
Monetary claims bought	127,339	108,158
Money trusts	14,476	10,592
Investments in securities	4,058,016	4,363,277
Loans	754,700	718,625
Tangible fixed assets:		
Land	103,117	100,852
Buildings	134,410	129,027
Construction in progress	1,429	4,427
Other tangible fixed assets	22,747	18,995
Total tangible fixed assets	261,705	253,302
Intangible fixed assets:		
Software	4,197	8,488
Goodwill	52,279	50,940
Other intangible fixed assets	3,669	3,990
Total intangible fixed assets	60,146	63,419
Other assets	419,642	429,155
Deferred tax assets	140,393	6,058
Bad debt reserve	<u>(6,635)</u>	<u>(9,061)</u>
Total assets	¥ 6,297,181	6,290,327

Liabilities and Net Assets

Underwriting funds:		
Outstanding claims	¥ 770,979	728,646
Underwriting reserve	<u>4,036,640</u>	<u>3,937,762</u>
Total underwriting funds	4,807,619	4,666,409
 Bonds issued	 164,960	 94,969
Other liabilities	295,930	192,491
Reserve for pension and retirement benefits	80,616	81,948
Reserve for retirement benefits for officers	2,311	2,003
Accrued bonuses for employees	11,237	11,412
 Reserves under the special laws:	 	 
Reserve for price fluctuation	<u>2,871</u>	<u>2,689</u>
Total reserve under the special laws	2,871	2,689
 Deferred tax liabilities	 3,537	 32,148
 Total liabilities	 <u>5,369,086</u>	 <u>5,084,072</u>

See accompanying notes to consolidated financial statements.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Consolidated Balance Sheets (Continued)

	2009	2010
	(Yen in millions)	
Common stock	¥ 139,595	139,595
Capital surplus	93,107	93,107
Retained earnings	<u>436,906</u>	<u>433,290</u>
Total stockholders' equity	<u>669,609</u>	<u>665,993</u>
Unrealized gains on investments	288,487	574,244
Deferred profits/losses on hedge accounting for derivatives	9,671	2,138
Foreign currency translation adjustments	<u>(49,625)</u>	<u>(40,309)</u>
Total valuation and translation adjustments	<u>248,532</u>	<u>536,072</u>
Minority interests	<u>9,952</u>	<u>4,188</u>
Total net assets	<u>928,094</u>	<u>1,206,255</u>
Total liabilities and net assets	¥ <u>6,297,181</u>	<u>6,290,327</u>

See accompanying notes to consolidated financial statements.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Consolidated Statements of Income (Continued)

	2009	2010
	(Yen in millions)	
Operating expenses and general and administrative expenses	¥ 280,159	262,352
Other ordinary expenses:		
Interest expenses	1,631	2,244
Provision for bad debt reserve	1,971	2,053
Loss on bad debts	269	131
Losses from equity method investments	60	-
Other ordinary expenses	<u>1,781</u>	<u>2,039</u>
Total other ordinary expenses	<u>5,714</u>	<u>6,469</u>
Total ordinary expenses	<u>1,967,151</u>	<u>1,797,236</u>
Ordinary profit (loss)	(5,854)	49,650
<u>Extraordinary income and losses</u>		
Extraordinary income:		
Gains on sale of fixed assets	1,414	3,591
Reversal of reserves under the special laws:		
Reserve for price fluctuation	<u>25,893</u>	<u>182</u>
Total reversal of reserves under the special laws	<u>25,893</u>	<u>182</u>
Total extraordinary income	27,308	3,773
Extraordinary losses:		
Losses on sale of fixed assets	2,613	2,538
Impairment loss on fixed assets	1,044	3,431
Total extraordinary losses	<u>3,658</u>	<u>5,969</u>
Income before income taxes	17,795	47,454
Income taxes-current	33,629	18,633
Reversal of prior period's income taxes	(7,307)	(13,947)
Income taxes-deferred	<u>(24,668)</u>	<u>7,172</u>
Total income taxes	1,653	11,857
Minority interests	<u>1,169</u>	<u>781</u>
Net income	¥ <u>14,972</u>	<u>34,815</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Statements of Income

For the years ended March 31, 2009 and 2010

	2009	2010
	(Yen in millions)	
<u>Ordinary income and expenses</u>		
Ordinary income:		
Underwriting income:		
Net premiums written	¥ 1,423,067	1,361,758
Deposit premiums from policyholders	165,464	145,026
Investment income on deposit premiums from policyholders	52,862	54,064
Life insurance premiums	34,095	-
Reversal of outstanding claims	-	52,496
Reversal of underwriting reserve	89,795	104,614
Other underwriting income	959	2,486
Total underwriting income	1,766,244	1,720,446
Investment income:		
Interest and dividends received	155,376	124,094
Investment gains on money trusts	118	675
Gains on sale of securities	75,551	19,146
Gains on redemption of securities	3,726	1,727
Gains on derivative transactions	576	24,777
Other investment income	5,598	3,205
Transfer of investment income on deposit premiums from policyholders	(52,862)	(54,064)
Total investment income	188,085	119,561
Other ordinary income	6,966	6,878
Total ordinary income	1,961,297	1,846,886
Ordinary expenses:		
Underwriting expenses:		
Net claims paid	879,310	894,109
Loss adjustment expenses	80,652	78,381
Commissions and collection expenses	234,592	228,323
Maturity refunds to policyholders	283,405	278,423
Dividends to policyholders	507	1,062
Life insurance claims	7,446	-
Provision for outstanding claims	21,856	-
Other underwriting expenses	3,832	1,519
Total underwriting expenses	1,511,604	1,481,820
Investment expenses:		
Investment losses on money trusts	2,661	21
Losses on sale of securities	17,414	16,992
Losses on devaluation of securities	118,122	6,065
Losses on redemption of securities	9,358	4,435
Other investment expenses	22,116	19,077
Total investment expenses	169,674	46,594

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Statement of Changes in Net Assets

For the year ended March 31, 2009

(Yen in millions)

Stockholders' equity:

Common stock:

Ending balance as of March 31, 2008	¥	<u>139,595</u>
Ending balance as of March 31, 2009		<u>139,595</u>

Additional paid-in capital:

Ending balance as of March 31, 2008	<u>93,107</u>
Ending balance as of March 31, 2009	<u>93,107</u>

Retained earnings:

Ending balance as of March 31, 2008	534,410
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Changes for the year:

Effect of adoption of Practical Solution No.18	8,986
Dividend paid	(145,482)
Changes in the scope of consolidation	8,550
Changes in the scope of equity method	15,469
Net income	<u>14,972</u>

Total changes for the year	<u>(97,504)</u>
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Ending balance as of March 31, 2009	<u>436,906</u>
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Total stockholders' equity:

Ending balance as of March 31, 2008	767,113
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Changes for the year:

Effect of adoption of Practical Solution No.18	8,986
Dividend paid	(145,482)
Changes in the scope of consolidation	8,550
Changes in the scope of equity method	15,469
Net income	<u>14,972</u>

Total changes for the year	<u>(97,504)</u>
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Ending balance as of March 31, 2009	<u>669,609</u>
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Valuation and translation adjustments:

Unrealized gain on investments:

Ending balance as of March 31, 2008	875,914
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Changes for the year:

Net changes of items other than stockholders' equity	<u>(587,427)</u>
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Total changes for the year	<u>(587,427)</u>
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Ending balance as of March 31, 2009	<u>288,487</u>
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Deferred profit/loss on hedge accounting for derivatives:

Ending balance as of March 31, 2008	528
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Changes for the year:

Net changes of items other than stockholders' equity	<u>9,142</u>
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Total changes for the year	<u>9,142</u>
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Ending balance as of March 31, 2009	<u>9,671</u>
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See accompanying notes to consolidated financial statements.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Consolidated Statement of Changes in Net Assets

(Yen in millions)

Translation adjustments:		
Ending balance as of March 31, 2008	¥	11,505
Changes for the year:		
Net changes of items other than stockholders' equity		<u>(61,131)</u>
Total changes for the year		<u>(61,131)</u>
Ending balance as of March 31, 2009		<u>(49,625)</u>
Total valuation and translation adjustments:		
Ending balance as of March 31, 2008		887,949
Changes for the year:		
Net changes of items other than stockholders' equity		<u>(639,416)</u>
Total changes for the year		<u>(639,416)</u>
Ending balance as of March 31, 2009		<u>248,532</u>
Minority interests:		
Ending balance as of March 31, 2008		16,454
Changes for the year:		
Net changes of items other than stockholders' equity		<u>(6,501)</u>
Total changes for the year		<u>(6,501)</u>
Ending balance as of March 31, 2009		<u>9,952</u>
Total net assets:		
Ending balance as of March 31, 2008		1,671,517
Changes for the year:		
Effect of adoption of Practical Solution No.18		8,986
Dividend paid		(145,482)
Changes in the scope of consolidation		8,550
Changes in the scope of equity method		15,469
Net income		14,972
Net changes of items other than stockholders' equity		<u>(645,917)</u>
Total changes for the year		<u>(743,422)</u>
Ending balance as of March 31, 2009	¥	<u>928,094</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Statement of Changes in Net Assets

For the year ended March 31, 2010

(Yen in millions)

Stockholders' equity:

Common stock:

Ending balance as of March 31, 2009	¥	<u>139,595</u>
Ending balance as of March 31, 2010		<u>139,595</u>

Additional paid-in capital:

Ending balance as of March 31, 2009	<u>93,107</u>
Ending balance as of March 31, 2010	<u>93,107</u>

Retained earnings:

Ending balance as of March 31, 2009	436,906
Changes for the year:	
Dividend paid	(37,375)
Changes in the scope of consolidation	(1,055)
Net income	<u>34,815</u>
Total changes for the year	<u>(3,615)</u>
Ending balance as of March 31, 2010	<u>433,290</u>

Total stockholders' equity:

Ending balance as of March 31, 2009	669,609
Changes for the year:	
Dividend paid	(37,375)
Changes in the scope of consolidation	(1,055)
Net income	<u>34,815</u>
Total changes for the year	<u>(3,615)</u>
Ending balance as of March 31, 2010	<u>665,993</u>

Valuation and translation adjustments:

Unrealized gain on investments:

Ending balance as of March 31, 2009	288,487
Changes for the year:	
Net changes of items other than stockholders' equity	<u>285,756</u>
Total changes for the year	<u>285,756</u>
Ending balance as of March 31, 2010	<u>574,244</u>

Deferred profit/loss on hedge accounting for derivatives:

Ending balance as of March 31, 2009	9,671
Changes for the year:	
Net changes of items other than stockholders' equity	<u>(7,532)</u>
Total changes for the year	<u>(7,532)</u>
Ending balance as of March 31, 2010	<u>2,138</u>

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Consolidated Statement of Changes in Net Assets (Continued)

(Yen in millions)

Translation adjustments:		
Ending balance as of March 31, 2009	¥	(49,625)
Changes for the year:		
Net changes of items other than stockholders' equity		<u>9,316</u>
Total changes for the year		<u>9,316</u>
Ending balance as of March 31, 2010		<u>(40,309)</u>
Total valuation and translation adjustments:		
Ending balance as of March 31, 2009		248,532
Changes for the year:		
Net changes of items other than stockholders' equity		<u>287,540</u>
Total changes for the year		<u>287,540</u>
Ending balance as of March 31, 2010		<u>536,072</u>
Minority interests:		
Ending balance as of March 31, 2009		9,952
Changes for the year:		
Net changes of items other than stockholders' equity		<u>(5,764)</u>
Total changes for the year		<u>(5,764)</u>
Ending balance as of March 31, 2010		<u>4,188</u>
Total net assets:		
Ending balance as of March 31, 2009		928,094
Changes for the year:		
Dividend paid		(37,375)
Changes in the scope of consolidation		(1,055)
Net income		34,815
Net changes of items other than stockholders' equity		<u>281,775</u>
Total changes for the year		<u>278,160</u>
Ending balance as of March 31, 2010	¥	<u>1,206,255</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Consolidated Statements of Cash Flows

For the years ended March 31, 2009 and 2010

	2009	2010
	(Yen in millions)	
I. Cash flows from operating activities:		
Income before income taxes	¥ 17,795	47,454
Depreciation	21,123	21,276
Impairment loss on fixed assets	1,044	3,431
Amortization of goodwill	3,640	3,617
Amortization of negative goodwill	(16)	(20)
Increase (decrease) in outstanding claims	33,225	(55,769)
Decrease in underwriting reserves	(87,816)	(105,182)
Increase in bad debt reserve	1,777	2,331
Increase in reserve for pension and retirement benefits	3,093	1,283
Decrease in reserve for retirement benefits for officers	(290)	(307)
Increase (decrease) in accrued bonuses for employees	(1,900)	143
Decrease in reserve for price fluctuation	(25,893)	(182)
Interest and dividends income	(155,376)	(124,094)
Investment related losses	65,618	6,621
Derivative transactions related gains	(576)	(24,777)
Interest expenses	1,631	2,244
Foreign exchange losses	8,494	363
Losses (gains) on disposal of tangible fixed assets	1,199	(1,053)
Equity in earnings of affiliates	60	(416)
Increase in other assets	(26,076)	(15,166)
Decrease in other liabilities	(2,121)	(6,322)
Others, net	<u>9,672</u>	<u>14,259</u>
Subtotal	(131,689)	(230,265)
Interest and dividends received	154,785	125,825
Interest paid	(1,659)	(2,321)
Income tax paid	<u>(16,752)</u>	<u>(16,581)</u>
Net cash provided by (used in) operating activities (a)	4,683	(123,343)

See accompanying notes to consolidated financial statements.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Consolidated Statements of Cash Flows (Continued)

	2009	2010
	(Yen in millions)	
II. Cash flows from investing activities:		
Net increase (decrease) in deposits and savings	¥ (43,923)	22,611
Purchases of monetary claims bought	(3,000)	-
Proceeds from sales and redemption of monetary claims bought	3,692	4,934
Purchase of money trusts	(3)	(13)
Proceeds from sales of money trusts	33,090	5,400
Purchase of securities	(707,381)	(542,788)
Proceeds from sales and redemption of securities	829,837	700,581
Investment in loans	(184,378)	(148,806)
Collection of loans	205,677	184,162
Increase in cash received under securities lending transactions	24,466	(60,508)
Others, net	<u>4,980</u>	<u>(391)</u>
Subtotal (b)	<u>163,058</u>	<u>165,182</u>
(a + b)	<u>167,741</u>	<u>41,838</u>
Acquisition of tangible fixed assets	(17,219)	(16,213)
Proceeds from sales of tangible fixed assets	2,775	5,365
Others, net	<u>(5,993)</u>	<u>(6,988)</u>
Net cash provided by investing activities	142,621	147,345
III. Cash flows from financing activities:		
Issuance of short-term bonds	16,949	-
Redemption of short-term bonds	(47,000)	-
Issuance of bonds	64,967	-
Redemption of bonds	-	(70,000)
Dividends paid to shareholders	(47,889)	(37,375)
Dividends paid to minority shareholders	(1,235)	(910)
Others, net	<u>(851)</u>	<u>(756)</u>
Net cash used in financing activities	(15,059)	(109,041)
IV. Effect of exchange rate changes on cash and cash equivalents	<u>(45,943)</u>	<u>8,554</u>
V. Net change in cash and cash equivalents	<u>86,302</u>	<u>(76,485)</u>
VI. Cash and cash equivalents at beginning of year	<u>364,081</u>	<u>438,869</u>
VIII. Effect of change in scope of consolidation	<u>(11,514)</u>	<u>(1,316)</u>
IX. Cash and cash equivalents at end of year	¥ <u>438,869</u>	<u>361,067</u>

See accompanying notes to consolidated financial statements.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Basis of Presentation

As of and for the years ended March 31, 2009 and 2010

March 31, 2009

1. Basis of presentation

The accompanying consolidated financial statements have been translated from the consolidated financial statements of Mitsui Sumitomo Insurance Company, Limited ("the Company") prepared in accordance with the provisions set forth in the Corporate Accounting Regulations, the Enforcement Regulations of the Japanese Insurance Business Law and related rules and regulations applicable to the non-life insurance industry in general and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

March 31, 2010

1. Basis of presentation

The accompanying consolidated financial statements have been translated from the consolidated financial statements of Mitsui Sumitomo Insurance Company, Limited ("the Company") prepared in accordance with the provisions set forth in the Corporate Accounting Regulations, the Enforcement Regulations of the Japanese Insurance Business Law and related rules and regulations applicable to the non-life insurance industry in general and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2009

March 31, 2010

2. Principles of consolidation

- (1) Number of consolidated subsidiaries  
34 companies

Major consolidated subsidiaries are as follows:

MSIG Holdings (Americas), Inc.  
Mitsui Sumitomo Insurance (London Management) Ltd  
MSIG Mingtai Insurance Co., Ltd.

Since the Company transferred stocks of both Mitsui Sumitomo Kirameki Life Insurance Company, Limited and Mitsui Direct Insurance Company, Limited held by the Company to Mitsui Sumitomo Insurance Group Holdings, Inc. ("MSIGH") which is the Parent of the Company as dividend in kind, those companies have been excluded from the scope of consolidation effective from the year ended March 31, 2009. The Company has included profits and losses and cash flows arising from those companies for the period between April 1, 2008 and June 30, 2008, in the consolidated statement of income.

MSIG Insurance (Vietnam) Company Limited, a newly established subsidiary, has been included in consolidation effective from the year ended March 31, 2009.

- (2) Unconsolidated subsidiaries

Major unconsolidated subsidiaries are as follows:

MITSUI SUMITOMO INSURANCE  
Claims Adjusting Company, Limited  
MITSUI SUMITOMO INSURANCE  
Staffing Service Company, Limited

These subsidiaries are not included in consolidation due to their immaterial effect that would not affect reasonable judgment

2. Principles of consolidation

- (1) Number of consolidated subsidiaries  
33 companies

Major consolidated subsidiaries are as follows:

MSIG Holdings (Americas), Inc.  
Mitsui Sumitomo Insurance (London Management) Ltd  
MSIG Mingtai Insurance Co., Ltd.

MSIG Insurance (Lao) Co., Ltd, a newly established subsidiary, has been included in consolidation from the year ended March 31, 2010.

Mitsui Sumitomo Insurance Company (Hong Kong), Limited has been excluded from the scope of consolidation during the fiscal year due to immateriality as a result of business restructuring. Thousand Fortune Islands Corporation, which was consolidated due to the financial relationship that the company had held its debenture, has also been excluded due to the debenture redemption.

- (2) Unconsolidated subsidiaries

Major unconsolidated subsidiaries are as follows:

MITSUI SUMITOMO INSURANCE  
Claims Adjusting Company, Limited  
MITSUI SUMITOMO INSURANCE  
Staffing Service Company, Limited

These subsidiaries are not included in consolidation due to their immaterial effect that would not affect reasonable judgment

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009

on the consolidated financial position and results of operations, in view of the size of their total assets, ordinary income, as well as net income and retained earnings attributable to the Company.

## 3. Equity method

- (1) Number of affiliate companies accounted for under the equity method  
3 companies

Major company accounted for under the equity method is as follows:  
Sumitomo Mitsui Asset Management Company, Limited

SMA MSI AS has been accounted for under the equity method as a newly established affiliated company effective from the year ended March 31, 2009 because its stocks was acquired by Mitsui Sumitomo Insurance Company (Europe), Limited., a consolidated subsidiary, in this consolidated year.

Since the Company transferred stocks of Mitsui Sumitomo MetLife Insurance Co., Ltd. ("MSML") held by the Company to MSIGH as dividend in kind, MSML has been excluded from the scope of the affiliates accounted for under the equity method effective from the year ended March 31, 2009.

The Company has included net of profits and losses from equity method investment in MSML for the period between April 1, 2008 and June 30, 2008 in the consolidated statement of income.

- (2) Other affiliate companies, including unconsolidated subsidiaries (e.g. Mitsui Sumitomo Insurance Staffing Service Company, Limited, BPI/MS Insurance Corporation), are not accounted for under the equity method because their effect on consolidated net income and retained earnings is immaterial individually and in aggregate.

March 31, 2010

on the consolidated financial position and results of operations, in view of the size of their total assets, ordinary income, as well as net income and retained earnings attributable to the Company.

## 3. Equity method

- (1) Number of affiliate companies accounted for under the equity method  
3 companies

Major company accounted for under the equity method is as follows:  
Sumitomo Mitsui Asset Management Company, Limited

- (2) Other affiliate companies, including unconsolidated subsidiaries (e.g. Mitsui Sumitomo Insurance Staffing Service Company, Limited, BPI/MS Insurance Corporation), are not accounted for under the equity method because their effect on consolidated net income and retained earnings is immaterial individually and in aggregate.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Basis of Presentation (Continued)

March 31, 2009

March 31, 2010

4. Fiscal year of consolidated subsidiaries

Fiscal year end of consolidated subsidiaries, representing MSIG Holdings (Americas), Inc. and 32 other companies, is December 31 which is different from that of the Company. The Company uses their financial statements as of their most current fiscal year-end for consolidation purposes because the time lag does not exceed a three-month period.

The Company makes necessary adjustments to incorporate significant transactions occurred during the intervening period that materially affect the consolidated financial statements.

4. Fiscal year of consolidated subsidiaries

Fiscal year end of consolidated subsidiaries, representing MSIG Holdings (Americas), Inc. and 31 other companies, is December 31 which is different from that of the Company. The Company uses their financial statements as of their most current fiscal year-end for consolidation purposes because the time lag does not exceed a three-month period.

The Company makes necessary adjustments to incorporate significant transactions occurred during the intervening period that materially affect the consolidated financial statements.

5. Accounting policies

(1) Valuation policies and methods of securities are as follows:

- (i) Securities held to maturity are valued at amortized cost.
- (ii) Stocks of unconsolidated subsidiaries and affiliates that are not accounted for under the equity method are valued at cost determined by the moving average method.
- (iii) Available for sale securities for which fair value is available are valued at fair value as of March 31, 2009. Net unrealized gains or losses are reported as a separate component of net assets, and cost of sale is calculated using the moving average method.
- (iv) Available for sale securities for which fair values is not available are valued at cost determined by the moving average method or amortized cost.
- (v) Securities managed as a major component of trust assets in the money

5. Accounting policies

(1) Valuation policies and methods of securities are as follows:

- (i) Securities held to maturity are valued at amortized cost.
- (ii) Stocks of unconsolidated subsidiaries and affiliates that are not accounted for under the equity method are valued at cost determined by the moving average method.
- (iii) Available for sale securities for which fair value is available are valued at fair value as of March 31, 2010. Net unrealized gains or losses are reported as a separate component of net assets, and cost of sale is calculated using the moving average method.
- (iv) Available for sale securities for which fair value is deemed to be extremely difficult to determine are valued at cost determined by the moving average method.
- (v) Securities managed as a major component of trust assets in the money

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009

trust are valued at fair value.

March 31, 2010

trust are valued at fair value.

(Changes in accounting principles or accounting procedures)

Adoption of "Accounting Standard for Financial Instruments"

The Company has adopted "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, March 10, 2008) from the fiscal year ended March 31, 2010.

As a result, the scope of securities measured at fair value has been changed.

The effect of this adoption on the consolidated financial statements was immaterial.

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|---|---|
| <p>(2) Derivative financial instruments are valued at fair value. Foreign exchange contracts and interest rate swaps that meet certain criteria are accounted for under exceptional methods, as permitted in the related accounting standards, as if the foreign exchange rates or the interest rates under those contracts were originally applied to the underlying financial instruments.</p>  | <p>(2) Derivative financial instruments are valued at fair value. Foreign exchange contracts and interest rate swaps that meet certain criteria are accounted for under exceptional methods, as permitted in the related accounting standards, as if the foreign exchange rates or the interest rates under those contracts were originally applied to the underlying financial instruments.</p>  |
| <p>(3) Depreciation methods of assets are as follows:</p> <ul style="list-style-type: none"> <li>(i) Depreciation of tangible fixed assets held by the Company and domestic subsidiaries is computed using the declining-balance method, except for buildings (excluding fixtures) acquired on or after April 1, 1998, to which the straight-line method is applied. Depreciation of tangible fixed assets held by foreign subsidiaries is mainly computed using the straight-line method.</li> <li>(ii) Capitalized software for internal use is amortized by using the straight-line method based on estimated useful lives.</li> </ul> | <p>(3) Depreciation methods of assets are as follows:</p> <ul style="list-style-type: none"> <li>(i) Depreciation of tangible fixed assets held by the Company and domestic subsidiaries is computed using the declining-balance method, except for buildings (excluding fixtures) acquired on or after April 1, 1998, to which the straight-line method is applied. Depreciation of tangible fixed assets held by foreign subsidiaries is mainly computed using the straight-line method.</li> <li>(ii) Capitalized software for internal use is amortized by using the straight-line method based on estimated useful lives.</li> </ul> |

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009March 31, 2010

## (4) Accounting policies for significant reserves

## (i) Bad debt reserve

As for the Company, the bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision. A reserve for bad debts for loans to debtors who are legally deemed to be experiencing financial difficulties such as bankruptcy, special liquidation or whose notes are under suspension at clearing houses, and loans for debtors who are substantially deemed to be experiencing financial difficulties are provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible through guarantees. A bad debt reserve for loans to debtors who likely experience financial difficulties in the future is provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible from guarantees considering the debtor's ability to repay the entire outstanding debt.

For loans other than those described above, a bad debt reserve is calculated at an amount of the outstanding balances multiplied by actual historical bad debt ratios.

All loans and receivables are provided for based on the assessment under the internal asset self-assessment standard. The assessment was performed by the departments which are responsible for respective assets. The independent internal audit departments reviewed those results.

As for domestic consolidated

## (4) Accounting policies for significant reserves

## (i) Bad debt reserve

As for the Company, the bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision. A reserve for bad debts for loans to debtors who are legally deemed to be experiencing financial difficulties such as bankruptcy, special liquidation or whose notes are under suspension at clearing houses, and loans for debtors who are substantially deemed to be experiencing financial difficulties are provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible through guarantees. A bad debt reserve for loans to debtors who likely experience financial difficulties in the future is provided for based on the amount remaining after deducting the resale value of collateral and amounts collectible from guarantees considering the debtor's ability to repay the entire outstanding debt.

For loans other than those described above, a bad debt reserve is calculated at an amount of the outstanding balances multiplied by actual historical bad debt ratios.

All loans and receivables are provided for based on the assessment under the internal asset self-assessment standard. The assessment was performed by the departments which are responsible for respective assets. The independent internal audit departments reviewed those results.

As for domestic consolidated

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009

subsidiaries, the bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision similar to the Company.

As for foreign consolidated subsidiaries, the bad debt reserve is established based on the assessment of collectibility of individual receivables.

(ii) Reserve for pension and retirement benefits

Reserve for pension and retirement benefits is established to provide for future retirement benefits based on the estimated retirement benefit obligation and plan assets as of March 31, 2009.

Prior service costs are amortized using the straight-line method over certain periods within the estimated average remaining service years of employees.

Actuarial gains and losses are amortized from the year following the year in which those gains and losses arise using the straight-line method over certain periods within the estimated average remaining service years of employees.

In estimating retirement benefit obligation of some consolidated subsidiaries, the Company uses the simplified method.

March 31, 2010

subsidiaries, the bad debt reserve is established under the internal standard for self-assessment of assets and the policy for write-off and provision similar to the Company.

As for foreign consolidated subsidiaries, the bad debt reserve is established based on the assessment of collectibility of individual receivables.

(ii) Reserve for pension and retirement benefits

Reserve for pension and retirement benefits is established to provide for future retirement benefits based on the estimated retirement benefit obligation and plan assets as of March 31, 2010.

Prior service costs are amortized using the straight-line method over certain periods within the estimated average remaining service years of employees.

Actuarial gains and losses are amortized from the year following the year in which those gains and losses arise using the straight-line method over certain periods within the estimated average remaining service years of employees.

In estimating retirement benefit obligation of some consolidated subsidiaries, the Company uses the simplified method.

(Changes in accounting principles or accounting procedures)

Adoption of "Partial Amendments to Accounting Standard for Retirement Benefits"

The Company adopted "Partial Amendments to Accounting Standard for Retirement Benefits (ASBJ Statement No.19, July 31, 2008)" in

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009March 31, 2010

the fiscal year ended March 31, 2010.

The adoption had no effect on the consolidated financial statements, because it resulted in the use of the same discounted rates as before.

(iii) Reserves for retirement benefits for officers

Reserve for retirement benefits that covers the cost for services rendered through the year ended March 31, 2005 when the retirement benefits for officers were terminated is established to provide for future retirement benefits (including pension) for officers and operating officers of the Company.

(iii) Reserves for retirement benefits for officers

Reserve for retirement benefits that covers the cost for services rendered through the year ended March 31, 2005 when the retirement benefits for officers were terminated is established to provide for future retirement benefits (including pension) for officers and operating officers of the Company.

(iv) Accrued bonuses

Accrued bonuses for employees are based on estimated amounts to be paid at the end of the year.

(iv) Accrued bonuses

Accrued bonuses for employees are based on estimated amounts to be paid at the end of the year.

(v) Reserve for price fluctuation

Reserve for price fluctuation is recognized under Article 115 of the Insurance Business Law to provide for possible losses arising from price fluctuations of investment securities.

(v) Reserve for price fluctuation

Reserve for price fluctuation is recognized under Article 115 of the Insurance Business Law to provide for possible losses arising from price fluctuations of investment securities.

(5) Translation of foreign currency assets and liabilities

Foreign currency assets and liabilities are translated into Japanese yen using the spot exchange rate prevailing at the year-end, and gains and losses resulting from the translation are recognized currently in earnings. Foreign currency assets and liabilities of foreign subsidiaries are translated into Japanese yen using the spot exchange rate prevailing at their respective year-ends, and income and expenses are translated into Japanese yen using the average exchange rate during the year and

(5) Translation of foreign currency assets and liabilities

Foreign currency assets and liabilities are translated into Japanese yen using the spot exchange rate prevailing at the year-end, and gains and losses resulting from the translation are recognized currently in earnings. Foreign currency assets and liabilities of foreign subsidiaries are translated into Japanese yen using the spot exchange rate prevailing at their respective year-ends, and income and expenses are translated into Japanese yen using the average exchange rate during the year and

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009

translation differences are included in Foreign currency translation adjustments and Minority interests.

## (6) Accounting for consumption taxes

Consumption taxes are accounted for under the "Zei Nuki" (tax exclusive) method except for those relating to loss adjustment expenses, operating expenses and general and administrative expenses, which are accounted for under the "Zei Komi" (tax inclusive) method. Non-deductible consumption taxes relating to assets are included in suspense payments and amortized in equal installments over a period of five years.

## (7) Accounting for lease transactions

Finance lease transactions that do not transfer ownership with the commencement date prior to April 1, 2008 are accounted for as operating leases similar to the rental of property.

## (Changes in accounting principles)

## Application of "Accounting Standard for Lease Transactions"

The Accounting Standards Board of Japan ("ASBJ") released "Accounting Standard for Lease Transactions" (Statement No.13) and "Guidance on Accounting Standard for Lease Transactions" (Guidance No.16) on March 30, 2007. These Standard and Guideline shall be applied for annual periods beginning on or after April 1, 2008. As a result of the change in the accounting standard, finance lease transactions that do not transfer ownership with the commencement date on or after April 1, 2008 are accounted for in a manner similar to the accounting for ordinary sale and purchase transactions.

The adoption did not have a material effect on the consolidated financial statements.

March 31, 2010

translation differences are included in Foreign currency translation adjustments and Minority interests.

## (6) Accounting for consumption taxes

Consumption taxes are accounted for under the "Zei Nuki" (tax exclusive) method except for those relating to loss adjustment expenses, operating expenses and general and administrative expenses, which are accounted for under the "Zei Komi" (tax inclusive) method. Non-deductible consumption taxes relating to assets are included in suspense payments and amortized in equal installments over a period of five years.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009March 31, 2010

## (8) Hedge accounting

Profits and losses on equity forward contracts used for hedging risks of variability in fair value of stocks are accounted for under the deferred hedged accounting method. Profits and losses on currency swap contracts used for hedging risks of variability in foreign currency of foreign currency bonds are accounted for under the deferred hedge accounting method. Also, certain of the forward exchange contracts used for the hedging are accounted for under the fair value hedge accounting method or the allocation method. Interest rate swap contracts for hedging risks of variability in cash flows of loans or bonds arising from fluctuations in interest rates are accounted for using the deferred hedge accounting method or the exceptional method when they meet certain criteria, as mentioned in (2) above.

Hedge effectiveness is assessed quarterly by comparing cumulative fluctuations of the fair value or cash flows of the hedged items and the hedging instruments during the periods from the respective start dates of the hedges to the assessment dates. When hedged items and hedging instruments are highly and clearly interrelated or when interest rate swap transactions meet the criteria for applying the exceptional method, assessment of hedge effectiveness is not performed.

Interest rate swap contracts used in the ALM (Asset and Liability Management) for the purpose of adequate control of risks of interest rate variability are accounted for as deferred hedge and their hedge effectiveness is tested in accordance with Industry Audit Committee Report No.26 "Accounting and Auditing Treatment of Application of Accounting Standard for Financial Instruments in Insurance Industry" (issued by The Japanese Institute

## (7) Hedge accounting

Profits and losses on equity forward contracts used for hedging risks of variability in fair value of stocks are accounted for under the deferred hedged accounting method. Profits and losses on currency swap contracts used for hedging risks of variability in foreign currency of foreign currency bonds are accounted for under the deferred hedge accounting method. Also, certain of the forward exchange contracts used for the hedging are accounted for under the fair value hedge accounting method or the allocation method. Interest rate swap contracts for hedging risks of variability in cash flows of loans or bonds arising from fluctuations in interest rates are accounted for using the deferred hedge accounting method or the exceptional method when they meet certain criteria, as mentioned in (2) above.

Hedge effectiveness is assessed quarterly by comparing cumulative fluctuations of the fair value or cash flows of the hedged items and the hedging instruments during the periods from the respective start dates of the hedges to the assessment dates. When hedged items and hedging instruments are highly and clearly interrelated or when interest rate swap transactions meet the criteria for applying the exceptional method, assessment of hedge effectiveness is not performed.

Interest rate swap contracts used in the ALM (Asset and Liability Management) for the purpose of adequate control of risks of interest rate variability are accounted for as deferred hedge and their hedge effectiveness is tested in accordance with Industry Audit Committee Report No.26 "Accounting and Auditing Treatment of Application of Accounting Standard for Financial Instruments in Insurance Industry" (issued by The Japanese Institute

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009

of Certified Public Accountants on September 3, 2002). The hedge effectiveness testing is performed by assessing interest rate fluctuations that may affect pricing of the theoretical values of the hedging instrument and the hedged item.

6. Valuation of assets and liabilities of the consolidated subsidiaries

Assets and liabilities of the consolidated subsidiaries are valued using the full scope fair value method.

7. Goodwill is amortized using the straight-line method over 20 years. Insignificant amount of goodwill is charged to income as incurred in the entire amount.

8. In accordance with "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No. 18) issued on May 17, 2006, the Company made necessary adjustments in preparing the consolidated financial statements effective from the year ended March 31, 2009. As a result, compared to the prior method, ordinary expenses were increased by ¥1,867 million and income before income taxes was decreased by ¥1,881 million, respectively.

9. In preparing the consolidated statement of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with original maturities not exceeding three months constitute cash and cash equivalents.

10. Changes in presentation

In accordance with the amendment of the Enforcement Regulations of the Japanese Insurance Business Law, land, buildings, construction in progress, and other tangible fixed assets are separately presented as sub

March 31, 2010

of Certified Public Accountants on September 3, 2002). The hedge effectiveness testing is performed by assessing interest rate fluctuations that may affect pricing of the theoretical values of the hedging instrument and the hedged item.

6. Valuation of assets and liabilities of the consolidated subsidiaries

Assets and liabilities of the consolidated subsidiaries are valued using the full scope fair value method.

7. Goodwill is amortized using the straight-line method over 20 years. Insignificant amount of goodwill is charged to income as incurred in the entire amount.

8. In preparing the consolidated statement of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with original maturities not exceeding three months constitute cash and cash equivalents.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009March 31, 2010

items for tangible fixed assets. Software, goodwill and other intangible fixed assets are also separately presented as sub items for intangible fixed assets. Tangible fixed assets and intangible fixed assets in the prior consolidated year consisted of:

Land	¥103,993 million
Buildings	¥146,792 million
Construction in progress	¥357 million
Other tangible fixed assets	¥23,862million
Software	¥5,336 million
Goodwill	¥77,594 million
Other intangible fixed assets	¥3,714 million

## 11. Additional information

Distribution of shares of domestic subsidiaries

## (i) Summary of fact

As of July 1, 2008, the following subsidiaries' and affiliates' stocks held by the Company were all distributed to MSIGH, resulting in transfer of businesses operated by those subsidiaries to MSIGH. This distribution was based on the resolution of the board of directors held on June 26, 2008.

Subsidiaries and an affiliate whose stocks were transferred to MSIGH are as follows:

Mitsui Direct Insurance Company, Limited  
("MD") (subsidiary) ....domestic non-life insurance

Mitsui Sumitomo Kirameki Life Insurance Company, Limited ("MSKL") (subsidiary)  
....domestic life insurance

Mitsui Sumitomo MetLife Insurance Company, Limited ("MSML") (affiliate)  
.... domestic life insurance

## (ii) Objective of dividends in kind

The distribution was performed with the objective of having these stocks owned directly by MSIGH to promote group-wide operations centered by MSIGH and achieve quicker business

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Basis of Presentation (Continued)

March 31, 2009March 31, 2010

decisions and group synergy.

- (iii) Summary of accounting procedure applied to the transaction

The above transaction was accounted for as transaction under common control, based on "Accounting Standard for Business Combinations" (issued by Business Accounting Council on October 31, 2003) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10 revised on November 15, 2007)".

- (iv) Profits and losses arising from the above subsidiaries included in the current consolidated income statement are as follows:

Ordinary income   ¥23,727 million  
(including net premium written in the amount of ¥7,061 million)  
Ordinary profit     ¥427 million

# MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Balance Sheets

As of March 31, 2009 and 2010

March 31, 2009

March 31, 2010

1. Accumulated depreciation of tangible fixed assets amounted to ¥274,674 million. The acquisition costs of certain properties were reduced by ¥18,885 million representing deferred profit on sales of other properties.
2. Costs of equity investments in unconsolidated subsidiaries and affiliates are as follows (Yen in millions):
 

Investments in securities (Stock)	¥10,672
Investments in securities (Foreign securities)	¥6,246
Investments in securities (Other securities)	¥6,604
3. The amount of loans to financially impaired parties, overdue loans, loans overdue for 3 months or more and restructured loans are as follows:
  - (1) Loans to financially impaired parties and overdue loans amounted to ¥13 million and ¥2,609 million, respectively.
 

Loans to financially impaired parties represent those loans, excluding the portion of the loans that were written off, on which accrued interest receivable is not recognized because repayments of principal or interest were overdue for considerable periods and they are regarded uncollectible and which meet the conditions prescribed in Article 96, Section 1-3 and 1-4 of the Corporation Tax Law Enforcement Ordinance (1965 Cabinet Order No.97). Hereafter, this last category is referred to as "Loans not accruing interest".

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

1. Accumulated depreciation of tangible fixed assets amounted to ¥284,918 million. The acquisition costs of certain properties were reduced by ¥18,713 million representing deferred profit on sales of other properties.
2. Costs of equity investments in unconsolidated subsidiaries and affiliates are as follows (Yen in millions):
 

Investments in securities (Stock)	¥10,880
Investments in securities (Foreign securities)	¥7,972
Investments in securities (Other securities)	¥6,164
3. The amount of loans to financially impaired parties, overdue loans, loans overdue for 3 months or more and restructured loans are as follows:
  - (1) Loans to financially impaired parties and overdue loans amounted to ¥1,441 million and ¥2,426 million, respectively.
 

Loans to financially impaired parties represent those loans, excluding the portion of the loans that were written off, on which accrued interest receivable is not recognized because repayments of principal or interest were overdue for considerable periods and they are regarded uncollectible and which meet the conditions prescribed in Article 96, Section 1-3 and 1-4 of the Corporation Tax Law Enforcement Ordinance (1965 Cabinet Order No.97). Hereafter, this last category is referred to as "Loans not accruing interest".

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

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Balance Sheets (Continued)

March 31, 2009

- (2) Loans overdue for 3 months or more amounted to ¥817 million.

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

- (3) Restructured loans amounted to ¥845 million.

Restructured loans are those loans which have granted favorable terms for the benefit of debtors such as interest exemption or reduction, grace on interest payments, grace on principal repayments, or forgiveness of debts for the purpose of restructuring of or support to the debtors in financial difficulty. Loans to financially impaired parties, overdue loans and loans overdue for 3 months or more are excluded from this category.

- (4) The total of loans to financially impaired parties, overdue loans, loans overdue for 3 months or more and restructured loans amounted to ¥4,285 million.

4. Securities in the amount of ¥80,559 million, Cash and deposits in the amount of ¥4,122 million and Tangible fixed assets in the amount of ¥410 million are pledged as collateral for overseas operations and Real Time Gross Settlement system of current account at the Bank of Japan.

5. Investments in securities include those that were loaned under securities lending agreements in the amount of ¥88,481 million.

March 31, 2010

- (2) Loans overdue for 3 months or more amounted to ¥855 million.

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

- (3) Restructured loans amounted to ¥2,043 million.

Restructured loans are those loans which have granted favorable terms for the benefit of debtors such as interest exemption or reduction, grace on interest payments, grace on principal repayments, or forgiveness of debts for the purpose of restructuring of or support to the debtors in financial difficulty. Loans to financially impaired parties, overdue loans and loans overdue for 3 months or more are excluded from this category.

- (4) The total of loans to financially impaired parties, overdue loans, loans overdue for 3 months or more and restructured loans amounted to ¥6,766 million.

4. Securities in the amount of ¥76,040 million, Cash and deposits in the amount of ¥3,335 million and Tangible fixed assets in the amount of ¥244 million are pledged as collateral for overseas operations and Real Time Gross Settlement system of current account at the Bank of Japan.

5. Investments in securities include those that were loaned under securities lending agreements in the amount of ¥39,791 million.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Balance Sheets (Continued)

March 31, 2009March 31, 2010

6. Matters regarding retirement benefits are as follows (Yen in millions):

(1) Details of retirement benefit obligation:

Projected retirement benefit obligation	¥ 264,037
Plan assets	<u>(138,674)</u>
Unfunded obligation	125,363
Unrecognized actuarial losses	<u>(44,746)</u>
Reserve for pension and retirement benefits	¥ <u>80,616</u>

(2) Actuarial assumptions for calculation of retirement benefit obligation, etc.

Attribution method of retirement benefits over service period	The benefit/years of service method
Discount rate	Mainly 2.00 %
Expected rate of return on plan assets	Mainly 3.00 %
Amortization period for prior service costs	4 years
Amortization period for actuarial gains and losses:	
Tax qualified defined benefit pension plan	4 years
Other than tax qualified defined benefit pension plan	Mainly 10 years

The Company transferred its tax qualified defined benefit pension plan to defined benefit pension plan on April 1, 2006.

6. Matters regarding retirement benefits are as follows (Yen in millions):

(1) Details of retirement benefit obligation:

Projected retirement benefit obligation	¥ 268,960
Plan assets	<u>(153,654)</u>
Unfunded obligation	115,306
Unrecognized actuarial losses	<u>(33,357)</u>
Reserve for pension and retirement benefits	¥ <u>81,948</u>

(2) Actuarial assumptions for calculation of retirement benefit obligation, etc.

Attribution method of retirement benefits over service period	The benefit/years of service method
Discount rate	Mainly 2.00 %
Expected rate of return on plan assets	Mainly 3.00 %
Amortization period for prior service costs	4 years
Amortization period for actuarial gains and losses:	
Tax qualified defined benefit pension plan	4 years
Other than tax qualified defined benefit pension plan	Mainly 10 years

The Company transferred its tax qualified defined benefit pension plan to defined benefit pension plan on April 1, 2006.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Balance Sheets (Continued)

March 31, 2009March 31, 2010

7. Significant components of deferred tax assets and liabilities as of March 31, 2009 are as follows (Yen in millions):

Deferred tax assets:	
Underwriting reserve	¥ 170,809
Investment in securities	49,813
Reserve for pension and retirement benefits	28,960
Outstanding claims	19,731
Software	18,513
Others	<u>45,416</u>
Total gross deferred tax assets	333,244
Less valuation allowance	<u>(17,668)</u>
Total net deferred tax assets	315,576
Deferred tax liabilities:	
Unrealized gain on investments	(163,871)
Others	<u>(14,848)</u>
Total gross deferred tax liabilities	<u>(178,720)</u>
Total deferred tax liabilities net of deferred tax assets	¥ <u>(136,856)</u>

- |   |   |
|---|---|
| <p>8. The Company provides guarantees to the transactions of a limited partnership entity. Aggregate net present value of those transactions was ¥296,290 million, in a negative liability position. This amount was not included in Customers' liabilities under acceptances and guarantees and Liabilities under acceptances and guarantees since there is no substantial exposure.</p> | <p>7. The Company provides guarantees to the transactions of a limited partnership entity. Aggregate net present value of those transactions was ¥177,933 million, in a negative liability position. This amount was not included in Customers' liabilities under acceptances and guarantees and Liabilities under acceptances and guarantees since there is no substantial exposure.</p>   |
| <p>9. The Company executes a net worth maintenance agreement on behalf of MSML which is an affiliated company of MSIGH. Under this agreement, the Company's funding and other obligations are triggered if MSML falls under a situation that its net worth falls short of a predetermined level or it does not maintain adequate liquidity for payment for its obligations. The</p>       | <p>8. The Company executes a net worth maintenance agreement on behalf of MSML which is an affiliated company of MSIGH (current company name: MS &amp; AD Insurance Group Holdings, Inc.). Under this agreement, the Company's funding and other obligations are triggered if MSML falls under a situation that its net worth falls short of a predetermined level or it does not maintain adequate liquidity for payment for</p> |

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Balance Sheets (Continued)

March 31, 2009

Company and MSIGH are jointly obligated for the agreement. The aggregated amount of liabilities and assets of MSML as of March 31, 2009 were ¥2,444,271 million (including Underwriting funds in the amount of ¥2,424,052 million) and ¥2,470,766 million, respectively. This agreement does not provide any guarantees for payment for its obligations. MSML was not in a triggering situation mentioned above as of March 31, 2009.

10. Unutilized portion of commitment lines given to third parties amounted to ¥3,164 million.

March 31, 2010

its obligations. The Company and MSIGH are jointly obligated for the agreement. The aggregated amount of liabilities and assets of MSML as of March 31, 2010 were ¥3,081,115 million (including Underwriting funds in the amount of ¥3,068,340 million) and ¥3,116,508 million, respectively. This agreement does not provide any guarantees for payment for its obligations. MSML was not in a triggering situation mentioned above as of March 31, 2010.

9. Unutilized portion of commitment lines given to third parties amounted to ¥1,856 million.

10. Matters regarding financial instruments are as follows :

- (1) Qualitative information on financial instruments

- (i) Policy on financial instruments

The Company and its subsidiaries (hereinafter referred to as the "Group") make investments in financial instruments, while maintaining liquidity, in order to maximize net asset value by accumulation of net investment return after deduction of associated costs with consideration for cost-efficiency of any costs such as funding cost, incidental cost, and cost to bear risks.

The Company strives to enhance soundness of assets and investment returns by continued enhancement of risk management techniques such as sophistication of Asset Liability Management (ALM) reflecting profile of insurance liabilities, to provide for payment of the insurance liabilities such as claims, maturity-refunds and surrenders.

The Group's cash-flows which mainly arise from insurance operations and

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Balance Sheets (Continued)

March 31, 2009March 31, 2010

investment activities are affected by changes in external environments such as occurrence of natural disasters and changes in financial market conditions. In order to enhance financing efficiency under changing environments, the Group from time to time issues corporate bonds and short-term bonds as needs arise.

(ii) Details of financial instruments and associated risks

The Group's financial assets mainly consist of securities including bonds, stocks and foreign securities, as well as loans and other instruments.

Most of the securities are classified as "available-for-sale securities" and the others are classified as "held-to maturity securities." Risks pertaining to investments include market risks, credit risks and market liquidity risks. Market risks arise from fluctuation in interest rates, stock prices, exchange rates and other market indicators. Credit risks arise from deterioration in the financial condition of the issuer and counterparty of loans. Market liquidity risks refer to such situation as being forced to make transactions at extremely unfavorable prices under turmoil of market.

Without applying hedge accounting, the Company utilizes derivative transactions represented by interest rate swaps for the purpose of controlling interest rate risks and forward exchange contracts and currency options for the purpose of hedging currency risks. Also, in order to generate investment income with consideration given to associated risks, the Company utilizes derivative instruments referring to interest rate, foreign currency, equity price and bond price, credit derivatives, and weather derivatives. The consolidated subsidiaries also use forward exchange contracts for the purpose of hedging currency risks. For derivative

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Balance Sheets (Continued)

March 31, 2009March 31, 2010

transactions to which hedge accounting is applied, please refer to "Basis of consolidated financial statements-5. Accounting policies-(7) Hedge accounting".

In general, derivative transactions involve risks of fluctuations in fair value of derivative instruments ("market risk") and risks of changes in events that underlie the derivative transactions. Derivative transactions also are exposed to risks of nonperformance as a result of insolvency of the counterparty ("credit risk").

Derivative transactions which the Group enters into are also exposed to market risks to which the derivative transactions refer. However, derivative transactions for hedging risks effectively reduce market risks because the fair value of hedged items and hedging instruments fluctuate oppositely. In order to avoid credit risks by nonperformance, derivative instruments are entered into with selected counterparties with high credit quality and transactions are diversified across them.

(iii) Risk management structure relating for financial instruments

Financial instruments are traded and managed based on rules for general transaction authorization and risk management that the Group has established.

Checks and balances are maintained through a routine management system in which back-offices and risk management offices operate independently from the trading department, to monitor that operations, types of instruments in use, position limit, risk amount and loss cut are compliant with the rules.

In addition, the risk management department assesses and analyzes risks pertaining to financial instruments, and

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Balance Sheets (Continued)

March 31, 2009March 31, 2010

regularly reports on the result to the Board of Directors.

a. Market risk management

The Group strives to enhance risk management system and manages the risks based on the characteristic of each financial instrument in accordance with rules addressing market risk management. The trading department and the risk management department establish rules that clarify operation procedures in each investment segment, and control the risks by setting position limit and loss cut threshold as necessary. The risk management department also monitors sensitivities of holding assets to the changes in interest rate, foreign exchange rate and stock prices and quantifies market risk using the VaR (Value-at-Risk) method in order to measure and manage the risks in an integrated manner.

b. Credit risk management

The Group establishes the credit risk management system that implements rules for credit risk management.

For loans, the trading department and the risk management department maintain the credit risk management structure by credit screening, credit limit, credit information management, internal credit rating, requiring collateral and guarantees, dealing with bad loans. For securities and derivatives, the trading department and the risk management department manage credit risk of security issuers and derivative counterparties by regular monitoring of credit information and fair values.

c. Liquidity risk management

The Group conducts treasury management of cash position with

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Balance Sheets (Continued)

March 31, 2009March 31, 2010

consideration given to liquidity. The Group endeavors to diversify financing sources in order to ensure adequate liquidity under changing environments. The Group holds a substantial amount of cash, savings and deposits and highly liquid securities such as government bonds in case of unexpected events like catastrophe and deterioration of market liquidity arising from inactive market conditions.

- (iv) Supplementary explanation of matters relating to fair value of financial instruments and other information

The fair value of financial instruments is determined based on market price and by reasonable estimate when market price is not available. In determining fair value, certain assumptions are used, and the fair value may be determined differently when other assumptions are used.

(2) Fair value of financial instruments

The following table summarizes the carrying amount in the consolidated balance sheet and the fair value of financial instruments as of March 31, 2010, together with their differences. Note that the following table does not include certain securities for which determination of fair value is impracticable (see Note 2).

	Consolidated balance sheet		
	<u>amount</u>	<u>Fair Value</u>	<u>Difference</u>
		(Yen in millions)	
(i) Cash, deposits & savings	¥ 297,098	297,098	-
(ii) Call loans	33,700	33,700	-
(iii) Receivables under resale agreement	15,998	15,998	-
(iv) Monetary claims bought	108,158	108,158	-

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Balance Sheets (Continued)

March 31, 2009March 31, 2010

	Consolidated balance sheet		
	amount	Fair Value	Difference
	(Yen in millions)		
(v) Money trusts	¥ 10,592	10,592	-
(vi) Securities			
Securities held	245	245	-
to maturity			
Available for	4,203,480	4,203,480	-
sale securities			
(vii) Loans	718,625	-	-
Bad debt reserve	△4,014	-	-
(*1)			
	<u>714,610</u>	<u>722,755</u>	<u>8,145</u>
Total assets	<u>5,383,886</u>	<u>5,392,031</u>	<u>8,145</u>
Bond issued	<u>94,969</u>	<u>98,150</u>	<u>3,180</u>
Total liabilities	<u>94,969</u>	<u>98,150</u>	<u>3,180</u>
Derivative			-
transaction (*2)			
Hedge accounting	(6,118)	(6,118)	-
not applied			
Hedge accounting	3,895	3,895	-
applied			
	<u>(2,222)</u>	<u>(2,222)</u>	-

(\*1) Reserve for bad debts earmarked for loans are deducted from the carrying amount.

(\*2) Derivative assets and liabilities are presented in net amounts. Debits and credits arising from derivative transactions are netted and net credit position is shown with ( ).

(Note 1) Determination of fair value of financial instruments

Assets

## (i) Cash, deposits &amp; savings

With regard to cash, deposits & savings, the book value is deemed as the fair value since the book value approximates the fair value.

## (ii) Call loans

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Balance Sheets (Continued)

March 31, 2009March 31, 2010

With regard to call loans, the book value is deemed as the fair value since the book value approximates the fair value.

## (iii) Receivables under resale agreement

With regard to Receivables under resale agreement, the book value is deemed as the fair value since the book value approximates the fair value.

## (iv) Monetary claims bought

With regard to commercial papers (CP), the book value is deemed as the fair value since the book value approximates the fair value. With regard to monetary claims bought other than CP, the price quoted by the counterparty financial institutions is deemed as the fair value.

## (v) Money trusts

With regard to Money trusts, the price quoted by the trustee is deemed as the fair value.

## (vi) Securities

The fair value of equity securities is determined based on the quoted market price and the fair value of bonds is determined based on the price quoted by the exchange, the information vender or the counterparty financial institutions.

## (vii) Loans

With regard to floating rate loans, the book value is deemed as the fair value so long as no significant changes in credit risk, because interest rate changes will be timely reflected in the future cash flows and the book value approximates the fair value. With respect to fixed rate loans, for each category of loans based on types of loans, duration and credit ratings, the fair value is measured as the present value of estimated

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Balance Sheets (Continued)

March 31, 2009March 31, 2010

future cash flows, discounted at interest rates based on appropriate risk free rate such as yield of government bonds with credit spread added on. The fair value of a part of personal loans is measured as the net present value of estimated future cash flows for each category of loans, discounted at interest rate applicable to the same type of new loans. With regard to policy loans, the book value is deemed as the fair value since the book value approximates the fair value, considering that the loan amount is limited within surrender value with no contractual maturity and given their estimated repayment period and interest rate terms.

For loans to debtors in legal or de-facto bankruptcy and doubtful debtors, the carrying amount less bad debt reserve is deemed as the fair value, because bad debt reserve is determined individually by discounting the estimated future cash flows or based on appraisal value of underlying collateral where appropriate.

Liabilities

## Bonds issued

With regard to bonds issued, "Reference prices for Over-the-Counter bond transactions" published by Japan Securities Dealers Association are deemed as the fair value.

Derivative transaction

With regard to derivative transactions, the fair value is based on the futures' market price, the closing price at major exchange, the price indicated by the financial institutions, or option pricing model.

(Note 2)

Financial instruments held as of March 31, 2010 not included in "(vi) Securities" in the

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Balance Sheets (Continued)

March 31, 2009March 31, 2010

above table, because determination of their fair values is impracticable, are summarized as follows:

Unlisted stocks (Carrying amount on the consolidated balance sheet: 93,839 million yen), partnership investment comprised of unlisted stocks (Carrying amount on the consolidated balance sheet: 39,076 million yen) and bonds for which reasonable estimate of fair value is not available due to difficulty in determining assumptions (e.g. issuer in bankruptcy, difficulty in estimating future cash flows, etc.) (Carrying amount on the consolidated balance sheet: 1,616 million yen) are not included in the scope of fair value disclosure.

11. Matters related to investment and leasing property are as follows:

(1) Qualitative information on investment and leasing property:

The Company and certain consolidated subsidiaries own office buildings for lease, etc. in Tokyo and other areas.

(2) Fair value of investment and leasing property (Yen in millions):

Carrying amount as of March 31, 2009	Fair value as of March 31, 2010
45,335	111,981

(Note)

1. Carrying amount represents the cost of acquisition less accumulated depreciation.
2. Fair value as of March 31, 2010 is primarily based on appraisals by qualified external valuers.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Balance Sheets (Continued)

March 31, 2009March 31, 2010

- |  |  |
|--|--|
| <p>11. Net assets per share as of March 31, 2009 was ¥653.75. Minority interests in the amount of ¥9,952 million were deducted from net assets in its computation. Outstanding common shares as of March 31, 2009 were 1,404,402 thousand shares.</p> <p>12. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.</p> | <p>12. Net assets per share as of March 31, 2010 was ¥855.92. Minority interests in the amount of ¥4,188 million were deducted from net assets in its computation. Outstanding common shares as of March 31, 2010 were 1,404,402 thousand shares.</p> <p>13. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.</p> |
|--|--|

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Statements of Income

For the years ended March 31, 2009 and 2010

March 31, 2009

March 31, 2010

1. Business expenses mainly consist of:

Commission expenses    ¥243,831 million  
Salary                      ¥131,074 million

Business expenses represent the aggregate amount of loss adjustment expenses, operating expenses and general and administrative expenses and commissions and collection expenses presented in the statement of income.

2. Costs for retirement benefits included in loss adjustment expenses, operating expenses and general and administrative expenses are as follows (Yen in millions):

Service costs	¥	10,297
Interest cost		5,217
Expected return on plan assets		(4,667)
Amortization of actuarial losses		3,375
Net periodic pension cost		14,222
Contributions paid to defined contribution plan		2,392
Total	¥	<u>16,615</u>

3. Impairment losses were recognized for the following assets (Yen in millions):

Use	Asset category	Description of assets	Impairment losses
Rental properties	Land and buildings	Properties, including buildings for rent in Gunma	Land    ¥    104 Buildings <u>267</u> Total    ¥ <u>371</u>
Idle real estate and buildings for sale	Land and buildings	9 properties, including company residences in Niigata	Land    ¥    157 Buildings <u>516</u> Total    ¥ <u>673</u>

Properties used for insurance operations are grouped as a single asset group for the entire insurance operations. Rental properties, idle real estate and real estate for sale constitute asset groups by their own. Carrying amounts

1. Business expenses mainly consist of:

Commission expenses    ¥237,997 million  
Salary                      ¥128,813million

Business expenses represent the aggregate amount of loss adjustment expenses, operating expenses and general and administrative expenses and commissions and collection expenses presented in the statement of income.

2. Impairment losses were recognized for the following assets (Yen in millions):

Use	Asset category	Description of assets	Impairment losses
Rental properties	Land and buildings	2 properties, including buildings for rent in Aichi	Land    ¥    526 Buildings <u>831</u> Total    ¥ <u>1,358</u>
Idle real estate and buildings for sale	Land and buildings	3 properties, including company residences in Chiba	Land    ¥    1,882 Buildings <u>190</u> Total    ¥ <u>2,073</u>

Properties used for insurance operations are grouped as a single asset group for the entire insurance operations. Rental properties, idle real estate and real estate for sale constitute asset groups by their own. Carrying amounts

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Statements of Income (Continued)

March 31, 2009

of the above mentioned assets were reduced to their realizable values in view of falling property values or idle real estate and the resulting decreases in the carrying amounts were recorded as an impairment loss in the aggregate amount of ¥1,044 million in the extraordinary losses.

The realizable values of the assets concerned are determined at the higher of the net sale values or the potential values in continued use. The net sale values are computed based on the appraisal values by independent appraisers or the potential values in continued use are computed by discounting the future cash flows at the discount rate of 5.4%.

4. A reconciliation of the significant difference between normal income tax rate and the effective tax rate after application of deferred tax accounting is as follows:

Normal income tax rate	36.1%
Loss from consolidated subsidiaries that do not recognize deferred tax	68.4%
Tax credit for dividends received	(46.2%)
Deemed loss on asset transfer due to dividend in kind	(45.7%)
Difference in tax rates from overseas consolidated subsidiaries	(15.7%)
Elimination of dividends received from subsidiaries	10.1%
Others	<u>2.3%</u>
Effective income tax rate	<u>9.3%</u>

March 31, 2010

of the above mentioned assets were reduced to their realizable values in view of falling property values or idle real estate and the resulting decreases in the carrying amounts were recorded as an impairment loss in the aggregate amount of ¥ 3,431 million in the extraordinary losses.

The realizable values of the assets concerned are determined at the higher of the net sale values or the potential values in continued use. The net sale values are computed based on the appraisal values by independent appraisers or the potential values in continued use are computed by discounting the future cash flows at the discount rate of 5.5%.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Statements of Income (Continued)

March 31, 2009

5. Consolidated net income per share for the year ended March 31, 2009 was ¥10.66.

Consolidated net income per share is computed based on the following figures: Consolidated net income and Consolidated net income available to common stockholders, ¥14,972 million; and Average outstanding common shares during the year, 1,404,402 thousand shares. Earnings per share after adjustment for dilutive effect of shares is not presented as no dilutive securities exist.

6. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

March 31, 2010

3. Consolidated net income per share for the year ended March 31, 2010 was ¥24.79.

Consolidated net income per share is computed based on the following figures: Consolidated net income and Consolidated net income available to common stockholders, ¥34,815 million; and Average outstanding common shares during the year, 1,404,402 thousand shares. Earnings per share after adjustment for dilutive effect of shares is not presented as no dilutive securities exist.

4. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Statement of Changes in Net Assets

For the years ended March 31, 2009 and 2010

March 31, 2009

March 31, 2010

1. Type and number of stock issued and treasury stock

1. Type and number of stock issued and treasury stock

	(Thousand of shares)			
	March 31, 2008	Increase	Decrease	March 31, 2009
Issued:				
Common				
share	1,404,402	-	-	1,404,402
Total	1,404,402	-	-	1,404,402

	(Thousand of shares)			
	March 31, 2009	Increase	Decrease	March 31, 2010
Issued:				
Common				
share	1,404,402	-	-	1,404,402
Total	1,404,402	-	-	1,404,402

(Note) There is no treasury stock requiring disclosure.

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Statement of Changes in Net Assets (Continued)

March 31, 2009March 31, 2010

## 2. Dividends

(1) Dividends paid (Yen in millions, except for dividend per share in Yen)

<u>Resolution</u>	<u>Type of share</u>	<u>Aggregate amount of dividends</u>	<u>Dividend per share</u>	<u>Date of record</u>	<u>Effective date</u>
General meeting of stockholders held on June 26, 2008	Common share	¥ 12,639	¥9	March 31, 2008	June 27, 2008
Meeting of board of directors held on June 26, 2008	Common share	¥ 2,500	¥ 1.78	-	July 1, 2008
Meeting of board of directors held on September 30, 2008	Common share	¥ 15,000	¥ 10.68	-	September 30, 2008
Meeting of board of directors held on December 26, 2008	Common share	¥ 12,750	¥ 9.07	-	December 26, 2008
Meeting of board of directors held on January 30, 2009	Common share	¥ 5,000	¥ 3.56	-	January 30, 2009

<u>Resolution</u>	<u>Type of share</u>	<u>Aggregate book value of assets distributed</u>	<u>Dividend per share</u>	<u>Date of record</u>	<u>Effective date</u>
General meeting of stockholders held on June 26, 2008	Common share	¥ 97,593	¥69.49	-	July 1, 2008

## 2. Dividends

(1) Dividends paid (Yen in millions, except for dividend per share in Yen)

<u>Resolution</u>	<u>Type of share</u>	<u>Aggregate amount of dividends</u>	<u>Dividend per share</u>	<u>Date of record</u>	<u>Effective date</u>
Meeting of board of directors held on May 20, 2009	Common share	¥ 13,000	¥9.25	March 31, 2009	June 1, 2009
Meeting of board of directors held on November 19, 2009	Common share	¥ 5,500	¥ 3.91	-	November 30, 2009
Meeting of board of directors held on January 29, 2010	Common share	¥12,500	¥8.90	-	February 5, 2010
Meeting of board of directors held on February 12, 2010	Common share	¥ 6,375	¥ 4.53	-	February 19, 2010

The assets distributed as dividend in kind are as follows:

Common shares of MSKL

Common shares of MSML

Common shares and shares with restricted voting right of MD

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Statement of Changes in Net Assets (Continued)

March 31, 2009March 31, 2010

(2) Dividends to be made effective in the following year for which the date of record is in the current reporting period (Yen in millions, except for dividend per share in Yen)

<u>Resolution</u>	<u>Type of share</u>	<u>Aggregate amount of dividends</u>	<u>Source of dividend</u>	<u>Dividend per share</u>	<u>Date of record</u>	<u>Effective date</u>
General meeting of stockholders to be held on May 20, 2009	Common share	¥ 13,000	Retained earnings	¥ 9.25	March 31, 2009	June 1, 2009

(2) Dividends to be made effective in the following year for which the date of record is in the current reporting period (Yen in millions, except for dividend per share in Yen)

<u>Resolution</u>	<u>Type of share</u>	<u>Aggregate amount of dividends</u>	<u>Source of dividend</u>	<u>Dividend per share</u>	<u>Date of record</u>	<u>Effective date</u>
Meeting of board of directors held on May 20, 2010	Common share	¥ 14,000	Retained earnings	¥ 9.96	March 31, 2010	June 1, 2010

3. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

3. Amounts are rounded down to the nearest millions of yen, except for those stated otherwise.

MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

Notes to Consolidated Statements of Cash Flows

For the years ended March 31, 2009 and 2010

March 31, 2009

March 31, 2010

1. Reconciliation of balance sheet items to cash and cash equivalents outstanding

	(Yen in millions)
Cash, deposits and savings	¥ 435,496
Call loans	31,900
Monetary claims bought	127,339
Money trust	14,476
Securities	4,058,016
Time deposit with an original maturity of more than three months	(79,135)
Monetary claims bought other than cash equivalents	(77,769)
Money trust other than cash equivalents	(13,727)
Securities other than cash equivalents	(4,057,727)
Cash and cash equivalents	¥ <u>438,869</u>

1. Reconciliation of balance sheet items to cash and cash equivalents outstanding

	(Yen in millions)
Cash, deposits and savings	¥ 297,098
Call loans	33,700
Receivables under resale agreements	15,998
Monetary claims bought	108,158
Money trust	10,592
Securities	4,363,277
Time deposit with an original maturity of more than three months	(58,176)
Monetary claims bought other than cash equivalents	(73,359)
Money trust other than cash equivalents	(9,092)
Securities other than cash equivalents	(4,327,130)
Cash and cash equivalents	¥ <u>361,067</u>

## MITSUI SUMITOMO INSURANCE COMPANY, LIMITED

## Notes to Consolidated Statements of Cash Flows (Continued)

March 31, 2009March 31, 2010

## 2. Significant non-cash transaction

- (i) Assets and liabilities excluded from the scope of consolidation as a result of distribution of stocks of MSKL, MD and MSML which were held by the Company, and their effect on the decrease in cash and cash equivalents are as follows:

	(Yen in millions)
Assets (excluding cash and cash equivalents)	¥ 1,055,643
(Securities)	990,749)
Liabilities	(987,809)
(Underwriting funds)	(982,128))
Net assets	<u>(79,348)</u>
Decrease in cash and cash equivalents due to exclusion from the scope of consolidation	¥ <u>(11,514)</u>

- (ii) Assets and liabilities recorded on new finance lease transactions in the current year amounted to ¥651 million.

## 3. Cash flows from investing activities include cash flows from investments made as part of the insurance business.

## 2. Significant non-cash transaction

Assets and liabilities recorded on new finance lease transactions in the current year amounted to ¥465 million.

## 3. Cash flows from investing activities include cash flows from investments made as part of the insurance business.